

HALF YEAR REPORT
FOR THE SIX MONTHS
ENDED 30 JUNE 2023

20
23

Chesnara

2023 HALF YEAR FINANCIAL HIGHLIGHTS

COMMERCIAL CASH GENERATION†

EXCLUDING THE IMPACT OF ACQUISITIONS

£21.8M

SIX MONTHS ENDED 30 JUNE 2022: £3.0m LOSS

EcV EARNINGS

EXCLUDING THE IMPACT OF FX MOVEMENTS AND DIVIDEND PAYMENTS

£61.0M

SIX MONTHS ENDED 30 JUNE 2022: £75.7m LOSS

GROUP SOLVENCY

205%

31 DECEMBER 2022: 197%

FUNDS UNDER MANAGEMENT†

£11.0BN

31 DECEMBER 2022: £10.6bn

DIVIDEND GROWTH

3%

INCREASE IN INTERIM DIVIDEND
FOR 19TH CONSECUTIVE YEAR

IFRS PROFIT BEFORE TAX (UNAUDITED)^Δ

£16.0M

30 JUNE 2022: £54.2m LOSS

^ΔTHIS IS THE FIRST REPORTING PERIOD UNDER IFRS 17 AND ALL PRIOR
COMPARATORS HAVE BEEN RESTATED IN LINE WITH THE REGULATION

M&A DELIVERY

2

ACQUISITIONS IN THE PERIOD

[†]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 2023

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SECTION A OVERVIEW

Southbank, London

- 5 2023 Highlights
- 7 Chair's Statement
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CASH GENERATION

£11.1M GROUP CASH GENERATION¹
EXCLUDING THE IMPACT OF ACQUISITIONS

SIX MONTHS ENDED 30 JUNE 2022: £21.9m

Both of the group's cash metrics were positive over the period. Group cash generation includes a material adverse impact from the symmetric adjustment (SA) of £10.6m (six months to 30 June 2022: +£30.8m). The recovery we have seen across equity markets in H1, whilst a positive overall for the group, means we hold additional capital which has a short-term impact on cash generation.

Commercial cash looks through the SA impact and is deemed to better reflect the underlying business performance. Total divisional commercial cash, excluding FX impacts, is £20.0m which, on an annualised basis, provides 115% coverage of the 2022 dividend. No specific capital enhancing management actions have been executed during the period, as is often the case during the first half of the year. ① Financial review p27

SOLVENCY

205% GROUP SOLVENCY

31 DECEMBER 2022: 197%

The group's solvency has increased in the period and shows material headroom over and above our normal operating range of 140-160%. The ratio does not include any temporary impacts from either transitional benefits or a materially positive closing SA position. The headline ratio benefits from the capital efficiencies of the Tier 2 debt raised in 2022.

① Capital management p24

ECONOMIC VALUE

£523.2M ECONOMIC VALUE⁵

31 DECEMBER 2022: £511.7m

Strong earnings in the period have more than offset the impact of the latest dividend payment (£22.8m) and FX consolidation impact (£26.8m)* resulting in £11.5m growth in Economic Value. ① Financial review p28

*Of the FX consolidation impact, c£6.7m was offset by movement in the fair value of derivatives held to hedge FX movements.

£6.3m COMMERCIAL NEW BUSINESS PROFIT⁷

SIX MONTHS ENDED 30 JUNE 2022: £4.6m

Commercial new business profits increased for the period which is a positive result given the local market challenges in both Sweden and the Netherlands. At current profit levels we deem the new business strategy to be materially beneficial to the wider group outlook. ① Business review pages p17-23

IFRS

£16.0M IFRS PRE-TAX PROFIT (UNAUDITED)

SIX MONTHS ENDED 30 JUNE 2022: £54.2m LOSS

The result is a material improvement on H1 22 and includes an acquisition gain of £4m and investment profits of £25.0m. Acquisitions in the period have added £55.7m of CSM* which, by design, is not recognised in the profit in the period and will instead contribute to insurance profits in future periods. The prior year loss was largely due to adverse economic market impacts but is much reduced versus the corresponding loss reported under IFRS 4.

£21.8M COMMERCIAL CASH GENERATION³
EXCLUDING THE IMPACT OF ACQUISITIONS

SIX MONTHS ENDED 30 JUNE 2022: £(3.0)m

FuM

£11.0BN FUNDS UNDER MANAGEMENT⁴

31 DECEMBER 2022: £10.6bn

FuM have increased by c4% since the year end. This is largely due to the acquisitions in the period. Excluding the acquisition impacts, FuM remain broadly unchanged.

① Financial statements p47

£61.0M ECONOMIC VALUE EARNINGS⁶

SIX MONTHS ENDED 30 JUNE 2022: £(75.7)m

A strong EcV earnings period with all elements of the EcV growth model ('the Cheshara fan') making positive contributions. Acquisition gains and real world returns have had the most material impact but it is equally pleasing to see a modest positive operating result following a recent period of negative operating variances.

① Financial review p28

£0.2M TOTAL COMPREHENSIVE INCOME

SIX MONTHS ENDED 30 JUNE 2022: £29.8m LOSS

Total comprehensive income includes a foreign exchange loss of £15.3m (six months to 30 June 2022: £1.9m gain).

① Financial review p27

*Contractual Service Margin (CSM) represents the unearned profit that an entity expects to earn on its insurance contracts as it provides services.

DIVIDEND INCREASED BY 3%

INTERIM DIVIDEND INCREASED FOR THE 19TH CONSECUTIVE YEAR

Increase in the interim dividend for the year of 3% to 8.36p per share (2022: 8.12p interim), supported by divisional cash contributions in the period and a strong group solvency. The previously announced acquisition in the Netherlands of the insurance portfolio of Conservatrix completed on 1 January 2023 and we also announced the acquisition of an individual protection portfolio in the UK from Canada Life on 16 May 2023, with a corresponding reinsurance agreement executed. Both of these acquisitions are expected to positively support future cash generation and we continue to have a clear line of sight to sources of mid to long-term cash generation.

ECONOMIC BACKDROP

Overall, it has been a period of economic growth. Significant volatility has remained across most asset classes and inflation has continued to run ahead of central bank targets with materially increased interest rates. There have, therefore, been comparatively modest investment returns and mixed economic results in our operating divisions. Different economic factors have impacted each of the businesses to varying extents across our main financial metrics. Key items include the impact of rising yields and equity indices supporting growth in the UK and Sweden respectively, while in both the Netherlands and Sweden, currency movements, specifically sterling appreciation, caused adverse foreign exchange impacts to the divisional results on consolidation.

GROWTH AND ACQUISITIONS

THE GROUP CONTINUES TO EXPAND THROUGH M&A

The opening half of 2023 has been another busy period for Chesnara with two acquisitions recognised in the period, delivering a combined day one EcV gain of £28.4m. Following the announcement late in 2022, we completed the acquisition of the insurance portfolio of Conservatrix in the Netherlands, with an EcV gain of £21.7m and increase in Waard's policies under administration of c50% to 170,000.

In May, expansion in the UK continued for the second year running, with the acquisition of a protection portfolio from Canada Life. The acquisition has initially been executed through entering into a 100% reinsurance agreement with Canada Life, and these policies will subsequently transfer to the division through a Part VII transfer process. The transaction has delivered an EcV gain of £6.7m and additional policies of c47,000 to the UK division. We remain optimistic about the outlook for future deals and have material solvency headroom and liquid resources to support our ambitions.

OPERATIONAL DELIVERY

NEW OUTSOURCING ARRANGEMENTS, BUSINESS INTEGRATIONS & IFRS 17 DELIVERY

In the UK, we have entered into a new long-term strategic partnership for the outsourcing of operations for the majority of the division, providing surety over the future operating costs of the business over a 10 year period. The Part VII transfer of the policies of CASLP to Countrywide Assured plc has progressed well, remaining on track to be delivered by the end of 2023.

In the Netherlands, following completion of the acquisition in January, the Conservatrix policy portfolio was successfully integrated into the Waard Group. At a group and divisional level, IFRS 17 has been implemented for this first reporting period, with reporting processes now transitioning to business as usual operations following several years of planning and implementation.

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 83 to 84.

1. 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.
2. Divisional cash generation represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.
3. 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.
4. Funds Under Management (FuM) represents the sum of all financial assets on the IFRS balance sheet.
5. 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.
6. 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.
7. 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.
8. 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.
9. 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.

CHAIR'S STATEMENT

'The group has delivered positive cash generation and Economic Value growth during the period whilst continuing to have a strong solvency position. This has supported an increase in the interim dividend for a 19th consecutive year.'

LUKE SAVAGE, CHAIR



CASH EMERGENCE, DIVIDEND GROWTH AND FINANCIAL STABILITY

As I have highlighted to investors before, Chesnara has a strong track record of delivering cash generation[†] across a variety of market conditions. The first half of 2023 has been no exception, with total divisional commercial cash generation of £20.0m (before FX impacts), leaving us well positioned to continue to extend dividend growth. Our shareholders will receive 8.36p per share interim dividend, an increase of 3% for the 19th consecutive year.

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 and provides us the solvency headroom to execute M&A.

I am pleased to report a continued strong and stable Solvency II ratio of 205%. This is significantly above our normal operating range, providing us with considerable strategic flexibility. Our solvency position remains underpinned by a well-diversified business model, a focus on responsible risk-based management and resilient and reliable cash flows from our businesses.

Steve will talk about these financial dynamics further in his report that follows.

PEOPLE AND DELIVERY

Across the group, our people continue to deliver. We have another two deals to report in the period. Firstly, we completed the previously announced acquisition of the Conservatrix insurance portfolio in the Netherlands. Later in May, we announced the acquisition of Canada Life's protection portfolio in the UK (initially executed through a reinsurance arrangement). It is clear from the results that the deals have created significant value for investors (£28.4m of Economic Value gains). What is sometimes less obvious is the operational impact of such deals. Staff in the Netherlands and UK have worked extremely hard to integrate the newly acquired businesses and portfolios including Sanlam Life & Pensions (CASLP). We have made good progress implementing the operational and governance framework required, and the insurance portfolio of Conservatrix is now fully integrated into the Waard Group. We remain mindful that such challenging work, although rewarding, can be stressful and so we continue to invest in staff welfare programmes to support our people.

Another major development during the period has been the announcement of a new long-term outsource partner in the UK, SS&C. This positive development creates a sound commercial and operational foundation for long-term customer support and business development.

Last but not least, the transition to the new insurance contract accounting regime, IFRS 17, has gone live in 2023 and our half year accounts have applied both IFRS 17 and IFRS 9. Resource across the group has worked tirelessly on this programme for many years and whilst there is still more to do for the full year financial statements, we remain on track and the change has been delivered at a cost that is well within generally recognised industry benchmarks.

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.

CHAIR'S STATEMENT (CONTINUED)

PURPOSE

At Chesnara, we help protect customers and their dependants 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 remain 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.

Profitability, which in our case manifests itself in cash generation, EcV growth and solvency will always remain of key importance for many reasons. These include our desire to offer competitive returns to shareholders and fund our debt investor coupon payments but also because it creates financial stability for customers. However, we continue to be very conscious of the need for the business to serve a wider purpose with an increasing balance of focus across the 3Ps: Profit, People and Planet.

We have always 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 and social matters and we have accelerated and deepened this focus during the year. Our inaugural Annual Sustainability Report (ASR) issued in March 2023 laid out our wider ambitions in this regard. We need to move from positive intent to real action and I am pleased to report that this has begun in earnest during the year. The path to sustainability can be long and complicated but we have begun to invest in developing sustainability focused resource and infrastructure, and a well-resourced and well-supported group-wide programme is in place. A very visible and encouraging development was the success of our first group-wide Sustainability Summit held in June. I was hugely encouraged by the level of engagement from all levels across the group and by the clear alignment of ambitions. Building on our published commitments, the programme has identified very specific workstreams which in turn have defined initial and long-term objectives. I am confident that we will deliver against those objectives and I will report progress in my year end statement. The objectives are a mix of items that create solid foundations for longer-term change together with some shorter-term actions that will begin to make a real world positive impact.

Our sources of future growth remain strong. In fact, in the first half of 2023 all components of the 'Chesnara fan' (a diagrammatic illustration of value growth sources, see page 12) were materially positive. The resultant EcV earnings of £61m represents a significant level of recovery of the Economic Value reduction, primarily from falling equity markets, we saw in 2022. We retain our view that, despite 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 our strong and stable solvency, alongside the increased parent company cash balance, leave us well positioned to participate in that market.



Luke Savage
Chair
20 September 2023

[†]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

‘The group has continued to generate cash and we have also seen material EcV earnings generated for the period. Our people have delivered another two acquisitions as well as extensive work on acquisition integrations, securing a new UK strategic partnership and the transition to IFRS 17.’

STEVE MURRAY, CEO

INTRODUCTION AND RESULTS

The first half of 2023 has been another busy and productive period for Chesnara across all aspects of strategic focus areas, namely:

- 1. Running in-force insurance and pensions books efficiently and effectively;
- 2. Seeking out and delivering value enhancing M&A opportunities; and
- 3. Writing focused, profitable new business where we are satisfied an appropriate return can be made.

The increased momentum behind the acquisition strategy, one of our three strategic pillars, has continued with a further two deals recognised in the period (5 now in the last 2 years). The two recent acquisitions have added £28.4m of additional value to the group against consideration paid of £9m and total group capital deployed of £35m. And on both deals we have made significant progress with the integration of these businesses into our operation and governance framework. We also saw an increased contribution from new business for the period primarily driven by increased sales in Scildon.

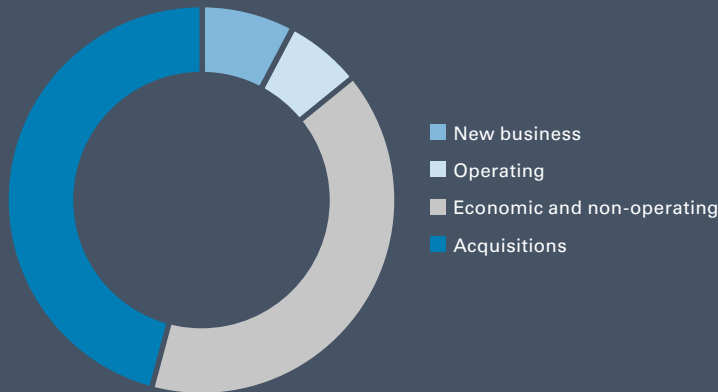
We have over 1 million customers in Chesnara and we take the responsibility of delivering for them every day very seriously.

A major highlight in the period is the signing of a new outsource arrangement in the UK, which we announced in May. 68 Chesnara colleagues have now transferred to SS&C and we have begun the process to migrate our UK policies to our new operating platform. I am confident that SS&C will become a key partner, enabling the UK business to continue to deliver high quality and cost effective servicing with the capacity and flexibility to support continued M&A developments in the UK.

There has been an increased focus on defining and delivering the group sustainability vision in line with the commitments we set out in our inaugural Annual Sustainability Report (ASR).

After five years of planning, there has also been a significant focus on ensuring we could report on the new IFRS 17 basis. Process wise, we are in good shape and the financial impact of the transition to the new reporting framework is positive and in line with the guidance we gave investors alongside our full year 2022 results. We have worked closely with our auditors over the course of our implementation programme in order to ensure the audit of our opening balance sheet and restated 2022 financial statements will be fully audited in time for the release of our year end 2023 Annual Report and Accounts.

Pre dividend and FX impacts, the group Economic Value[†] grew materially by £61.0m or 12%. All aspects of our business model and the ‘Chesnara fan’, including new business, M&A, and driving value from the in force business were materially positive:



CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

The derivative we put in place towards the end of 2022 to reduce the exposure to extreme FX movements also supported cash and capital generation in 2022. We do however remain exposed to the risks and opportunities relating to FX movements within the cap and floor of the derivative. During the first half of 2023 sterling has strengthened marginally against the euro and more markedly against the Swedish krona resulting in a negative FX impact on EcV of £26.8m.

The group continued to generate cash with total commercial cash generation of £21.8m. We see this as a good result given the underlying economic conditions in the first half and the fact that no material capital management actions have been completed in the first half of the year. We will continue to assess management actions and determine the most appropriate time to activate them.

In terms of cash resources, as expected we have seen a significant flow of dividends in the period from our divisions with £57m having been remitted to Chesnara at the half year (a further £10m has been received in September and c£5m is also due later in 2023). This contributed to a £19m increase in the parent company (including holding companies) surplus cash balance and a closing amount of £128m (which included the payment of the FY dividend). Our group solvency ratio has also improved further during the period, closing at 205% (31 December 2022: 197%). As Luke highlighted, this is materially above our normal operating range of 140-160% and provides us with substantial headroom to support further strategic activity.

Our inaugural IFRS 17 numbers show a £51.5m increase in net equity as at 31 December 2022. As at 30 June 2023, total net equity is £362.4m with a contractual service margin (CSM) of £157.2m. This results in a leverage ratio of 29.5% (including the CSM) which is a significant reduction compared to the ratio of 37.6% reported at 31 December 2022 under the previous IFRS reporting regime. Whilst the CSM gives a useful indication of future profits on our insurance business it should be noted that in fact only 42% of our total portfolio is classified as insurance. As such, the CSM by no means represents the full future profit of the group as it excludes investment contracts. Further information regarding IFRS 17 is included on page 33 of this Half Year Report with additional detailed disclosure in section C.

Whilst the move to IFRS 17 has been a very material programme of work for the group, you will note that my wider review continues to focus on metrics linked to Solvency II. We continue to believe that the Solvency II metrics better support a commercial assessment of the business and remain the metrics upon which we manage the group.

**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)

CONTINUED CASH GENERATION AND STRONG SOLVENCY

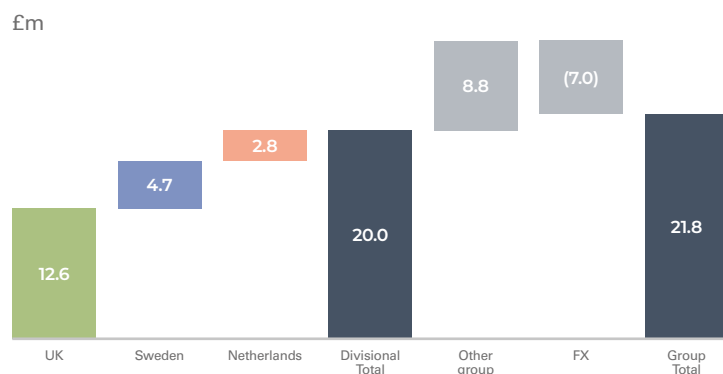
At the heart of the Chesnara financial model and investment case is resilient cash generation and stable solvency, across a wide variety of market conditions.

RESILIENT CASH GENERATION

The total group commercial cash generation[†] (excluding the impact of acquisitions) during the period to 30 June 2023 was £21.8m (six months to 30 June 2022: £(3.0)m). As a reminder, we define cash generation as the movement in the group's surplus Own Funds above the group's internally required capital. Commercial cash generation then excludes the impact of the symmetric adjustment*. The surplus can be impacted by equity markets and currency movements in the near term and also by consolidation adjustments. The divisional results pre-consolidation therefore give a good reflection of the dividend potential rather than looking at the consolidated group figures in isolation.

The divisional commercial cash generation[†] for the period, excluding FX translation impacts, was £20.0m (six months to 30 June 2022: £18.4m) with all territories contributing positively over the period. On an annualised basis the total of £40.0m represents 115% coverage of the total 2022 dividend payment and shows significant future dividend paying capacity. There remains the potential to take management actions during the remainder of the year. This means we continue to be very confident in our ability to cover dividend and debt coupon payments for the full year and further forward.

Commercial cash generation by territory:



DIVISIONAL COMMERCIAL CASH GENERATION REPRESENTS 115% COVERAGE OF THE 2022 SHAREHOLDER DIVIDEND^Δ

The Chesnara parent company (including holding companies) cash and instant access liquidity fund balance at 30 June 2023 has increased to £128m (31 December 2022: £108m). Cash reserves have benefitted from £57m of divisional dividend receipts in the first half of the year, with an additional £10m having been received in September (a further c£5m is also due later in the year). This provides future acquisition funding capacity and further supports the sustainable funding of the group dividend and payment of our Tier 2 debt coupon.

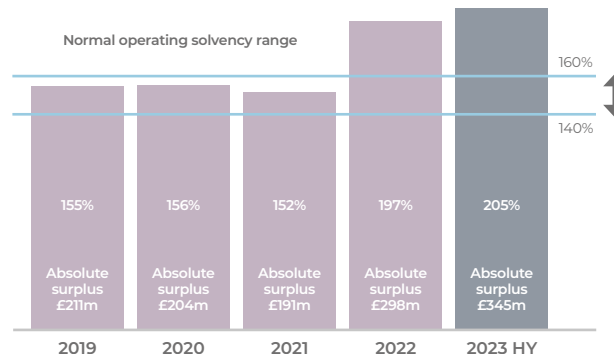
[†]Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the additional information section of this Half Year Report.

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

STRONG SOLVENCY

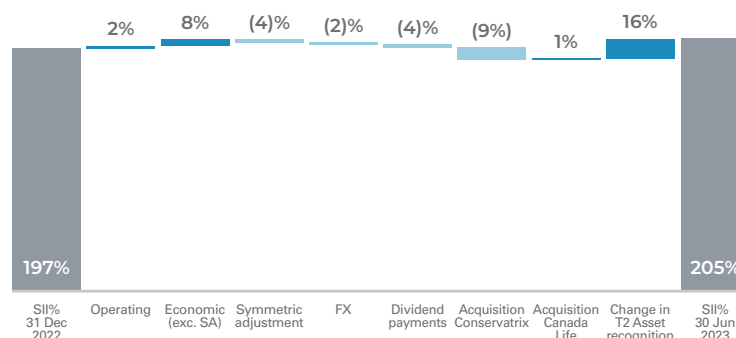
During the period we have seen a further increase in the group solvency ratio to 205%.

Solvency ratio



The closing headline solvency ratio of 205% is significantly above our normal operating range of between 140% and 160%. Unlike many of our peers, the solvency ratio does not adopt any of the temporary benefits available from Solvency II transitional arrangements, although we do apply the volatility adjustment in our UK and Dutch divisions. The ratio does, however, include the benefit of the capital efficiencies relating to the Tier 2 debt raised in 2022.

Solvency ratio movement



We expect to utilise this additional capital surplus as we undertake acquisitions, which should result in the ratio reverting back to within the robust and stable 140% to 160% historical range.

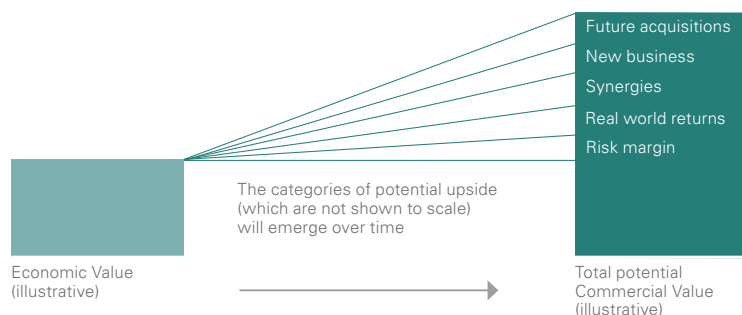
^ΔOn an annualised basis excluding FX consolidation impacts.

*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.

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

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

The 'Chesnara fan' illustrates the additional areas of growth potential the group may benefit from that aren't fully reflected in our Economic Value[†] metric.



We have previously highlighted that over the medium term, we expect all components of the growth model to be positive, although there can be a level of shorter-term volatility in each element. In this six month period, all components have made positive contributions.

Although there are limitations to tracking the growth metrics over short time periods, it remains useful to assess how the results for the period mapped against the value growth components of the 'Chesnara fan'.

A key element of the growth model is real world investment returns. The reported EcV of the group assumes risk free returns on shareholder and policyholder assets. Given the direct link to external market performance this source of value tends to be the most volatile of the growth sources. During the first half of the year equity and fixed income asset market movements created £20.6m of value growth. This gain partially offsets the Economic Value reduction from lower real world investment returns we saw in 2022, whilst demonstrating the value potential from even modestly beneficial economic conditions.

Over time, we expect improvements to operational effectiveness to be a source of value creation, be that through M&A synergies, operating variances, scale or other positive management actions. During the first half of the year, I am pleased to report £8.6m of EcV growth resulting from operational items (including new business profits).

The other value growth components have all been a source of growth during the period. The Economic Value of the group has increased by c£0.9m directly as a result of risk margin reductions. This increase does not include the expected risk margin reduction as a result of UK government changes coming soon.

Acquisitions in the period have also added £28.4m of EcV with further value growth expectations not recognised in the day one gains. This shows that the increased momentum behind the M&A strategy is now materially contributing to the growth of the group.

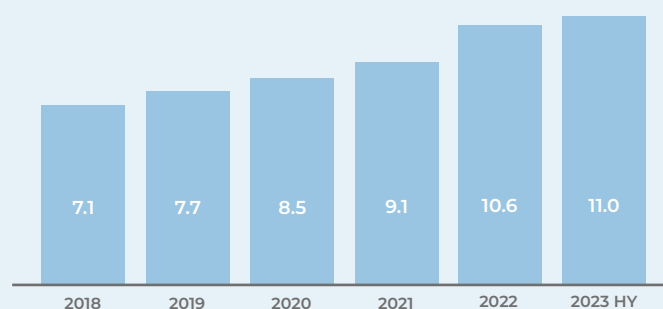
FOCUSED WRITING OF NEW BUSINESS

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 six months to 30 June 2023, we have seen improved commercial new business[†] profits of £6.3m (six months to 30 June 2022: £4.6m).

We have grown our Funds Under Management (FuM)[†] in 2023, largely through the completion of the acquisition of the insurance portfolio of Conservatrix and we have also reported a modest growth in underlying asset values.

Growth in FuM[†] Funds Under Management (£bn)

Growth of 54% since 2018



FOLLOWING THE RECENT ACQUISITIONS, WE NOW LOOK AFTER OVER 1 MILLION POLICYHOLDERS & CUSTOMERS WHO HAVE £11BN OF THEIR ASSETS WITH US

CONTINUED DELIVERY OF ACQUISITIVE GROWTH

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

Successful acquisitions have been key to Chesnara's development historically and will remain so in the future. During the first half of 2023 we delivered two acquisitions. The acquisition of the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands, was completed on 1 January 2023 having been originally announced in July 2022. The insurance portfolio has increased Waard's number of policies under administration by over 50%, transforming Waard into a second material closed-book consolidation business alongside Chesnara's existing UK platform. The Conservatrix transaction increased the group's EcV by £21.7m as at 30 June 2023 and provides further EcV accretion potential, including from future real world investment returns and the run-off of the risk margin. The acquisition is expected to deliver c£4m per annum of incremental steady-state cash generation.

On 16 May 2023 Chesnara announced the acquisition of the onshore individual protection line of business of Canada Life UK, which was closed to new business in November 2022. As a result of the acquisition, the life insurance and critical illness policies for approximately 47,000 customers will transfer to Chesnara's UK subsidiary, Countrywide Assured plc (CA plc). Customers' policies are expected to transfer to CA plc in 2024, subject to the completion of a court-approved Part VII transfer. In the interim period, Canada Life UK will reinsure the portfolio to CA plc, effective from 31 December 2022. The initial commission as part of the reinsurance agreement is £9.0m, funded from internal group resources, and the transaction has increased the group's Economic Value by £6.7m as at 30 June 2023. The transaction is expected to deliver additional cash generation over the next 5 years of approximately £16m.

Positive progress continues on the work to complete the transition of CASLP into our target operating platform and to transfer policies via Part VII into our CA legal entity.

[†]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)

CONFIDENCE IN OUR ABILITY TO EXECUTE FUTURE M&A

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

2023 has continued to see an active M&A market across European insurance for deals of £1bn and below, with large international insurance groups continuing to focus their strategies and management teams actively managing business portfolios to release capital and simplify operations. Even with the ongoing market volatility and macro-economic environment, we expect the positive levels of insurance M&A to continue. An active market provides opportunities for Chesnara as a consolidator and the five deals that we have announced over the past two years provides confidence to sellers and their advisors about our ability to execute future M&A.

We continue to have material financial resources to deploy, with cash balances of £128m at a group level, and our revolving credit facility creates an additional level of working capital flexibility. For more transformational deals, we retain the ability to raise equity and are mindful of the potential benefits from other funding arrangements such as joint ventures or vendor part-ownership.

Our assessment of the market potential, our track record of delivery and the actions we have taken to enhance our ability to execute M&A means we are confident that acquisitions will continue to contribute to Chesnara's success in the future.

PEOPLE CHANGES

In February this year, we announced that our Scildon CEO, Gert-Jan Fritzsche, would be leaving the business as we enter the next phase of Scildon's strategic development. Having conducted a full market search, we were delighted to announce in July that Pauline Derkman has agreed to take up the position of Scildon CEO on 1 September. She has a huge amount of Dutch market experience including M&A from her time at Aegon, ASR and PWC. I am looking forward to working with her and the wider Scildon team going forward.

Last month, we also announced that after 8 years with Movestic (6 as Movestic CEO), Linnea Ecorcheville will be leaving the business. We thank Linnea for all she has done for Movestic over the last 8 years and wish her all the best for the future. Sara Lindberg, who is a key member of our Movestic management team, has been made Interim CEO and we have now started a formal market search for a successor.

And we announced on 12 September that after 7 years Ken Hogg, UK CEO, will be leaving to focus on his non-executive career. On behalf of the board, I wanted to thank him for everything he has done during his time at Chesnara and wish him every success in the future. We were also delighted to announce that Jackie Ronson will be taking up the role of UK CEO, subject to regulatory approval, and started with Chesnara on 14 September. She brings with her over 25 years of experience across financial services and beyond, working in a range of businesses from start-ups to FTSE 100 organisations. Ken and Jackie are already working actively on the effective hand over of responsibilities.

A SUSTAINABLE CHESNARA

We are committed to becoming a sustainable group and our principles are: 'Do no harm. Do good. Act now for later.' As a steward and a safe harbour for our 1 million policyholders and £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 published our commitments within our inaugural Annual Sustainability Report (ASR) in March and, simply put, we will make decisions based on all of our stakeholders, including the planet and its natural resources. Positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. Based on this, we're committed to:

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

These commitments are shaping what we do and how we do it. In addition, there will be changes to sustainability based reporting requirements at a divisional and group level. The path to sustainability will be long and complicated but we are working to put sustainability at the heart of everything we do. We are making progress against our 2023 plans and this work is combining what short-term actions we can take whilst also considering the longer-term strategy, processes and changes we need to make in order to be truly sustainable. Our Group Sustainability Committee chaired by our Senior Independent Director, Jane Dale, and consisting of senior management from across the group, including myself, is overseeing our work that is being led by Dave Rimmington.

OUTLOOK

It has been pleasing to see economic gains in the first half of the year as well as positive cash generation. Whilst a volatile macro-economic backdrop will continue to be a material factor in all our markets, we remain confident that the Chesnara business model will continue to generate cash across a wide variety of market conditions, as it has done over its history.

We also remain positive on the outlook for further M&A with the two deals completed in the period providing further evidence of the renewed momentum we have behind our M&A activity.

Finally, the operational delivery we have seen in the first part of the year would not have been possible without the fantastic efforts of our teams across the group.

Looking forward to the rest of 2023 and beyond, I continue to believe there is a lot to look forward to here at Chesnara.



Steve Murray
Chief Executive Officer
20 September 2023

SECTION B: MANAGEMENT REPORT

Hammarby Sjöstad, Stockholm

- 15** Introduction
- 17** Business Review
- 24** Capital Management
- 27** Financial Review
- 37** Risk Management
- 43** Going Concern Statement

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		
01 MAXIMISE THE VALUE FROM EXISTING BUSINESS Managing our existing customers fairly and efficiently is core to delivering our overall strategic aims.	02 ACQUIRE LIFE AND PENSIONS BUSINESSES Acquiring and integrating companies into our business model is key to continuing our growth journey.	03 ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book.
KPIs Cash generation EcV earnings Customer outcomes	KPIs Cash generation EcV growth Customer outcomes Risk appetite	KPIs EcV growth Customer outcomes

HOW WE ORGANISE OURSELVES

UK 	NETHERLANDS 	SWEDEN 	DIVISION
COUNTRYWIDE ASSURED CASLP	WAARD GROUP SCILDON	MOVESTIC	OPERATING COMPANY
01 02	01 02 01 03	01 02 03	STRATEGIC OBJECTIVES
Read more on p17	Read more on p21	Read more on p19	
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.	Predominantly the underwriting of unit-linked pensions and savings. Also provides some life and health product offerings.	KEY PRODUCTS
c308,000 ^A	c170,000 c234,000	c304,000	NUMBER OF POLICIES
N/A	N/A Sold through a broker network.	Largely through a network of brokers and partners.	DISTRIBUTION METHOD

CHESNARA CULTURE & VALUES – RESPONSIBLE RISK-BASED MANAGEMENT

^APost Canada Life portfolio acquisition.

INTRODUCTION (CONTINUED)

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

OUR BUSINESS MODEL



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 INVESTORS	ROBUST REGULATORY COMPLIANCE	A JUST TRANSITION TO A SUSTAINABLE GROUP
STAKEHOLDERS					
– SHAREHOLDERS – DEBTHOLDERS – STAFF – SUPPLIERS AND PARTNERS – NATURAL ENVIRONMENT – CUSTOMERS	– CUSTOMERS	– CUSTOMERS – REGULATORS – STAFF	– SHAREHOLDERS – DEBTHOLDERS	– SHAREHOLDERS – DEBTHOLDERS – CUSTOMERS – REGULATORS – NATURAL ENVIRONMENT	– ALL STAKEHOLDERS INCLUDING THE PLANET

[†]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 consists of Countrywide Assured plc (including the recent Canada Life deal) and CASLP Limited, formerly Sanlam Life & Pensions, acquired in April 2022. The combined businesses manage c308,000 policies covering linked pension business, life insurance, endowments, annuities and some with-profit business. The division is largely closed to new business, but grows through above risk free returns, increments to existing policies and periodic acquisitions.

BACKGROUND INFORMATION

INITIATIVES & PROGRESS IN 2023

MAXIMISE VALUE FROM EXISTING BUSINESS

01

CAPITAL & VALUE MANAGEMENT

As a largely closed book, the division creates value through managing the following key value drivers: costs; policy attrition; investment returns; 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.

CUSTOMER OUTCOMES

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

GOVERNANCE

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

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

- The division entered into a new long-term strategic partnership with Fin Tech market leader, SS&C Technologies. SS&C will service the front to back office operations for the majority of the UK division. This represents a landmark agreement for the division and provides surety over the future operating costs of the business over a 10 year period.
- The initial focus of the arrangement with SS&C is to migrate the business of CASLP to its end state operating model. This transition and transformation programme has progressed well to date, with an initial key milestone of transferring the majority of CASLP staff to SS&C having recently been met.
- The planned Part VII transfer of the policies of CASLP to Countrywide Assured plc is progressing well, remaining on track to be delivered by the end of 2023. This is expected to deliver operational and capital efficiencies for the division.
- In May 2023 the division entered into an agreement with Canada Life Limited to acquire its individual protection business of 47,000 policies. The acquisition has initially been executed through entering into a 100% reinsurance agreement with Canada Life, and these policies will subsequently transfer to the division through a Part VII transfer process.
- Further work has been performed to refine the investment portfolio of CA plc, with a re-balancing of the portfolio backing the non-linked, non-volatility adjustment portfolio having been delivered in the period.
- CA plc has settled its year end 2022 foreseeable dividend of £46m, with the CASLP dividend settled in September, resulting in a combined total of £56m being paid up to Chesnara plc.
- Solvency has strengthened in both UK businesses with combined EcV earnings of £11m in a period of muted economic growth, as rising inflation dampened the impact of investment market returns. The EcV result includes an element of new business profit in CASLP of £0.5m (£0.7m on a commercial new business basis), as the CASLP onshore bond remains open to new business via third party links.

- An ongoing focus of the division is to ensure that it complies with the requirements of the FCA’s ‘Consumer Duty’. CASLP, as an operation that continues to write a small amount of new business, met the requirements by 31 July 2023. CA plc’s closed-book operation is on track to comply with the requirements by the later deadline of 31 July 2024.
- The process for transferring the policies of CASLP to CA plc is progressing well. The independent expert for the transfer has confirmed that he does not expect any reduction in the benefits that existing policyholders expect to receive from their products, or any deterioration in the security of those benefits. Court approval has been received for the scheme to progress to the next stage, culminating in a November Sanction Hearing.
- From an operational resilience perspective the division has continued to successfully deliver its programme. This has included supporting the PRA in its industry-wide data collection programme and the minor feedback received has already been incorporated into the ongoing 2023 plans.

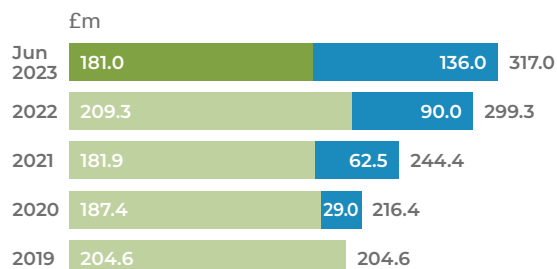
- Following the acquisition of CASLP during 2022, the division has focused on ensuring that the business is appropriately governed in line with the division’s risk framework. Following entering into the new strategic partnership with SS&C during the period, the division is at the next phase of its governance oversight journey for CASLP, with SS&C having taken on the CASLP operation in Bristol from 1 August this year.
- As a result of the new arrangement with Canada Life, the division has focused on ensuring that there is appropriate oversight over the reinsurance arrangement prior to the planned transfer of the policies to CA through a Part VII process.
- Both CASLP and CA have now implemented IFRS 17 reporting into their overall financial reporting framework, as required to support the inaugural IFRS 17 reporting for the Chesnara group for this half year.
- In the second half of 2023, a group-wide impact assessment and gap analysis of sustainability reporting requirements will conclude, which will inform the UK divisions’ implementation plan and next steps. It is expected that the FY 2024 reporting will see a number of key changes following the implementation of the new sustainability standards, IFRS S1 and S2. Work will also progress on the transition plans, although this will largely fall into 2024.

BUSINESS REVIEW UK (CONTINUED)

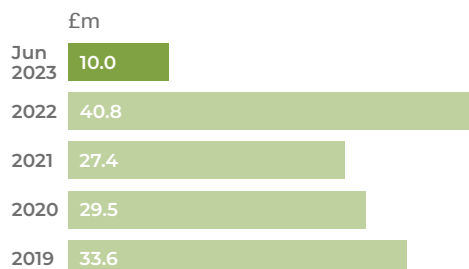
KPIs

Economic Value[†] – UK

■ Reported value
■ Cumulative dividends



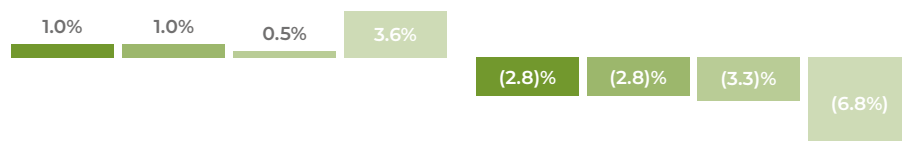
Cash generation[†] – UK



The closing EcV for June 2023 includes a £6.7m gain delivered through the Canada Life deal.

Policyholder fund performance – UK

■ CA pension managed
■ CWA balanced managed pension
■ S&P managed pension
■ Benchmark – ABI mixed inv 40%-85% shares

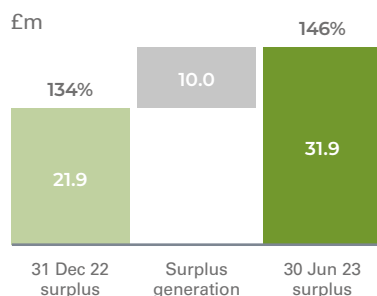


12 months ended 30 June 2023

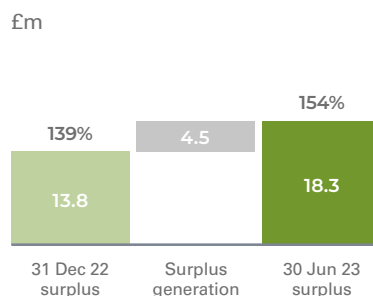
12 months ended 30 June 2022

Markets remained volatile throughout the year and our main managed funds under-performed the reported ABI sector index benchmark due to the portfolio allocation and investing style over the period. This was due in part to the slightly higher UK equity component held within the portfolio relative to the index, but also impacted by lower Fixed Income performance due to unprecedented volatile conditions. For periods greater than one year, performance remains strong, outperforming the sector benchmark and ranked in top or second quartile.

SOLVENCY RATIO CA: 146%



SOLVENCY RATIO CASLP: 154%



Solvency is strong in both businesses with surplus generated in the period increasing the solvency ratio from 134% to 146% and from 139% to 154% in CA and CASLP respectively.

[†]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.

FUTURE PRIORITIES

- Delivery of the division's transition and transformation programme, which focuses on the end state migration of front to back office operations to SS&C for the majority of the UK division.
- Deliver the remaining aspects of the programme to transfer the policies of CASLP and Canada Life into CA plc.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Identify potential capital management actions, focusing on those that generate the appropriate balance of value and cash generation.
- Support Chesnara in identifying and delivering UK acquisitions.

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

- Transition the new financial reporting processes in place to support IFRS 17 reporting into BAU.
- Ensure appropriate governance arrangements are in place as the division transitions the majority of its front to back operations to SS&C.
- Continue to progress towards net zero as part of the group-wide programme to become a sustainable group. Undertake further work on ensuring sustainability reporting obligations are met.

BUSINESS REVIEW SWEDEN

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

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

BACKGROUND INFORMATION

INITIATIVES & PROGRESS IN 2023

01

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.

- In the first half-year of 2023, the financial markets have been volatile but overall positive due to an upswing in US and wider tech markets. This development was reflected in the favourable returns on the policyholders' investment assets.
- The division has continued to strengthen its offering and distribution within its custodian business.
- Further regulation was introduced in July 2022 to further open up parts of the market to be accessible for transfer into newer unit-linked products. This change, along with further improvements in our proposition and broker plan offerings, has led to a material improvement to inflows. This, combined with the removal of competitors' aggressive pricing activities and the impact of Movestic's retention initiatives, has led to a much improved position on outflows overall, albeit still slightly ahead of our long-term assumptions.
- Movestic's solvency ratio remained robust after the dividend payment of £11.0m during the second quarter and despite the development of the symmetric adjustment following positive investment markets, which requires us to hold some additional capital.
- The financial result is positive for H1 2023 with fees on increased FuM the main driver for revenue. AUM has a closing balance of £4.0bn which is a YTD increase of +15%.

CUSTOMER OUTCOMES

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

- A third-party survey completed during H1 2023 demonstrated the importance of an occupational pension as the most important benefit when choosing a new employer, hence an important tool for employers to stay attractive.
- A new sustainability rating has been developed and implemented aiming at providing an aggregated valuation of all the different sustainability ratings that are available on the investment market.
- Automation and a new customer service system have both been implemented during the period, ensuring smoother administration and better customer service.
- A new digital medical underwriting tool and an improved digital investment tool have been launched, making it easier for customers to choose and exchange the funds in their portfolios.

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.

- IFRS 17 entered into force on 1 January 2023 and Movestic has delivered their first set of financial results under the new standard. Further IFRS 17 enhancements are required in the remainder of the year.
- Sustainability has remained a focus area. Among other things, efforts have been made to develop a solution to, in a digital way, provide customers with individual sustainability annual reports in accordance with the delegated rules (RTS) to the Disclosure Regulation, which entered into force on 1 January 2023.
- Further efforts have been made to deepen employees' knowledge regarding sustainability. A training programme has been developed and started. Movestic has also been playing a strong role in the group's wider sustainability programme.

03

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

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

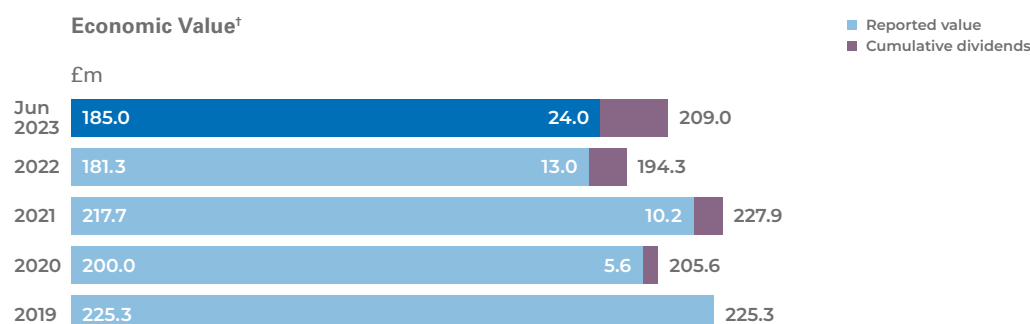
- Sales volumes have developed positively in 2023 and were 19% above the same period in 2022 for the unit-linked segment. The custodian sales volumes are below the previous year (-14%) due to the less favourable financial market conditions, particularly a lack of local IPOs.
- The division delivered new business profit of £2.0m which was 31% above the same period in 2022. The main driver for the increase was the success in attracting new transfer in volumes.
- Movestic will continue to develop its pension offering to increase competitiveness and build customer loyalty. A special focus has been put on new volumes that became available on the Swedish transfer market from the second half of 2022, which for the first half-year of 2023 has resulted in transfer-in volumes 109% above previous year.

[†]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.

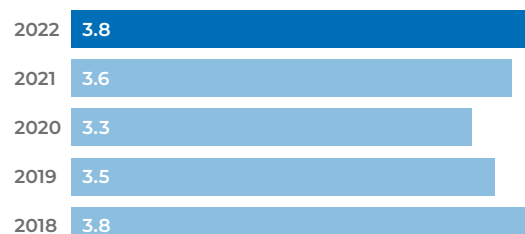
BUSINESS REVIEW SWEDEN (CONTINUED)

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2023 EXCHANGE RATES)

Economic Value[†]



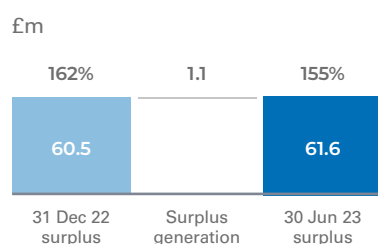
Broker assessment rating



POLICYHOLDER AVERAGE INVESTMENT RETURN

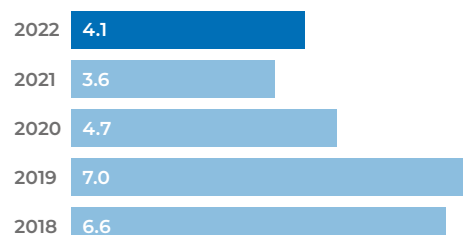
10.8%

SOLVENCY RATIO: 155%

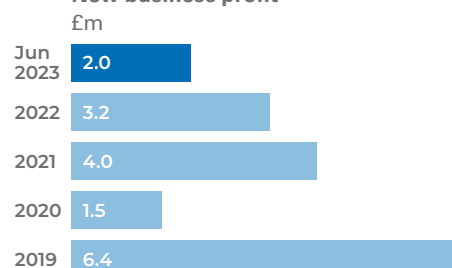


SOLVENCY REMAINS STRONG POST PAYMENT OF DIVIDENDS TO CHESNARA OF £11.0M

Occupational pension market share %



New business profit



FUTURE PRIORITIES

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

- 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.
- Continue to capitalise on the new rules that came into effect in July 2022 that enhance the business's ability to transfer policies onto its own platform where it is in the interest of customers to do so.

- Ensure new reporting processes are embedded into BAU operations to support IFRS 17 requirements.
- Continue implementation of sustainability regulations.

- 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.
- Continued work to launch new partner collaborations within all lines of business.

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

BUSINESS REVIEW NETHERLANDS

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

BACKGROUND INFORMATION

01

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.

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.

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.

MAXIMISE VALUE FROM EXISTING BUSINESS

03

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

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

INITIATIVES & PROGRESS IN 2023

- Waard completed the acquisition of the insurance portfolio of Conservatrix on 1 January 2023, with the integration now largely complete, adding c70,000 policies and c£0.4bn of assets under management. This acquisition further strengthens Waard’s position as an acquirer of business and portfolios in the Netherlands.
- Scildon continued to make progress on its IT system improvement project and the expected completion date (early 2024) and anticipated savings remain on track.
- Including the use of the volatility adjustment, both businesses have strong solvency positions, noting the Waard solvency ratio has reduced from FY 2022, albeit from a very high ratio, following the acquisition of the insurance portfolio of Conservatrix, as expected.
- Despite a period of mixed investment returns and volatility seen across different asset classes, the division has delivered Economic Value growth through operating profits and a gain on completion of the Conservatrix deal.

- Scildon’s focus remains on providing flexible solutions and offerings to its clients, including sustainable options. This has involved things such as: digitalising some customer service processes; reviewing sales channels for its term insurance product for tenants to maximise accessibility to customers; and continual review of its investing solutions to try and rationalise its investment portfolio in order to offer sustainable and profitable investment products to customers.
- Waard has been focused on working with Conservatrix policyholders to enable them, where appropriate, to restart premiums or transfer out funds, following a long period pre-acquisition where policyholder assets remained ‘locked’.

- The multi-year IFRS 17 and IFRS 9 project has largely come to a close with this report representing the first external reporting output under the new framework.
- Further implementation on the EU sustainability regulation (the SFDR and the EU Taxonomy) was carried out during the first half of the year.
- Preparations to implement the Corporate Sustainability Reporting Directive (CSRD) are also underway for both Scildon and Waard and are expected to come into force in respect of FY 2025.
- Pauline Derkman commenced as the new CEO of Scildon on 1 September 2023 bringing a wealth of experience to the role.

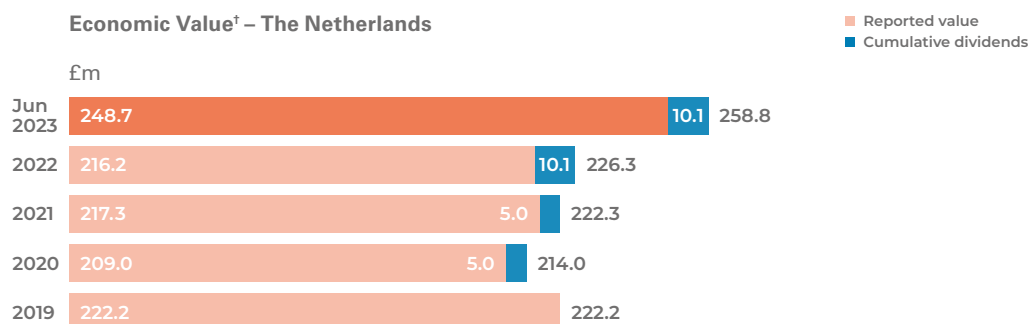
- Scildon has continued to generate commercial new business profits, with £3.7m earned to date (30 June 2022: £3.2m).
- The market share for Scildon’s term lifestyle product for June is 12.1% (11.4% average for the first half of 2023). This has increased from 11.6% in June 2022.
- The Dutch housing market remains subdued with a corresponding impact on the overall term market. Conversely as interest rates have risen, annuities have become increasingly popular.

Note: The market share methodology approach has changed when compared to FY 2022, and has resulted in a change in calculation. At FY 2022, under the old methodology, the full year market share was 18.2%, which is 12.9% under the new approach.

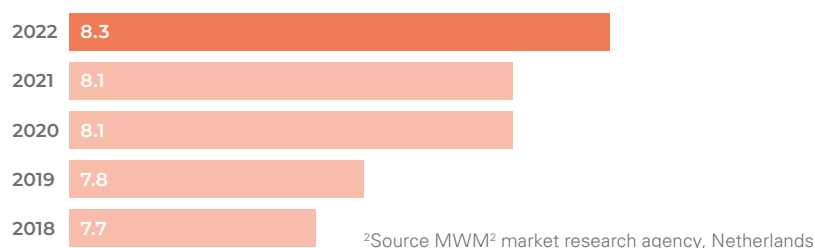
BUSINESS REVIEW NETHERLANDS (CONTINUED)

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2023 EXCHANGE RATES)

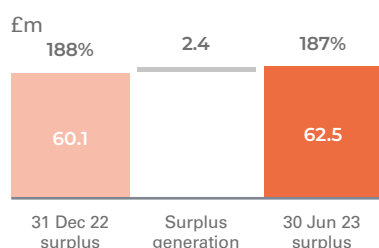
Economic Value[†] – The Netherlands



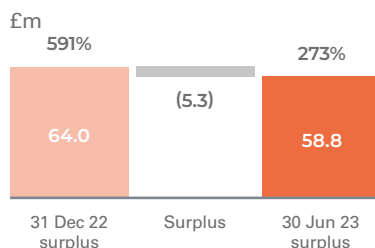
Client satisfaction rating²



SOLVENCY RATIO SCILDON: 187%



SOLVENCY RATIO WAARD: 273%

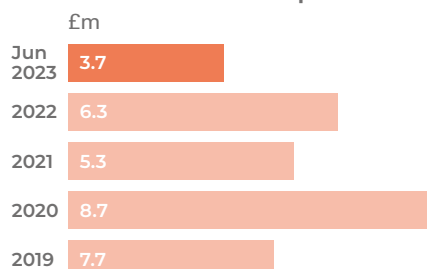


Solvency is robust in both businesses, with post-dividend solvency ratios (inclusive of the volatility adjustment) of 187% and 273% for Scildon and Waard respectively. Note, the Waard opening solvency ratio includes the benefit of the £21.5m capital injection from group in respect of the acquisition of the insurance portfolio of Conservatrix which completed 1 January 2023.

Term assurance market share %



Scildon new business profit



Scildon market share calculation basis has changed and has resulted in a lower position than the previous methodology, the 2022 comparators on the new basis have been included for context.

FUTURE PRIORITIES

- Continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Effective management of the closed-book run-off in Waard to enable ongoing divided payments to Chesnara.
- Work towards finalisation of the IT projects and ultimate recognition of their capital efficiencies.

Note: The 2022 closing value includes the additional EcV in Waard relating to the capital injection from Chesnara plc in respect of the Conservatrix acquisition. There is a corresponding value outflow of £21.5m at the parent company. The acquisition was completed on 1 January 2023 and is reflected in the current period EcV.

- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue to review and progress appropriate initiatives to meet the needs of customers.

- Continued implementation of sustainability regulations.
- Embedding of IFRS 17 into BAU functions.

- Continue to deliver product innovation and cost management actions.

[†]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 first half of 2023 we completed the acquisition of the insurance portfolio of Conservatrix in the Netherlands and entered into a deal in the UK with Canada Life to transfer its onshore protection business to the group.

How we deliver our acquisition strategy

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

HOW WE ASSESS DEALS

Cash generation [†]	Collectively our future acquisitions must be suitably cash generative to continue to support Chesnara delivering attractive dividends.
Value enhancement	Acquisitions are required to have a positive impact on the Economic Value [†] per share in the medium term under best estimate and certain more adverse scenarios.
Customer outcomes	Acquisitions must ensure we protect, or ideally enhance, customer interests with deals always giving full regard to Consumer Duty responsibilities.
Risk appetite	Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.

INITIATIVES AND PROGRESS IN 2023

The acquisition of the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands, was completed on 1 January 2023 having been originally announced in July 2022. The insurance portfolio has increased Waard's number of policies under administration by over 50%, transforming Waard into a second material closed-book consolidation business alongside Chesnara's existing UK platform.

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

A capital contribution of £25m was provided by the group, along with an additional £10m from Waard's own resources to support the solvency position of the Conservatrix business. Post acquisition, we expect that Waard will become a material contributor to the group's dividends, with expected total annual steady state cash generation of £8 million. The Conservatrix transaction increased the group's EcV by £21.7m as at 30 June 2023 and provides further EcV accretion potential from future real world investment returns and the run-off of the risk margin.

In addition, on 16 May 2023 Chesnara announced the acquisition of the onshore individual protection line of business of Canada Life UK, which was closed to new business in November 2022. As a result of the acquisition, the life insurance and critical illness policies for approximately 47,000 customers will transfer to Chesnara's UK subsidiary, Countrywide Assured plc (CA plc).

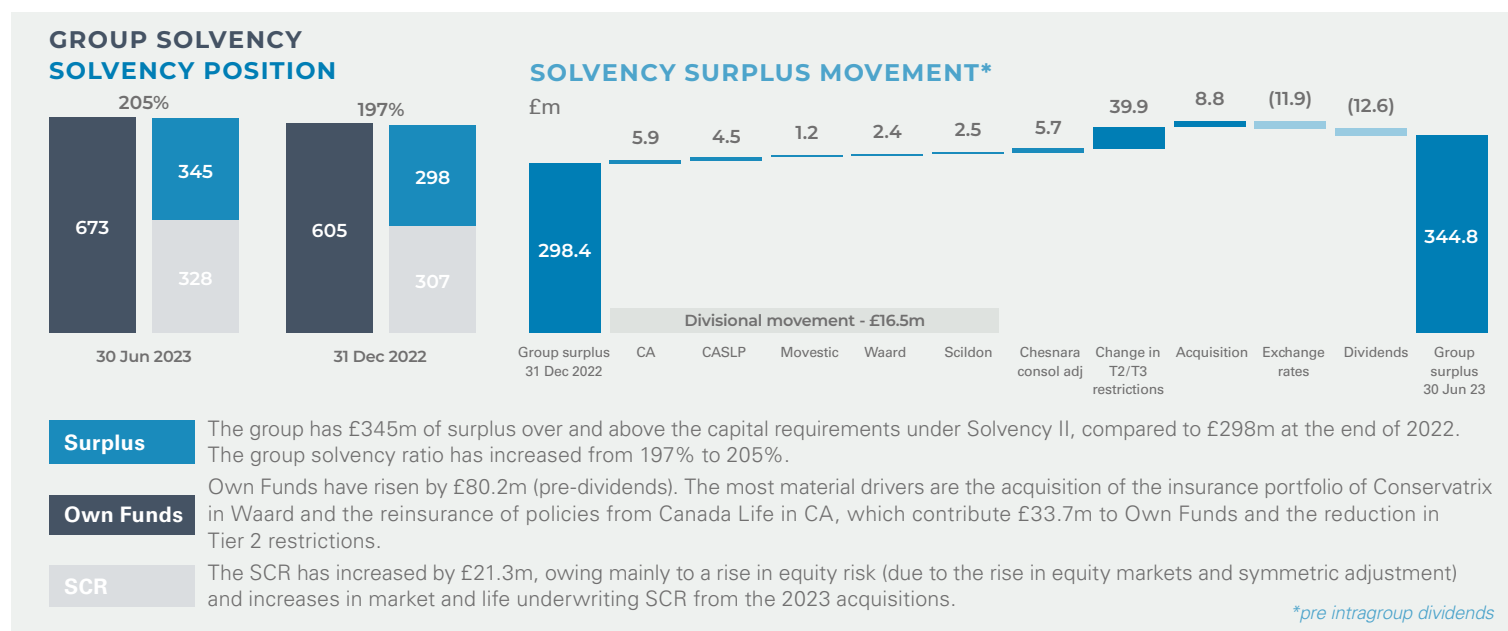
Customers' policies are expected to transfer to CA plc in 2024, subject to the completion of a court-approved Part VII transfer. In the interim period, Canada Life UK will reinsure the portfolio to CA plc, effective from 31 December 2022. The consideration as part of the reinsurance agreement is £9 million, funded from internal group resources, and the transaction has increased the group's EcV by £6.7m as at 30 June 2023. The transaction is expected to deliver additional cash generation over the next five years of approximately £16m. The impact on the group's Solvency II ratio as a result of the transaction was 1%.

ACQUISITION OUTLOOK

- We continue to see a healthy flow of acquisition opportunities across European insurance including the UK and the Netherlands.
- We recognise that the consolidation markets in these countries are mature but the key drivers for owners to divest portfolios continue to remain relevant and create a strong pipeline. These include better uses of capital (e.g. return to investors or supporting other business lines), operational challenges (e.g. end of life systems), management distraction, regulatory challenges, business change (e.g. IFRS 17) and wider business and strategic needs.
- Our expectation is that sales of portfolios will continue and our strong expertise and knowledge in the markets, good regulatory relationships and the flexibility of our operating model means that Chesnara is very well placed to manage the additional complexity associated with these portfolio transfers and provide beneficial outcomes for all stakeholders. These transactions may not be suitable for all potential consolidators, in particular those who do not have existing licences in these territories.
- Chesnara will continue its robust acquisition assessment model which takes into account; (a) the strategic fit; (b) the cash generation capability; (c) the medium-term impact on EcV per share; and (d) the risks within the target. We will also continue to assess the long-term commercial value of acquisitions as part of our objective to maximise the value from in-force business.
- The £200m Tier 2 subordinated debt issue in February 2022 together with the existing £100m Revolving Credit Facility arrangement (with an additional £50m accordion option) provides funding capability on commercially attractive terms. We continue to have immediately available acquisition firepower, supported by a strong group solvency position. We will continue to explore how we can increase our funding capability further, including consideration of partnerships to ensure we can compete for larger deals.
- Our strong network of contacts, including the corporate finance adviser community, who understand the Chesnara acquisition model, supported by our engagement activity with potential targets, ensures that we are aware of viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue our successful acquisition track record in the future.

CAPITAL MANAGEMENT • SOLVENCY II

Subject to ensuring other constraints are managed, surplus capital is a useful proxy measure for liquid resources available to fund items such as dividends, acquisitions or business investment.



Solvency II background

- Solvency surplus is a measure of how much the value of the company (Own Funds) exceeds the level of capital it is required to hold.
- The value of the company is referred to as its 'Own Funds' (OF) and this is measured in accordance with the rules of the 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: The Own Funds valuation, before considering the benefit of Tier 2 and Tier 3 capital (which is restricted to 50% of the value of the reported SCR), is deemed to represent a commercially meaningful figure with the exception of:

Contract boundaries

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

Risk margin

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

Restricted with-profit surpluses

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

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

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

How do Own Funds change?

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

[†]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.

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 (MCR)

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

How does the SCR change?

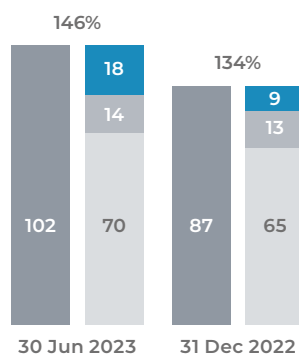
Given the largest component of Chesnara's SCR is market risk, changes in investment mix or changes in the overall value of our assets has the greatest impact on the SCR. For example, equity assets require more capital than low risk bonds. Also, positive investment growth in general creates an increase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

A review of the UK's application of Solvency II is currently underway, led by HM Treasury. In April 2022 the PRA published a statement indicating its agreement with the view that the risk margin and matching adjustment can be reformed so as to reduce overall capital levels for life insurers. In November 2022 the UK government announced plans to legislate the reforms to Solvency II. On 29 June 2023 the PRA started consultation CP12/23 setting out the proposed reforms. We continue to monitor this closely and future financial statements will report on the UK specific application of Solvency II as it diverges from the EU's regime. We see no specific reason to expect the PRA to use their enhanced freedoms to take a route that systemically makes it harder to do business in the UK.

CAPITAL MANAGEMENT • SOLVENCY II (CONTINUED)

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

UK – CA £m



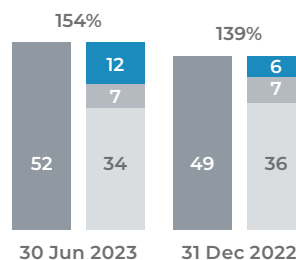
Surplus: £18.0m above board's capital management policy.

Dividends: During Q2 2023 a £46.0m dividend was paid up to Chesnara (2022: £27.5m).

Own Funds: Increased by £15.2m due to Canada Life reinsurance, and positive economic experience.

SCR: Increased by £5.2m primarily due to Canada Life reinsurance, increase in symmetric adjustment and an increase in bond holdings.

UK – CASLP £m



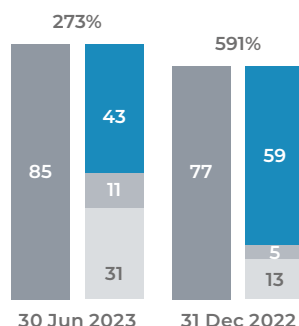
Surplus: £11.5m above board's capital management policy.

Dividends: Solvency position stated after £10.0m proposed dividend, due to be paid in the second half of the year.

Own Funds: Own Funds increased by £3.0m, largely due to an increase in interest rates, offset by adverse lapse experience and a strengthening of expense assumptions.

SCR: Fallen by £1.5m, due to reductions in underwriting risks following the rise in interest rates.

NETHERLANDS – WAARD GROUP £m



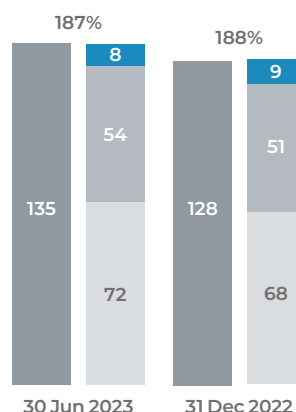
Surplus: £42.8m above board's capital management policy.

Dividends: Solvency position stated after £5.1m proposed dividend (2022: £6.4m), due to be paid in the second half of the year.

Own Funds: Increased by £7.6m largely due to Conservatrix deal.

SCR: Increased by £17.9m, mainly due to the Conservatrix transaction, which has mostly impacted longevity, lapse and concentration risk.

NETHERLANDS – SCILDON £m



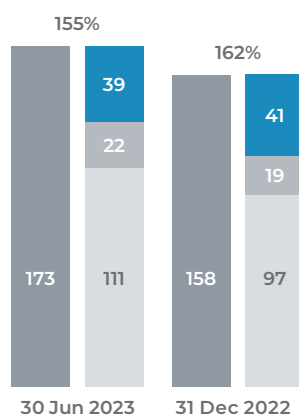
Surplus: £8.4m above board's capital management policy.

Dividends: No foreseeable dividend is proposed (2022: £5.3m).

Own Funds: Increased by £6.5m due to positive operating variances and new business profits.

SCR: Increased by £4.1m, largely due to positive equity market growth and a rise in symmetric adjustment, as well as an increase in spread risk due to a rise in bond values.

SWEDEN £m



Surplus: £39.4m above board's capital management policy.

Dividends: During Q2 2023 a £11.0m dividend was paid up to Chesnara (2022: £3.0m).

Own Funds: Increased by £15.2m largely owing to positive economic movements, being slightly offset by adverse lapse experience and depreciation of SEK against GBP.

SCR: Increased by £14.1m due to positive equity growth and moderate rise in currency and lapse and 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 2022 figures have been restated using 30 June 2023 exchange rates in order to aid comparison at a divisional level.

CAPITAL MANAGEMENT • SENSITIVITIES

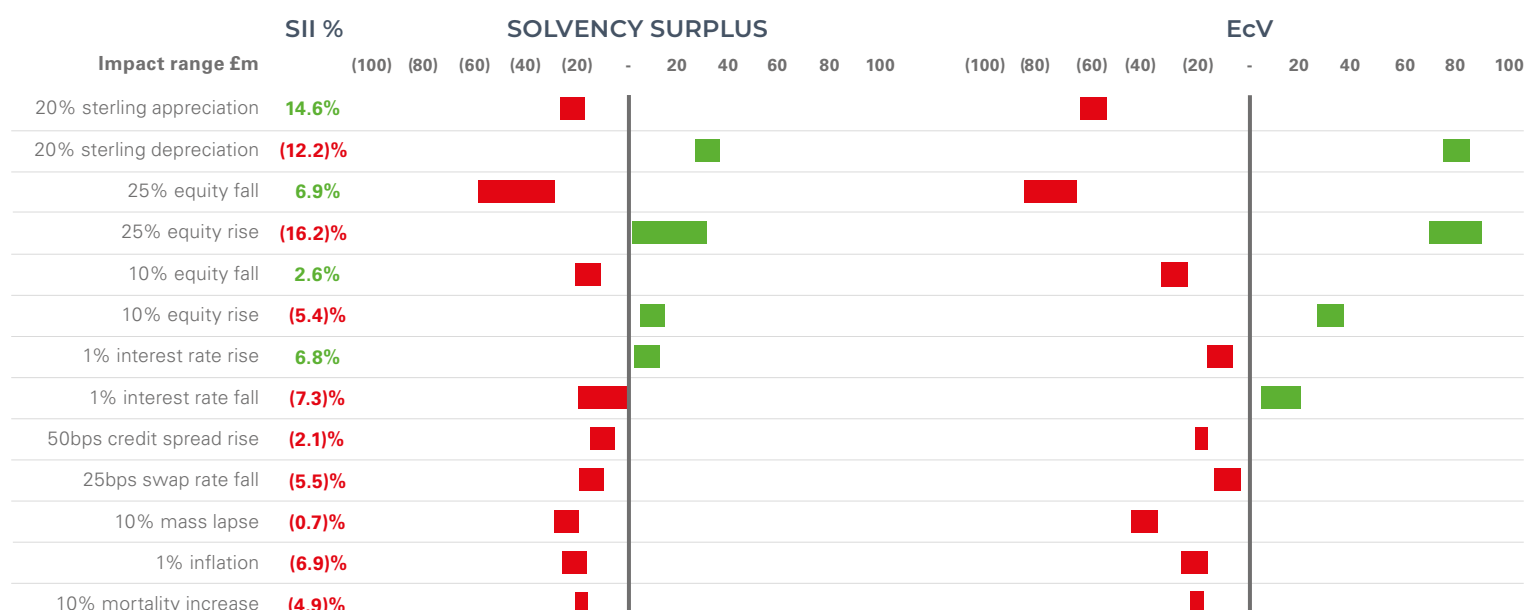
The group's solvency position remains strong and we proactively evaluate the main factors that can affect our solvency. The group's EcV[†], and cash generation[†], both of which are derived from the group's solvency calculations, are also sensitive to these factors.

The diagram below provides some insight into the immediate 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 immediately (where the impacts are calculated on the cash flows for the life of our portfolios) whereas solvency is often protected in the short-term and, to a certain extent, the longer-term due to compensating impacts on required capital.

As we highlighted in our FY 2022 report, the Tier 2 debt raise, in February 2022, has had a material impact on the reported sensitivities because, as capital requirements move, the amount of the Tier 2 debt able to be recognised in the Own Funds also moves, creating a new dynamic.

For example, where FX movements reduce the SCR, we now also experience a corresponding reduction in base Own Funds and 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, however this is partially mitigated by the group currency hedge so the overall impact on solvency is reduced.

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: -£17.3m to the SCR, 25% equity rise: +£26.7m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business, much of which is invested in equities.

Interest rate sensitivities: An interest rate rise currently has a more adverse effect on group Economic Value than an interest rate fall. This is a consistent with the change in exposure following a continued rise in interest rates over 2023. However, group solvency is still less exposed to rising interest rates as a rise in rates causes capital requirements to fall, increasing solvency.

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

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

10% mass lapse: In this sensitivity Own Funds fall as there are fewer policies on the books, thus less potential for future profits. This is largely offset by a fall in SCR, although the amount of eligible Tier 2 capital also falls. The division most affected is Movestic as it has the largest concentration of unit-linked business.

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

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

*BASIS OF PREPARATION ON REPORTING

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

FINANCIAL REVIEW

Our key performance indicators provide a good indication of how the business has performed in delivering its three strategic objectives. These two pages provide some insight into what is driving the results for the period. Further analysis can be found on pages 29 to 36.

£11.1m CASH GENERATION[†] EXCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £21.9m

What is it?

Cash generation is calculated as being the movement in Solvency II Own Funds over the internally required capital, excluding the impact of Tier 2 debt. The internally required capital is determined with reference to the group's capital management policies, which have Solvency II rules at their heart. Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Why is it important?

Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'. However, our cash generation is always managed in the context of our stated value of maintaining strong solvency positions within the regulated entities of the group.

Risks

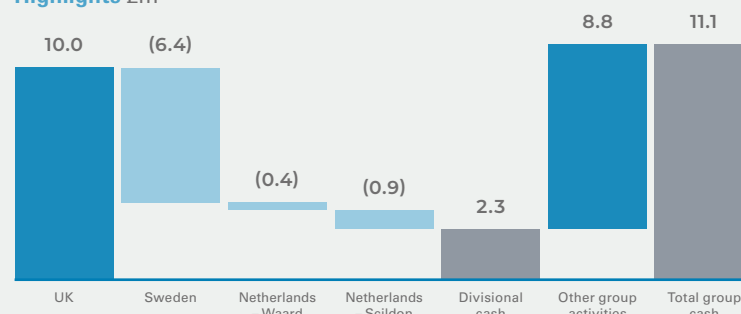
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 39 to 42. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar 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.

£2.3m DIVISIONAL CASH GENERATION[†] EXCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £60.1m

Further detail on p29

Highlights £m



- Cash generation of £11.1m (30 June 2022: £21.9m) includes a material adverse impact from the symmetric adjustment of £10.6m (30 June 2022: +£30.8m), which is a key factor in the year on year movement.
- The divisional result of £2.3m was supported by solid returns from the UK division. The result has been impacted by market driven economic factors that have caused capital requirements to rise. This was particularly the case in Sweden where the value gains delivered through equity growth were more than offset by associated rises in SCR including the impact of the symmetric adjustment.
- The central group contribution includes the benefit a cash gain from our FX hedge, which has risen in value to offset some (£10.6m) of the adverse FX movements experienced elsewhere in the group, helping to reduce capital requirements. The reduction in SCR offsets the adverse impact of consolidation adjustments, central development expenditure (including M&A) and central recurring overheads.

£16.0m IFRS PRE-TAX PROFIT

30 June 2022: £54.2m loss

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. We believe that, for Chesnara, the IFRS results in isolation do not recognise the wider financial performance of the business, hence the use of supplementary Alternative Performance Measures (pages 83 to 84) to enhance understanding of financial performance.

Risks

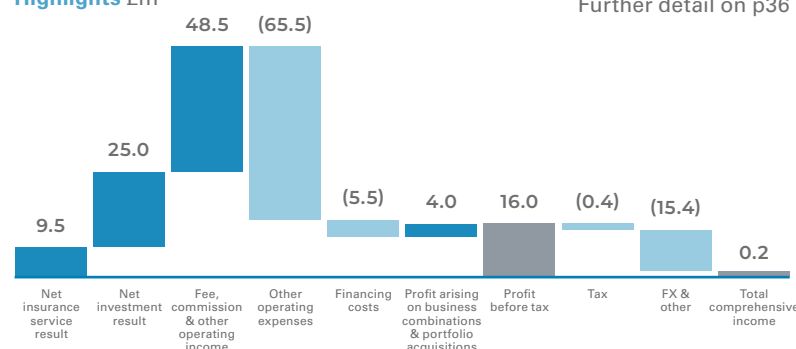
IFRS 17 is effective from 1 January 2023 and has been applied in the financial statements in section C. As a result, several accounting policies and significant judgements and estimates have changed and these changes are set out from page 50. IFRS 17 introduces a new concept of insurance revenue which aims to remove volatility from the income statement by establishing an explicit measure of future profit (the Contractual Service Margin (CSM)) and provides a framework as to how the CSM is recognised in a given period. The 'investment result' is presented separately from the 'insurance result' on the face of the income statement. Market volatility impacting the surplus assets will result in volatility in investment result and the IFRS pre-tax profit/(loss). Foreign currency fluctuations will further affect total comprehensive income.

£0.2m TOTAL COMPREHENSIVE INCOME

30 June 2022: £29.8m loss

Further detail on p36

Highlights £m



- Profit before tax in the period of £16.0m includes a net insurance service profit of £9.5m and an investment result of £25.0m (six months to 30 June 2022: £3.2m profit and £46.2m loss respectively).
- The positive insurance result comprises a gain from gross business of £15.7m and a loss from reinsurance of (£6.2m). Investment returns reflect market recoveries from the lows experienced in 2022, with rising bond yields, improved equity returns and narrowing credit spreads being the main contributors.

[†]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 (CONTINUED)

£523.2M ECONOMIC VALUE (EcV)[†]

31 December 2022: £511.7m

Further detail on p32

What is it?

Economic Value (EcV) was introduced following the introduction of Solvency II at the start of 2016, with EcV being derived from Solvency II Own Funds. EcV reflects a market-consistent assessment of the value of the existing insurance business, plus the adjusted net asset value of the non-insurance businesses within the group.

Why is it important?

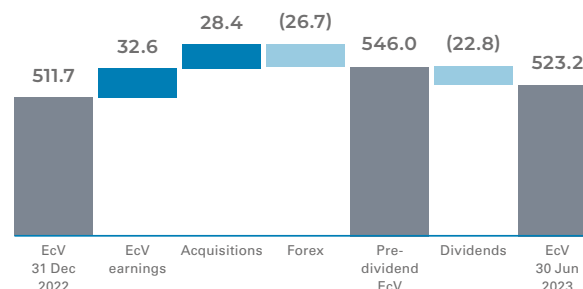
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value.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

The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives, in particular the value created from acquiring life and pensions businesses and enhancing our value through writing profitable new business. It ignores the potential of new business to be written in the future (the franchise value of our Swedish and Dutch businesses) and the value of the company's ability to acquire further businesses.

Risks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example, a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group within a range of £55m-£65m, based on the composition of the group's EcV at 30 June 2023.

Highlights £m



- The opening half of 2023 has shown good value growth, with an increase in Economic Value of c12% (excluding the impact of FX losses that arise on consolidation and the dividend payment).
- This result is particularly pleasing as the growth has been delivered across all areas of Chesnara's 'Fan' core components, including strong new business results, both operating and economic profits, as well as substantial incremental gains through acquisitions. Furthermore, while we have seen some improvement in financial markets since 2022, it has still been a relatively modest period in terms of economic growth. The result therefore gives further reassurance of the robustness of the group and provides confidence of future growth under more beneficial economic conditions.

£61.0M EcV EARNINGS[†]

EXCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £75.7m loss

Further detail on p31

What is it?

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

The principal underlying components of the Economic Value earnings are:

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

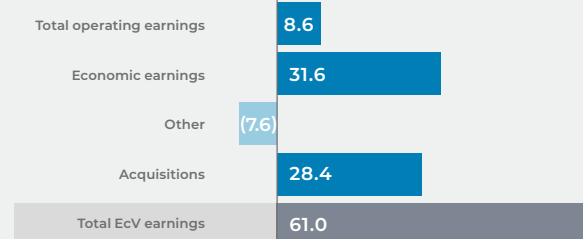
Why is it important?

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

Risks

The EcV earnings of the group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties and sensitivities analysis as set out on pages 39 to 42. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EcV affect our long-term view of the future cash flows arising from our business.

Highlights £m



- In an encouraging improvement on the prior year, operating activities have delivered earnings of £8.6m, which includes improved new business profits from Scildon and Movestic.
- The majority of the economic earnings arose in Movestic, where equity market growth, particularly in Swedish and European indices, has driven investment returns and growth in unit-linked policyholder funds. Economic earnings across the other divisions were more modest, with different economic factors offsetting one another to a certain extent.
- Acquisitions in the period added £28.4m of earnings, with £21.7m on the Conservatrix portfolio (completed 1 Jan 2023) and a further £6.7m on the protection portfolio of Canada Life (reinsurance arrangement executed on 16 May 2023) under the Dutch and UK divisions respectively.
- The 'Other' category includes risk margin movement, negative tax impacts and the cost of Tier 2 coupon payments.

[†]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

There is no reporting framework defined by the regulators for cash generation and there is therefore inconsistency across the sector. We define cash generation as being the movement in Solvency II Own Funds over and above the group's internally required capital, which is based on Solvency II rules.

£11.1m GROUP CASH GENERATION
EXCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £21.9m

£2.3m DIVISIONAL CASH GENERATION
EXCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £11.5m

Cash generation of £11.1m for the period was impacted at a divisional level by adverse movement in the symmetric adjustment following positive equity market growth. 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'.

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.

30 Jun 2023 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated/ (utilised)	30 Jun 2022 £m Cash generated/ (utilised)
UK	12.3	(2.3)	–	10.0	31.3
Sweden	16.1	(17.9)	(4.6)	(6.4)	14.2
Netherlands – Waard Group	4.1	(2.4)	(2.1)	(0.4)	2.2
Netherlands – Scildon	6.6	(7.2)	(0.3)	(0.9)	12.4
Divisional cash generation/(utilisation)	39.1	(29.8)	(7.0)	2.3	60.1
Other group activities	(5.4)	13.5	0.7	8.8	(38.2)
Group cash generation/(utilisation)	33.7	(16.3)	(6.3)	11.1	21.9

GROUP

- Other group activities include consolidation adjustments as well as central costs and central SCR movements.
- Central costs of approximately £5m include a large proportion of exceptional non-recurring expenditure and Tier 2 interest costs.



UK

- The UK division has continued to be the largest contributor to cash generation, with £10.0m reported in the period, delivered through Own Funds growth. The positive impact of rising yields and, to a lesser extent, equity growth provided economic returns that underpin the growth. Favourable results on fee income and future expenses also support the result. A smaller increase in capital requirements during the period was primarily due to the impacts of equity market growth (and symmetric adjustment) and also following changes to the asset mix of the division.



SWEDEN

- Movestic has reported cash utilisation of £6.4m for the opening half of 2023, as Own Funds growth was exceeded by a larger increase in capital requirements. On the Own Funds side, growth was delivered primarily through economic returns, with the division being particularly sensitive to equity market movements, specifically the rise in Swedish and European equity indices. Conversely, this equity market-driven growth in Own Funds has resulted in an increase in market-risk related capital requirements, including the impact of the symmetric adjustment, which increased significantly since the start of the year. The divisional result also includes a material foreign exchange loss on consolidation, owing to the weakening of the krona versus sterling during the period.



NETHERLANDS – WAARD

- Waard recorded cash utilisation of £0.4m for the period. While value growth was delivered through solid operating profits, outweighing smaller economic losses, there was an increase in capital requirements and a foreign exchange loss, driving the cash utilisation. The increase in capital requirements includes an increase in market risks following rising interest and spread risk. The divisional result also bears the impact of sterling appreciation versus the euro during 2023, leading to foreign exchange loss on consolidation.



NETHERLANDS – SCILDON

- In Scildon a small cash utilisation of £0.9m was posted for the year to date. Own Funds growth of £6.6m was driven by positive operating profits of £13.1m, offsetting economic losses (being predominantly the negative impact of rising yields). This value growth was offset by a slightly larger increase in capital requirements. Key drivers were predominantly rises in market based risks, with equity growth driving an increase in symmetric adjustment and rising corporate bond values leading to an increase in spread risk.

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. The results excluding such items are deemed to better reflect the inherent commercial outcome (commercial cash generation).

£21.8m GROUP COMMERCIAL CASH GENERATION
EXCLUDING THE IMPACT OF ACQUISITIONS

2022: £(3.0)m

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	DIVISIONAL TOTAL	GROUP ADJ	TOTAL
Base cash generation	10.0	(6.4)	(0.4)	(0.9)	2.3	8.8	11.1
Symmetric adjustment	2.5	6.5	0.5	1.1	10.6	–	10.6
With-profits restriction look through	0.1	–	–	–	0.1	–	0.1
Commercial cash generation	12.6	0.1	0.1	0.2	13.0	8.8	21.8
Commercial cash generation excluding FX impacts	12.6	4.7	2.2	0.5	20.0	1.4	21.4

The UK businesses drove the majority of the group's commercial cash generation, with a total UK result of £12.6m, of which a rise in yields is a key proponent of growth. The overseas divisions have generated smaller gains which have been dampened by the depreciation of the euro and Swedish krona currencies against sterling. The FX hedge that was implemented in 2022 has offset some of these currency impacts, providing a total cash benefit of £10.6m over the year to date.

UK

The UK result primarily comes from economic gains, particularly the rise in yields which has led to a reduction in capital requirements. This is backed up by a small operating profit arising from a reduction in expense assumptions and release of capital requirements as the book runs off.

The commercial cash outcome illustrates that the UK remains at the heart of the cash generation model.

SWEDEN

The Swedish result, after removing a loss caused by the increase in the symmetric adjustment, is fairly neutral. The economic result is positive, principally due to gains on overseas equities offset by the depreciation of Swedish krona against sterling. The economic gains are offset by an operating loss driven by adverse lapse experience and a new business strain.

WAARD

Waard's commercial cash result is made up of a small economic loss, primarily driven by the depreciation of the euro versus sterling, and a small operating gain arising from positive mortality experience and the unwind of the discount rate.

SCILDON

Scildon's commercial cash result consists of a small operating cash gain offsetting an economic loss, due to a fall in bond values relative to liabilities and the depreciation of euro against sterling.

GROUP

The central group cash generation includes a £10.6m cash gain from the FX hedge, which has risen in value to offset some of the FX losses experienced elsewhere in the group and slightly increased its beneficial impact on capital requirements. The group has also benefited from interest rate changes that have driven a reduction in group SCR. These positive effects are offset by central expenses, including overheads, coupon payments on the Tier 2 debt and centrally incurred business development investments e.g. M&A activity, IFRS 17.

FINANCIAL REVIEW • EcV EARNINGS

A period of strong EcV earnings have been delivered through a number of sources, with solid new business gains, operating and economic profits, alongside significant growth through acquisitions.

£61.0m EcV EARNINGS
INCLUDING THE IMPACT OF ACQUISITIONS

30 June 2022: £75.7m loss

Analysis of the EcV result by earnings source:

£m	30 Jun 2023	30 Jun 2022	31 Dec 2022
Expected movement in period	7.7	(0.8)	(1.3)
New business	4.7	3.6	8.0
Operating experience variances	1.6	(22.5)	(19.0)
Operating assumption changes	(5.4)	(1.0)	(14.5)
Total operating earnings[†]	8.6	(20.7)	(26.8)
Total economic earnings[†]	31.6	(91.1)	(109.1)
Other non-operating variances	(4.8)	0.8	(2.6)
Risk margin movement	0.9	14.6	20.4
Tax	(3.7)	6.8	12.0
Acquisitions	28.4	13.9	21.4
EcV earnings	61.0	(75.7)	(84.7)

Analysis of the EcV result by business segment:

£m	30 Jun 2023	30 Jun 2022	31 Dec 2022
UK	11.0	(20.8)	(24.6)
Sweden	15.0	(46.8)	(37.1)
Netherlands	12.1	(15.0)	(29.4)
Group and group adjustments	(5.5)	(7.0)	(15.0)
Acquisitions	28.4	13.9	21.4
EcV earnings	61.0	(75.7)	(84.7)

Total economic earnings: The economic result continues to be the largest component of the total EcV earnings, with a profit of £31.6m in the period. The result is in line with our reported sensitivities and is driven by the following key market movements:

Rising equity indices:

- FTSE All Share index increased by 0.5% (6 months to 30 June 2022: decreased by 2.4%);
- Swedish OMX all share index increased by 8.4% (6 months to 30 June 2022: decreased by 20.7%);
- The Netherlands AEX all share index increased by 10.2% (6 months to 30 June 2022: decreased by 10.8%); and

Widening credit spreads:

- UK AA corporate bond yields increased to 1.06% (31 December 2022 1.04%)
- European AA credit spreads increased to 0.48% (31 December 2021: 0.29%).

Increased yields:

- 10-year UK gilt yields have increased to 4.43% (31 December 2022: 3.78%).

The EcV results continue to illustrate how sensitive the results are to economic factors. While investment market growth has been positive compared to the prior year, it was still relatively muted versus previous periods of growth. As outlined in the past, we continue to be of the view that short-term volatility has limited commercial impact on the business and of more importance is the fact that steady state, over the longer-term, we expect EcV growth in the form of real world investment returns.

Total operating earnings: Earnings for the period reflect a significant uplift on the losses reported in recent years and continues the encouraging trend of improvement. It is also worth noting that the result includes a number of negative components that represent positive investment in the future and items that are non-recurring in nature. Examples of key items in 2023 include:

- Recurring central development overheads including those associated with the M&A strategy. Whilst the cost of this development investment is recognised, EcV does not recognise the potential returns we expect from it.
- Non-recurring development expenditure such as IFRS 17.
- Transition and transformational costs relating to the UK's new outsourcing arrangements and business integrations post-acquisition.
- Tier 2 debt servicing costs – EcV does not recognise the benefit of the capital or the potential for future value adding transactions that it provides.

Acquisitions: M&A activity continued to be a source of growth and supplied £28.4m of EcV earnings in the period. The incremental value was delivered by the Conservatrix insurance portfolio acquisition (1 January 2023) and also a UK protection portfolio reinsurance arrangement with Canada Life (16 May 2023), under the Waard Group and CA plc respectively.

Looking at the results by division:

UK: The UK division reported a modest operating profit, with positive results on fee income (due to lower policy attrition) and a reduction in future expenses (under the new outsourcing arrangements), which offset some expense pressure in the period owing to non-recurring transition and migration activity. An economic gain of £8.3m drives the divisional result. This was primarily the positive impact of rising yields plus, to a lesser extent, an improvement in equity indices. While the economic profit was relatively subdued, it remains a significant improvement on the prior year.

Sweden: Movestic posted earnings of £15.0m for the opening half of 2023, with the division benefitting from external economic factors. Investment markets, in particular rising equity markets in Sweden and Europe, have underpinned economic returns of £19.8m. This more than outweighed a smaller operating loss, due to adverse transfer activity, lower fee and commission income (owing to pricing pressures) and suppressed fund rebate income. Modest new business profits (on an EcV basis) were £1.5m (30 June 2022: £0.7m), reflective of the continued competitive market conditions and margin pressures, though an improvement on 2022.

Netherlands: The Dutch division has reported growth of £12.1m in the period, with operating profits mitigating economic losses in both businesses. The operating result in Scildon, delivering growth of £13.1m, represents a significant upturn versus the losses sustained in prior periods and includes new business profits of £2.7m. Economic losses of £3.3m were primarily the consequence of rising yields, partly offset by the volatility adjustment impact. Waard has reported EcV growth of £3.7m, supported by operating profits of £5.1m, which included favourable mortality experience and the positive impact of surrenders on expenses. Despite positive bond returns exceeding expectations, the economic loss (£0.6m) stemmed from a number of factors including subdued equity growth, and changes in the market value of our mortgage portfolio. The negative impact of a fall in interest rates also offset the benefit of rising yields on the business's future liabilities.

Group: This component contains a variety of group-related expenses and includes: non-maintenance related costs (such as acquisition activity costs); the costs of the group's IFRS 17 programme; as well as some material economic-related items such as financing costs, primarily in relation to the Tier 2 debt interest costs, and positive investment returns for the period.

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

FINANCIAL REVIEW • EcV

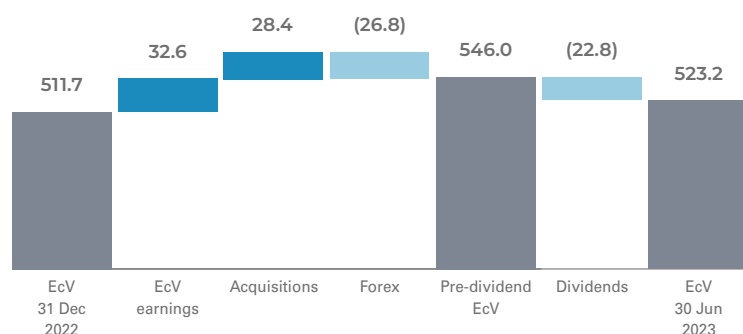
The Economic Value of Chesnara represents the present value of future profits of the existing insurance business, plus the adjusted net asset value of the non-insurance businesses within the group. EcV is an important reference point by which to assess Chesnara's intrinsic value.

£523.2M

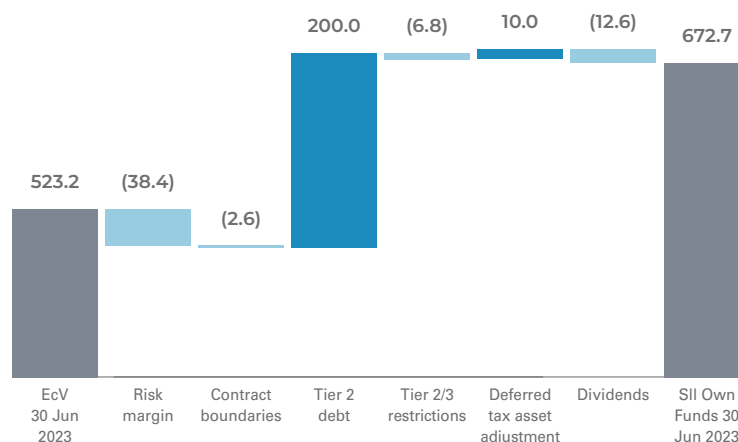
 ECONOMIC VALUE (EcV)

31 December 2022: £511.7m

Value movement: 1 Jan 2023 to 30 Jun 2023 £m



EcV to Solvency II £m



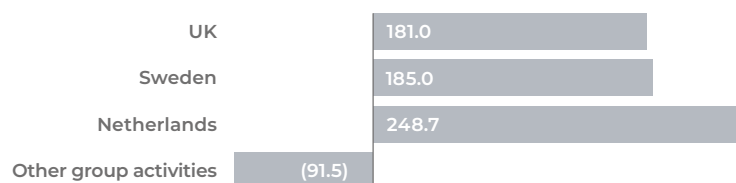
EcV earnings: EcV profits of £61.0m have been delivered in the opening half of the year, supported by both economic and operating profits, with significant growth also delivered through acquisitions. Further detail can be found on page 31.

Acquisitions: The group has delivered two deals during the first half of 2023; the Conservatrix portfolio acquisition and the reinsurance arrangement with Canada Life. This has resulted in day 1 EcV gains of £21.7m and £6.7m respectively.

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

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £22.8m were paid during the first half of the year, representing the final dividend from 2022.

EcV by segment at 30 Jun 2023 £m



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

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

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

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

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

Dividends: The proposed interim dividend of £12.6m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

Tier 2: The Tier 2 debt is treated as 'quasi equity' for Solvency II purposes. For EcV, consistent with IFRS, we continue to report this as debt. Under SII this debt is recognised at fair value, while for EcV this remains at book value.

Tier 3: Under Solvency II the eligibility of Tier 2 and 3 Own Funds is restricted in accordance with regulatory rules.

FINANCIAL REVIEW • IFRS

The group IFRS results are reported under IFRS 17 for the first time. The following pages provide an introduction to IFRS 17 and how it impacts Chesnara, together with the unaudited IFRS results for the 6 months to 30 June 2023 and comparative periods, which have been restated under IFRS 17.

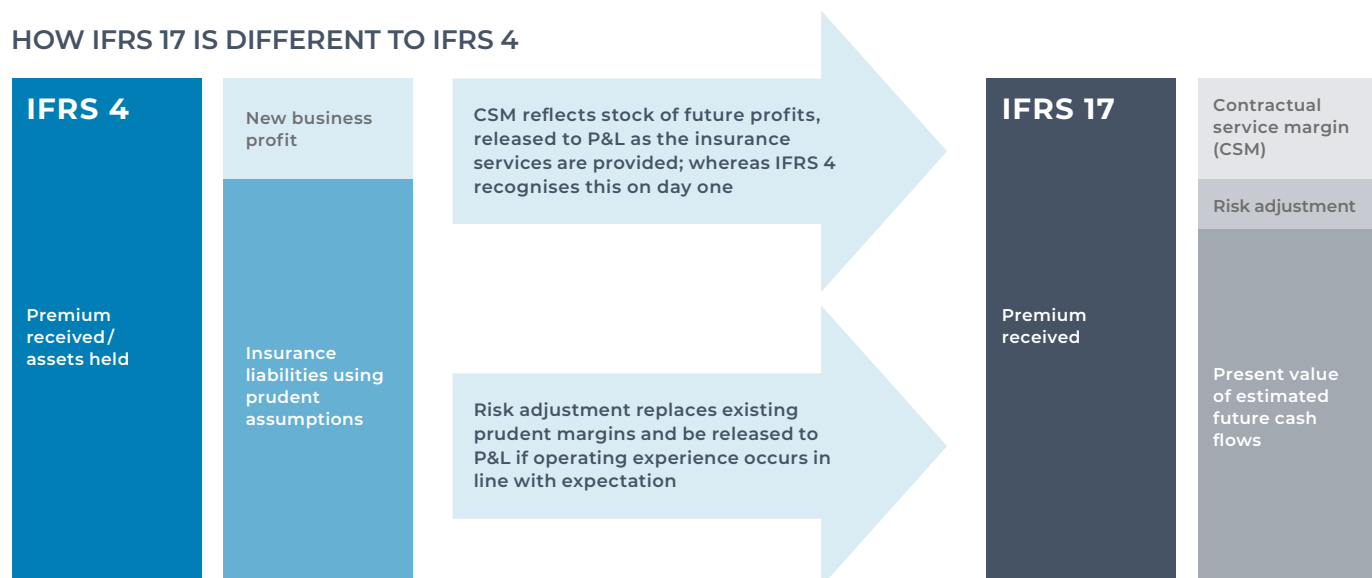
INTRODUCTION TO IFRS 17

What is IFRS 17?

IFRS 17 is the new accounting standard for valuing and disclosing insurance contracts. This is effective for the first time in these half year financial statements and replaces the previous standard, IFRS 4. IFRS 17 has been implemented as if it had always been in place and so previous results have been restated.

IFRS 17 has been introduced with the aim of allowing greater comparability of results between insurance companies and the wider market.

HOW IFRS 17 IS DIFFERENT TO IFRS 4



How does IFRS 17 impact Chesnara?

IFRS 17 'insurance contracts' represents an accounting policy change that does not impact the fundamentals of the business. Specifically, the implementation of IFRS 17 does not impact the growth ambition, value or cash generation of the group. There are no changes to the solvency ratio, cash generation or Economic Value of the group. There are no changes to the dividend expectations or strategy and capability for future M&A.

IFRS 17 only applies to those policies of the group that are classified as 'insurance contracts', which equates to 42% of the group's total policyholder liabilities at the end of June 2023. The remaining contracts are classified as investment business, which are valued under IFRS 9 'Financial Instruments', and is also effective for the group for this period. Under IFRS 9, there is no impact to the results from how these liabilities have been previously valued under IAS 39. A key difference between the measurement of contracts under IFRS 9 and IFRS 17 is that investment contracts equate to unit value under IFRS 9 and their value therefore does not take into account future profit, whereas insurance contracts contain prudence in the form of the risk adjustment (RA) and contractual service margin (CSM).

The group's net equity position has increased at 31 December 2022 under IFRS 17 compared to that reported under IFRS 4, thereby lowering the gearing ratio to 30.3% compared to 37.6% under IFRS 4. The gearing ratio at HY 23 is 29.5%.

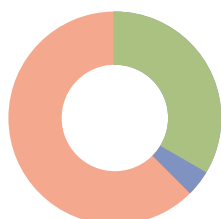
OUR SPLIT OF INSURANCE AND INVESTMENT LIABILITIES

INSURANCE LIABILITIES

42%

Insurance liabilities by division

■ UK
■ Sweden
■ Netherlands



INVESTMENT LIABILITIES

58%

Investment liabilities by division

■ UK
■ Sweden
■ Netherlands



Please note – the numbers shown are draft and currently unaudited, so are therefore subject to change.

FINANCIAL REVIEW • IFRS (CONTINUED)

How are profits earned under IFRS 17?

A fundamental concept introduced by IFRS 17 is the contractual service margin (CSM). This represents the unearned profit that an entity expects to earn on its insurance contracts as it provides insurance services.

The CSM embodies two principles:

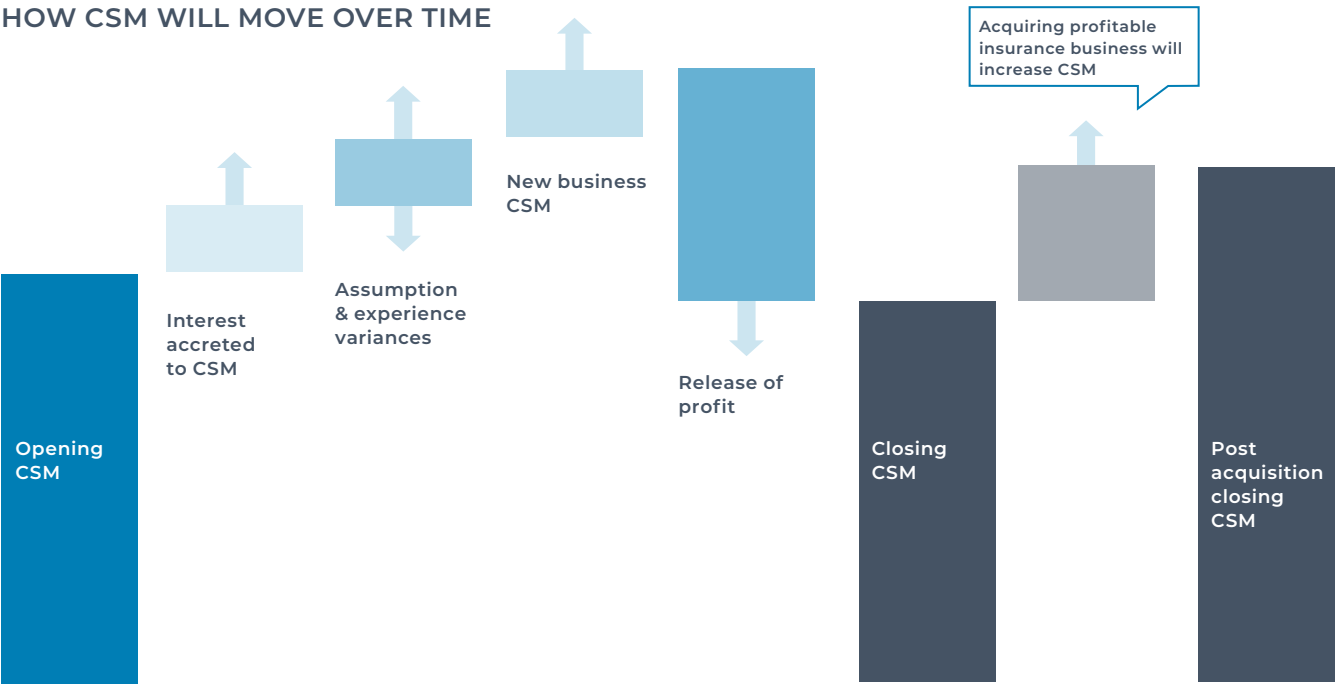
- 1. An insurer must spread expected profits for profitable business written over time.

This spread profit forms the CSM which can only be recognised in the income statement as and when insurance services are provided. The CSM consequently represents the expected amount of profits that have not yet been earned from the insurance business of the group.

- 2. An insurer must recognise the expected losses for loss-making business immediately.

An insurer cannot establish a 'negative CSM' and defer loss recognition into the future.

HOW CSM WILL MOVE OVER TIME

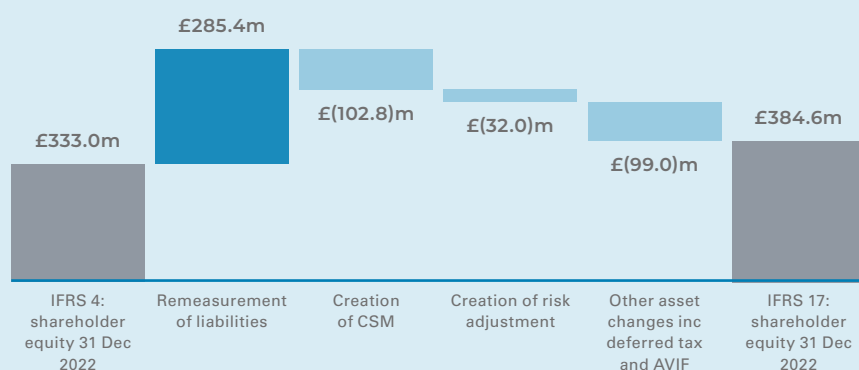


FINANCIAL REVIEW • IFRS BALANCE SHEET

As at 31 December 2022 the transition to IFRS 17 has created a £52m increase in IFRS net equity compared with the previously stated IFRS 4 position. Total net equity as at 30 June 2023 is £362m and we have a CSM, which represents unrecognised future insurance profits, of £157m. The adoption of IFRS 17 has affected our gearing ratio, and whilst Fitch have not stated how they will calculate leverage under IFRS 17 they have indicated that the calculation will include adding back the CSM to the equity denominator in its calculation. On this basis the gearing ratio as at 30 June 2023 is 29.5% which is significantly lower than the most recent ratio reported prior to IFRS 17 (31 December 2022: 37.6%).

Some analysis has been provided below on the IFRS balance sheet of the group on an IFRS 17 basis:

HOW IFRS 17 IMPACTS NET EQUITY AT DECEMBER 2022



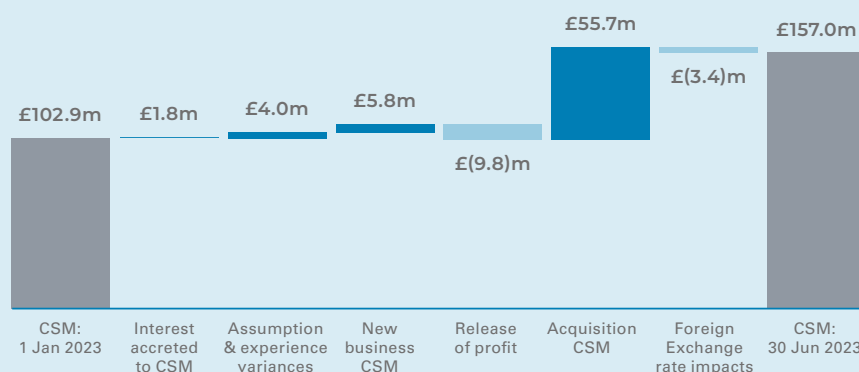
INSIGHT

Under IFRS 17, the restated shareholder net equity at 31 December 2022 has increased by £52m compared with as previously reported.

The re-measurement of insurance contract liabilities at that date has added £150m of that growth. This uplift includes £103m of CSM (i.e. future profits) that will be released to the income statement as the associated future insurance services are provided.

A consequence of applying IFRS 17 is that the group has also re-measured certain intangible assets (and their associated tax balances) that were previously recognised on previous acquisitions that included insurance contracts. These assets at the time essentially represented future profits, but under IFRS 17 these are now reflected in the CSM.

HOW THE CSM HAS MOVED IN THE PERIOD



INSIGHT

The group has added £54m of CSM (future profits) in the 6 months to 30 June 2023.

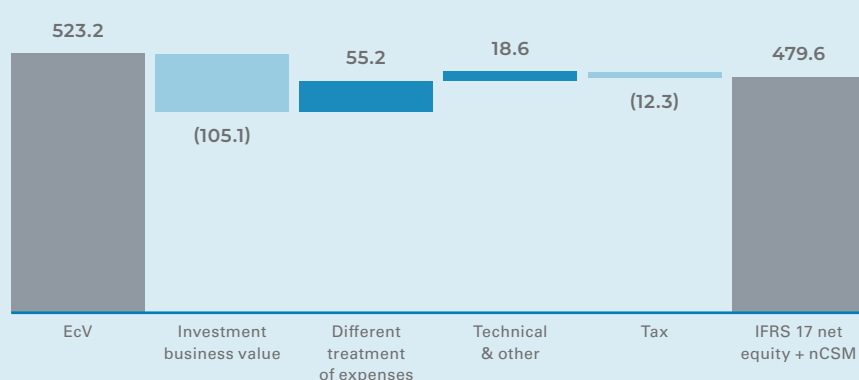
The increase is largely driven by the two deals in the period, with the Conservatrix portfolio acquisition adding £45m and the Canada Life arrangement adding £10m.

The movement in the period also includes:

- a £10m reduction which reflects the release to profit in the period as the insurance services are provided
- £6m of new business CSM, reflecting the future profits arising on profitable new business written in the period.

Other smaller movements including the impact of foreign exchange, changes in assumptions and the “interest” on unwinding the discounting that is embedded within the opening CSM valuation.

HOW DOES IFRS 17 COMPARE TO SOLVENCY II AND ECV?



INSIGHT

How does IFRS 17 compare to Solvency II and EcV?

A lot of the principles and underlying technical decisions are consistent across EcV and IFRS, as they are based on common foundations; however, there is one fundamental difference in how investment contracts are valued. For investment contracts, expected future profits on existing policies are not recognised in the IFRS balance sheet, with profits being reported as they arise; this is in contrast to EcV, where they are fully recognised on the balance sheet, subject to contract boundaries.

As such, at Chesnara, we believe that due to the hybrid nature of a portfolio, EcV and Solvency II, alongside cash generation, continue to give a more holistic view of the financial dynamics of the group and are therefore the key metrics that management use to manage the business.

HOW DOES IFRS 17 IMPACT LEVERAGE?

The positive impact of IFRS 17 on net equity has been beneficial to the group's gearing ratio. Rating agencies will be revisiting their definitions of gearing for insurance groups as a result of IFRS 17, although these have yet

to be formalised. Fitch has indicated that a gearing ratio that takes debt divided by debt plus equity, with the equity denominator adding back the net of tax CSM liability, could be an acceptable definition. On this basis, the gearing of the group as at 30 June 2023 was 29.5%.

FINANCIAL REVIEW • IFRS INCOME STATEMENT

£16.0M IFRS PRE-TAX PROFIT

30 June 2022: £54.2m loss

£0.2M TOTAL COMPREHENSIVE INCOME

30 June 2022: £29.8m loss

Analysis of IFRS result between insurance service and investment results:

	Unaudited* Six months ended		Unaudited* Year ended
	30 Jun 23 £m	30 Jun 22 £m	30 Dec 22 £m
Net insurance service result	9.5	3.2	12.1
Net investment result	25.0	(46.2)	(58.8)
Fee, commission and other operating income	48.5	32.2	73.3
Other operating expenses	(65.5)	(48.6)	(93.4)
Financing costs	(5.5)	(4.6)	(10.5)
Profit arising on business combinations and portfolio acquisitions	4.0	9.9	15.4
Profit before income taxes	16.0	(54.2)	(61.9)
Income tax (charge)/credit	(0.4)	22.4	28.6
Profit for the period after tax	15.6	(31.7)	(33.3)
Foreign exchange	(15.3)	1.9	7.0
Other comprehensive income	(0.1)	–	0.7
Total comprehensive income	0.2	(29.8)	(25.6)
Movement in CSM	54.2	6.0	(6.1)

*We have decided not to include a review opinion in these half year financial statements. Our decision assessed the process impact risk in comparison to the relatively limited scope of the half year review, with the focus instead being on completion of audit procedures over the restated balance sheets under IFRS 17 and IFRS 9 for the years ended 31 December 2021 and 31 December 2022.

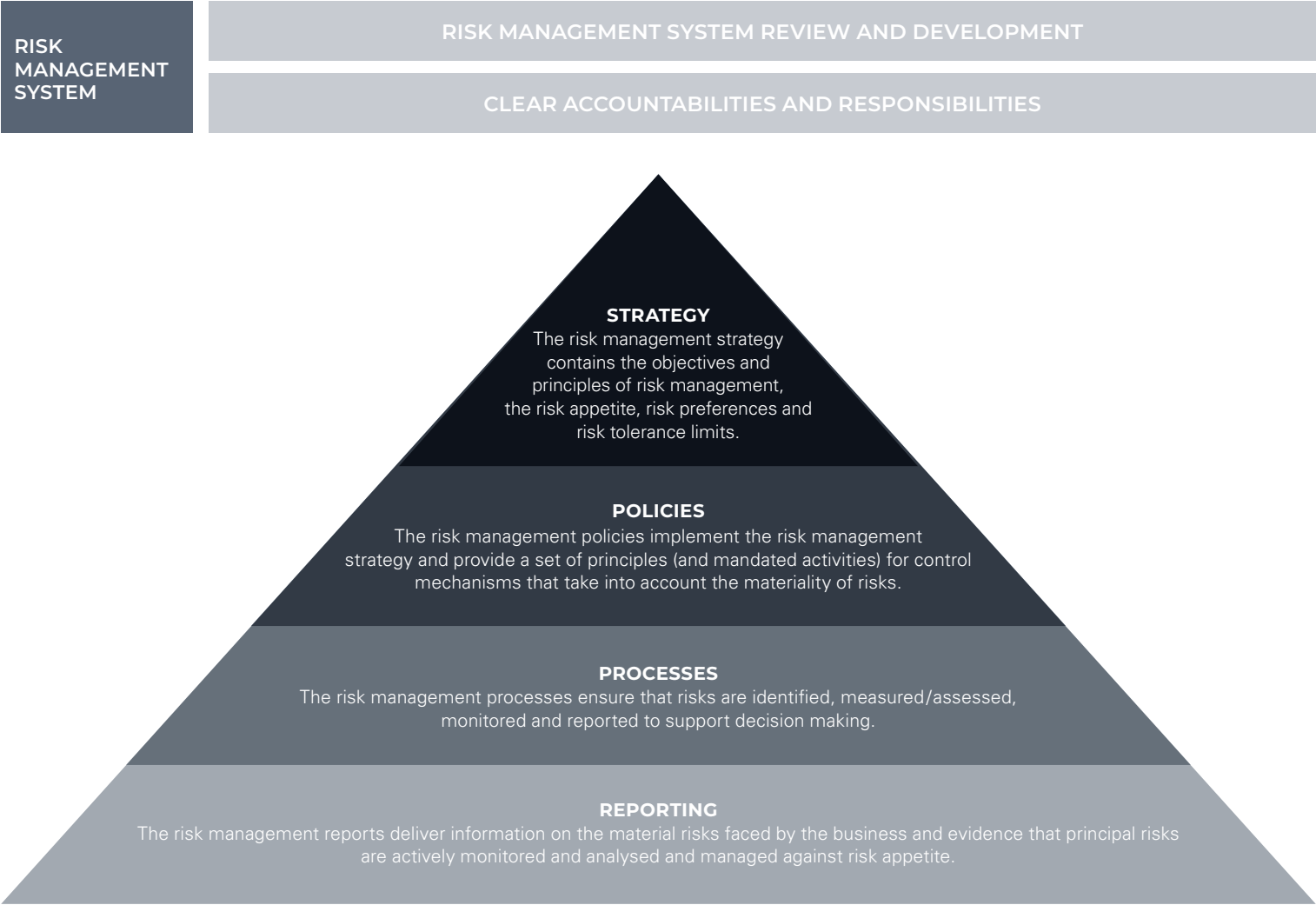
IFRS REPORTING CATEGORY	INSIGHT
Net insurance service result The net insurance service result comprises the revenue and expenses from providing insurance services to policyholders and ceding insurance business to reinsurer's and is in respect of current service only. Assumption changes are therefore excluded from the insurance result, unless the CSM for a given portfolio of contracts falls below zero; thereby in a 'loss component' position. Economic impacts are also excluded from the insurance service result.	The net insurance service result of £9.5m is up £6.3m compared to the same period in 2022, driven by a combination of higher CSM amortisation of £9.7m (HY 2022 £8.1m) plus improved experience and loss component effects of £2.4m loss (HY 2022 £7.2m loss). The latter has largely been as a result of an improved performance from Waard as can be seen in the segmental analysis (Note 6 of the financial statements). At the close of the period the CSM of the group amounted to £157m, having increased by £54m since the start of the year. This remaining CSM will be earned over the cover period of the policies to which this relates.
Movement in CSM The movement in CSM is important to consider alongside the income statement. New CSM represents future profits that are expected to be released to the income statement over time and whilst a lot of the costs associated with generating this new CSM are recognised in the year, the expected profit is deferred over the life of the products.	During the period to 30 June 2023, the CSM has increased by £54m. The key components of this increase are £54m of new CSM through the group's two acquisitions in the period and £6m of additional CSM arising from new business, offset by £10m released to the income statement.
Net investment result The net investment result contains the investment return earned on all assets together with the financial impacts of movements in insurance and investment contract liabilities.	The positive investment result in the year to date is reflective of investment market recoveries, with rising bond yields, improved equity returns and narrowing credit spreads being the main contributors. The comparative period in 2022 was adversely impacted by falling equity markets, following the Russian invasion of Ukraine.
Fee, commission and other operating income The most significant item in this line is the fee income that is charged to policyholders in respect of the asset management services provided for investment contracts. There is no income in respect of insurance contracts on this line, as this is all now reported in the insurance result.	The year-to-date figures are an improvement on the 2022 six-month comparative, reflecting the fact that the current year to date number includes a full six months of fee income generated by CASLP within the UK, whereas the June 2022 number only included two months of income, post the CASLP acquisition in late April 2022. Movestic also contributed to the improvement on the comparative figure, as higher assets under management values as a result of market improvements generated higher fund rebate income.
Other operating expenses Other operating expenses consist of costs relating to the management of the group's investment business, non-attributable costs relating to the group's insurance business and other certain one-off costs such as project costs. Other items of note are the amortisation of intangible assets in respect of investment business and the payment of yield tax relating to policyholder investment funds in Movestic, for which there is a corresponding income item within the fee income line.	The expenses incurred in the first six months of 2023 are higher than the corresponding six months in 2022. This is due to a number of factors. In Movestic, the expense in respect of the yield tax on policyholder funds has increased significantly, in line with the underlying gains on the policyholder funds, due to improving economic factors. In the UK, costs have increased when comparing to the half year and full year comparatives, due to the acquisition of CASLP, which has a full six months of expenses in 2023, compared to two months in 2022. Similarly, expenses have increased in Waard, following the acquisition of the Conservatrix book in January 2023. The parent company has also seen an increase in expenses, due to project related expenditure and strengthening of the central governance oversight team.
Financing costs	This predominantly relates to the cost of servicing our Tier 2 corporate debt notes which were issued in early 2022. Further details can be found in Note 12 of the financial statements.
Profit arising on business combinations and portfolio acquisitions	On 1 January 2023, Chesnara successfully completed the acquisition of the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands. This gave rise to a day 1 gain of £4.0m. Further details can be found in Note 13 of the financial statements in section C.
Income tax Income tax consists of both current and deferred taxes.	In 2022, the large pre-tax losses generated deferred tax credits, particularly in the UK, in respect of investment and trading losses. The tax charge in the current year to date is similarly impacted by deferred tax movements on investment movements and non-taxable profits in Movestic, which instead are subject to a yield tax charge.
Foreign exchange	The IFRS result of the group reflects a foreign exchange loss in the period, a consequence of sterling appreciation, particularly against the Swedish krona and to a lesser extent against the euro.
Other comprehensive income	This represents the impact of movements in the valuation of an investment property held in our Dutch division.

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

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.



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 39 to 42). 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.

Strategy and risk appetite

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

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

Risk and Control Policies

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

Risk identification

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk Management System effectiveness

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

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

CLIMATE CHANGE RISK WITHIN CHESNARA'S RISK FRAMEWORK

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

Chesnara has embedded climate change risk within the group's risk framework and includes a detailed assessment as part of the group's regular ORSA exercise, concluding that the group is not materially exposed to climate change risk.

UKRAINE CONFLICT

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

MACRO-ECONOMIC VOLATILITY

Geopolitical instability and conflict remains a significant risk to global economic growth. Economic volatility and uncertainty remains high as Central Banks tackle persistently high inflation, particularly in the UK. Most economies have seen yield curve increases not seen since the 1980s and prospects of this stabilising are very dependent on inflation. The information in the following pages have taken account of these external risk factors.

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 26.

INVESTMENT AND LIQUIDITY RISK	PR1
REGULATORY CHANGE RISK	PR2
ACQUISITION RISK	PR3
DEMOGRAPHIC EXPERIENCE RISK	PR4
EXPENSE RISK	PR5
OPERATIONAL RISK	PR6
IT/DATA SECURITY & CYBER RISK	PR7
NEW BUSINESS RISK	PR8
REPUTATIONAL RISK	PR9

INVESTMENT AND LIQUIDITY RISK		PR1
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.	
CLIMATE CHANGE RISK	With greater global emphasis being placed on environmental and social factors when selecting investment strategies, the group has a particular emerging exposure to 'transition risk' arising from changing preferences and influence of, in particular, institutional investors. This has the potential to result in adverse investment returns on any assets that perform poorly as a result of 'ESG transition'. Chesnara has established a 'Sustainability Programme' to embed Chesnara's Sustainability strategy.	
UKRAINE CONFLICT	The conflict in Ukraine/Russia brings additional economic uncertainty and volatility to financial markets, including the potential for higher inflationary pressures in the short-term (given impacts on the supply chain). The group has no direct 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.	
MACRO-ECONOMIC VOLATILITY	There remains significant economic volatility globally and particularly in the UK with more persistent inflation, and so there is a heightened risk of poor mid-term performance on shareholder and policyholder assets. Chesnara continues to operate within its stated Risk Appetite but is currently undertaking a review of its interest rate matching approach given the recent yield curve paradigm shift.	

REGULATORY CHANGE RISK		PR2
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 Consumer Duty, Operational Resilience, Climate Change/ESG and IFRS 17 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.	

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

ACQUISITION RISK

PR3

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.

DEMOGRAPHIC EXPERIENCE RISK

PR4

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).
MACRO-ECONOMIC VOLATILITY	Cost of living pressures could give rise to higher surrenders and lapses should customers face personal finance pressures and not be able to afford premiums or need to access savings. Any downturn in the property market could reduce protection business sales particularly in the Netherlands. Currently there has been no evidence of changes in behaviours other than a slow down sales in Netherlands. Chesnara continues to monitor closely and respond appropriately.

EXPENSE RISK

PR5

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.
MACRO-ECONOMIC VOLATILITY	High inflation and the energy crisis has driven increases in supplier costs, particularly in the UK with its outsourcing model. Wage inflation is generally lower than headline inflation but is currently much higher than the long-term valuation assumptions, with consideration needed regarding the balancing of employee remuneration versus turnover/retention/motivation risks/tight labour markets. The risk is currently higher in the UK than in Sweden and Netherlands since the UK inflation has been more persistent.

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

OPERATIONAL RISK

PR6

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. Operational resilience remains a key focus for the business and high on the regulatory agenda following the regulatory changes published by the BoE, PRA and FCA. Chesnara continues to progress activity under the UK operational resilience project.

IT/DATA SECURITY & CYBER RISK

PR7

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.
UKRAINE CONFLICT	The ongoing invasion of Ukraine by Russia heightens the risk of cyber crime campaigns originating from Russia, with some suppliers reporting an increase in information security threats which some are saying is state sponsored. Although Chesnara is not considered to be a direct target of any such campaigns, all business units have confirmed that they have increased monitoring and detection/protection controls in relation to the increased threat.

[†]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.

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

NEW BUSINESS RISK

PR8

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.
MACRO-ECONOMIC VOLATILITY	Some of Chesnara's new business is linked to the property market such as the mortgage term protection product in the Netherlands. Where there has been a slow down in the property market, we have seen a corresponding slow down in sales of such products, as expected. There is a risk that this persists longer than expected resulting in lower sales than expected in the business plan.

REPUTATIONAL RISK

PR9

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	Given the global focus on climate change as well as the significant momentum in the finance industry, the group is exposed to strategic and reputational risks arising from its action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter. Chesnara supports the UN Sustainable Development Goals (SDGs), including Climate Action. We have set our long-term net zero targets and during 2023, we will produce our transition plan and the all-important shorter-term 2025 and 2030 targets.
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 and Chesnara has confirmed that there are no obvious links with Russia through its shareholders or stockbrokers.

GOING CONCERN

Going concern

After making appropriate enquiries, including consideration of the ongoing high inflation environment and the impacts of the ongoing invasion of Ukraine 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 26 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of high inflation and the Ukraine crisis 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 and ongoing Ukraine crisis 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 24 to 25 indicates a strong Solvency II position at 30 June 2023 as measured at both the individual regulated life company levels and at the group level. As well as being well-capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due and does not rely on the renewal or extension of bank facilities to continue trading. This position was further enhanced in early 2022, when the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes, the net proceeds of which 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.

SECTION C: IFRS FINANCIAL STATEMENTS

Montelbaanstoren, Amsterdam

- 45** Directors' Responsibilities Statement
- 46** Condensed Consolidated Statement of Comprehensive Income
- 47** Condensed Consolidated Balance Sheet
- 48** Condensed Consolidated Statement of Cash Flows
- 49** Condensed Consolidated Statement of Changes in Equity
- 50** Notes to the Condensed Consolidated Financial Statements

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with 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

Two handwritten signatures in black ink. The first signature on the left is for Luke Savage, and the second signature on the right is for Steve Murray.

Luke Savage
Chair
20 September 2023

Steve Murray
Chief Executive Officer
20 September 2023

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Unaudited six months ended 30 June	Unaudited year ended 31 December
		2022 restated	2022 restated
	Note	£000	£000
Insurance revenue		118,048	224,031
Insurance service expense		(102,388)	(205,872)
Net expenses from reinsurance contracts held		(6,144)	(6,036)
Insurance service result	7	9,516	12,123
Net investment return		603,012	(1,556,870)
Net finance (expenses)/income from insurance contracts issued		(151,895)	547,694
Net finance expenses from reinsurance contracts held		(2,527)	(13,491)
Net change in investment contract liabilities		(356,895)	570,974
Change in liabilities relating to policyholders' funds held by the group		(66,705)	392,884
Net investment result	8	24,990	(58,809)
Fee, commission and other operating income		48,485	73,363
Total revenue net of investment result		82,991	(10,795)
Other operating expenses		(65,501)	(93,405)
Total income less expenses		17,490	(66,728)
Financing costs		(5,508)	(10,549)
Profit arising on business combinations and portfolio acquisitions	13	3,969	15,361
Profit/(loss) before income taxes	6	15,951	(61,916)
Income tax (expense)/credit		(420)	28,627
Profit/(loss) for the period	6	15,531	(33,289)
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange translation differences arising on the revaluation of foreign operations		(15,315)	6,982
Revaluation of land and building		(54)	674
Other comprehensive (loss)/income for the period, net of tax		(15,369)	7,656
Total comprehensive income/(loss) for the period		162	(25,633)
Basic earnings per share (based on profit or loss for the period)	4	10.32p	(22.16)p
Diluted earnings per share (based on profit or loss for the period)	4	10.25p	(21.90)p

The Notes and information on pages 50 to 80 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaudited as at 30 June 2023	Unaudited year ended 31 December 2022 restated	Unaudited year ended 31 December 2021 restated
	Note	£000	£000	£000
Assets				
Intangible assets		114,820	124,186	77,665
Property and equipment		7,539	7,893	7,830
Investment properties		98,749	94,481	1,071
Insurance contract assets	11	10,190	-	-
Reinsurance contract assets	11	179,341	193,952	242,343
Amounts deposited with reinsurers		32,113	32,803	38,295
Financial investments	9	11,008,759	10,566,147	9,176,010
Derivative financial instruments		3,160	141	264
Other assets		48,897	46,041	47,316
Deferred tax assets		49,908	10,179	922
Cash and cash equivalents		144,284	175,293	70,086
Total assets	6	11,697,760	11,251,116	9,661,802
Liabilities				
Insurance contract liabilities	11	4,104,519	3,821,101	4,032,070
Reinsurance contract liabilities	11	12,807	13,536	28,812
Other provisions		16,947	8,651	1,712
Investment contracts at fair value through income		5,695,738	5,660,778	3,981,976
Liabilities relating to policyholders' funds held by the group		1,116,495	986,768	990,700
Lease contract liabilities		1,474	1,233	2,018
Borrowings	12	209,344	211,976	47,185
Derivative financial instruments		127	3,850	-
Deferred tax liabilities		33,941	31,770	10,567
Deferred income		3,022	3,470	4,473
Other current liabilities		140,788	123,373	118,633
Bank overdrafts		206	19	256
Total liabilities	6	11,335,408	10,866,525	9,218,402
Net assets		362,352	384,591	443,400
Shareholders' equity				
Share capital		7,503	7,502	7,496
Merger reserve		36,272	36,272	36,272
Share premium		142,387	142,332	142,085
Other reserves		(451)	14,918	7,262
Retained earnings	5	176,641	183,567	250,285
Total shareholders' equity		362,352	384,591	443,400

The Notes and information on pages 50 to 80 form part of these financial statements.

Approved by the board of directors and authorised for issue on 20 September 2023 and signed on its behalf by:



Luke Savage
Chair

Steve Murray
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Unaudited six months ended 30 June 2023 £000	Unaudited six months ended 30 June 2022 £000
Profit/(Loss) for the year	15,531	(31,711)
Adjustments for:		
Depreciation of property, plant and equipment	724	701
Amortisation of intangible assets	5,654	3,384
Interest on lease liabilities	27	17
Share based payment	342	504
Tax paid/(recovered)	1,944	(36,419)
Interest receivable	(8,323)	(5,696)
Dividends receivable	(7,825)	(1,461)
Interest expense	4,750	9,163
Fair value (gains)/losses on financial assets	(586,864)	1,580,945
Profit on business combinations and portfolio acquisitions	(3,969)	(9,866)
Loss on sale of fixed assets	149	–
Increase in intangible assets related to investment contracts	(4,187)	(314)
Interest received	8,914	6,216
Dividends received	7,481	1,292
Changes in operating assets and liabilities:		
Decrease/(increase) in financial assets	510,950	(102,886)
Decrease in reinsurers contract assets	1,075	309
Decrease in amounts deposited with reinsurers	690	4,148
(Increase)/decrease in other assets	(17,639)	16,827
Decrease in insurance contract liabilities	(62,754)	(550,840)
Decrease in investment contract liabilities	(35,115)	(836,471)
Increase in reinsurance contract liabilities	9,867	1,332
Increase/(decrease) in provisions	144,125	(92,928)
(Decrease)/increase in other current liabilities	(4,295)	1,289
Cash utilised from operations	(18,748)	(42,465)
Income tax paid	(213)	(9,390)
Net cash utilised from operating activities	(18,961)	(51,855)
Cash flows from investing activities		
Business combinations	31,415	49,251
Development of software	(1,130)	–
Disposal of investment properties	1,987	2,758
Purchases of property and equipment	(1,513)	(1,005)
Net cash generated by investing activities	30,759	51,004
Cash flows from financing activities		
Proceeds from issue of share premium	56	–
Proceeds from Tier 2 debt	–	200,000
Repayment of borrowings	–	(31,273)
Repayment of principal under lease liabilities	(186)	(385)
Dividends paid	(22,799)	(22,103)
Interest paid	(4,750)	(9,178)
Net cash (utilised)/generated by from financing activities	(27,679)	137,061
Net (decrease)/increase in cash and cash equivalents	(15,881)	136,210
Cash and cash equivalents at beginning of period	175,274	69,830
Effect of exchange rate changes on cash and cash equivalents	(15,315)	718
Cash and cash equivalents at end of the period	144,078	206,758

The Notes and information on pages 50 to 80 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Unaudited – six months ended 30 June 2023						
	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2023 (restated)	7,502	142,332	36,272	14,918	183,567	384,591
Profit for the period	–	–	–	–	15,531	15,531
Dividends paid	–	–	–	–	(22,799)	(22,799)
Foreign exchange translation differences	–	–	–	(15,315)	–	(15,315)
Revaluation of land and building	–	–	–	(54)	–	(54)
Issue of share capital	1	–	–	–	–	1
Issue of share premium	–	55	–	–	–	55
Share based payment	–	–	–	–	342	342
Equity shareholders' funds at 30 June 2023	7,503	142,387	36,272	(451)	176,641	362,352

Unaudited – six months ended 30 June 2022						
Note	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2022 (as previously stated)	7,496	142,085	36,272	7,262	265,052	458,167
Transition adjustments	3	–	–	–	(14,767)	(14,767)
Equity shareholders' funds at 1 January 2022 (restated)	7,496	142,085	36,272	7,262	250,285	443,400
Loss for the period	–	–	–	–	(31,711)	(31,711)
Dividends paid	–	–	–	–	(22,103)	(22,103)
Foreign exchange translation differences	–	–	–	1,876	–	1,876
Revaluation of land and buildings	–	–	–	25	–	25
Issue of share capital	–	–	–	–	–	–
Issue of share premium	–	–	–	–	–	–
Share based payment	–	–	–	–	504	504
Equity shareholders' funds at 30 June 2022	7,496	142,085	36,272	9,163	196,975	391,991

The Notes and information on pages 50 to 80 form part of these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1 Basis of preparation

The annual financial statements of Chesnara plc 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 International Accounting Standard 34 'Interim Financial Reporting'.

This is the first set of the group's financial statements in which 'IFRS 17 Insurance Contracts' (IFRS 17) and 'IFRS 9 Financial Instruments' (IFRS 9) have been applied. The changes to significant accounting policies arising from the adoption of IFRS 17 and IFRS 9 are set out in Note 2.

The results from the full year 2022 and half year 2022 have been restated to reflect the retrospective application of IFRS 17 and IFRS 9 from 1 January 2022. The comparative figures for the financial year ended 31 December 2022 are not the group's statutory accounts for that financial year but are derived from those accounts. 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.

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 directors have elected to not obtain a review opinion over the half year 2023 financial statements by the group's auditor, Deloitte. In the opinion of the directors, it is more optimal for both Deloitte and Chesnara group management to focus resources on completing the audit procedures over the restated balance sheets under IFRS 17 and IFRS 9 for both the year ended 31 December 2021 and 31 December 2022.

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 43.

Judgements and estimates

The critical accounting judgements and key sources of estimation and uncertainty and their potential impact on the group have been updated and evaluated by management in the preparation of these half year condensed financial statements. Note 2 provides details of the critical accounting judgements and estimates that now exist for the group following the application of IFRS 17 and IFRS 9 in these condensed financial statements.

2 Changes in significant accounting policies and significant judgements, estimates and assumptions

The group has initially applied IFRS 17 and IFRS 9, including any consequential amendment to other standards, from 1 January 2023. The introduction of these standards mean there are significant changes to the accounting for insurance and reinsurance contracts and financial instruments, although the impact for the group in respect of IFRS 9 is less significant. As a result of these standards becoming effective for the group from 1 January 2023, the group has restated certain comparative amounts and restated the opening shareholder equity position as at 1 January 2022. The nature and effects of the key changes in the group's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are set out below.

(a) IFRS 17 – Insurance Contracts

(i) Components of insurance and reinsurance contracts

'IFRS 17 Insurance Contracts' is effective for annual reporting periods beginning on or after 1 January 2023 and brings about significant changes in the recognition, measurement, presentation of insurance and reinsurance contracts for the group.

IFRS 17 requires insurance liabilities to be broken down into separate component parts, consisting of the 'Liability for Remaining Coverage' (LRC) and the 'Liability for Incurred Claims' (LIC).

The LRC comprises the Present Value of Future Cash Flows (pvFCF) and also introduces a Risk Adjustment (RA) for non-financial risk, measuring uncertainty in the amount and timing of the cash flows. The pvFCF and RA are collectively described as 'fulfilment cash-flows' and the movements in the fulfilment cash flows either impact the profit and loss or the 'Contractual Service Margin' (CSM); the final component of the LRC. The CSM represents the future unearned profits of the insurance contracts and as such will be a key measure in the future reporting of insurance contracts. In the case that a group of contracts is onerous (ie, CSM < zero), a loss component is established instead of a CSM, with losses on onerous contracts recognised in profit or loss immediately.

The LIC represents outstanding claims for insured events that have already occurred. Any subsequent changes in the incurred value of outstanding claims are recognised in profit or loss.

For reinsurance contracts held, the reinsurance contract assets will consist of the 'Asset for Remaining Coverage' (ARC) and the 'Asset for Incurred Claims' (AIC). The components of the ARC are similar to the LRC, with the following distinct differences:

- The risk adjustment for non-financial risk represents the amount of risk being transferred by the cedant to the reinsurer;
- The CSM represents the net cost or net gain on purchasing reinsurance and can be positive or negative; and
- To the extent that onerous contracts are reinsured, a loss recovery component shall be established at the date the underlying onerous losses are recognised to cater for the expected recoveries of the underlying losses from the reinsurance contracts held.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(a) IFRS 17 – Insurance Contracts (continued)

(ii) Presentation in the profit and loss and balance sheet

IFRS 17 has a significant impact on the presentation of the income statement with a separate insurance service result and investment result.

Under IFRS 17, for contracts not measured under the 'Premium Allocation Approach' (PAA), the group recognises insurance revenue as it satisfies its performance obligations – i.e. as it provides services under groups of insurance contracts. The insurance revenue relating to services provided for each year represents the total of the changes in the LRC that relate to services for which the group expects to receive consideration. This mainly comprises the release of expected claims, the risk adjustment expired and the CSM amortised in the period.

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing services in the period.

'Insurance service expenses' in each reporting period represents the cost of providing those services, broadly comprising incurred claims and benefits and expenses that are directly attributable to providing the service in the period.

'Net income/(expenses) from reinsurance contracts' generally comprises 'reinsurance expenses' and the recovery of incurred claims. Reinsurance expenses are recognised similarly to insurance revenue, with the amount of reinsurance expenses representing an allocation of the premiums paid to reinsurers that depicts the received insurance contract services in the period.

Together, the insurance revenue, insurance service expenses and net income/(expenses) from reinsurance contracts make up the insurance service result, presented on the face of the income statement. 'Non-distinct investment components' of insurance contracts represent amounts that the group must pay out in all circumstances and are not included within insurance revenue or elsewhere within the profit or loss account, being recognised instead directly in the balance sheet.

The 'investment result' comprises the 'net investment return', changes in investment contract liabilities and policyholder funds held by the group and Insurance Finance Income or Expense (IFIE) for both insurance and reinsurance contracts. The IFIE broadly includes the effect of changes in the time value of money and the effect of financial risk and changes in financial risk.

Portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. Any assets or liabilities recognised for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) are included in the carrying amount of the related portfolios of contracts.

(iii) Fulfilment cash flows

The fulfilment cash flows are the current estimates of the future cash flows within the contract boundary of a group of contracts that the group expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

Fulfilment cash flows comprise:

- estimates of future cash flows;
- an adjustment to reflect the time value of money and the financial risks related to future cash flows, to the extent that the financial risks are not included in the estimates of future cash flows; and
- a risk adjustment for non-financial risk.

In estimating future cash flows, the group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. The estimates of future cash flows reflect the group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation.

Significant judgements, estimates and assumptions – discounting, investment return and inflation

Cash flows are discounted using currency-specific, risk-free yield curves adjusted for the characteristics of the cash flows and the liquidity of the insurance contracts. The group applies a 'bottom-up' approach to determining discount rates and follows the methodology used by the PRA and EIOPA to determine risk-free yield curves and ultimate forward rates for regulatory solvency calculations. To reflect the liquidity or otherwise of the insurance contracts, the risk-free yield curves are adjusted by an illiquidity premium.

For certain Dutch 'savings mortgage' products, where there is a direct connection to the policyholder's mortgage and the premiums and crediting rate are set such that the account value will be equal to the balance on the loan, then the cash flows are discounted using a curve derived from mortgage rates available in the market.

When the present value of future cash flows is estimated using stochastic modelling, the cash flows are discounted at scenario-specific rates calibrated, on average, to be the risk free rates as adjusted for illiquidity.

Inflation rates are set at a market consistent level.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(a) IFRS 17 – Insurance Contracts (continued)

(iii) Fulfilment cash flows (continued)

Risk adjustments for non-financial risk are determined to reflect the compensation that the individual issuing entity would require for bearing non-financial risk, separately for the non-life and other contracts, and are allocated to groups of contracts based on an analysis of the risk profiles of the groups.

Significant judgements, estimates and assumptions – risk adjustment

The group calculates the risk adjustment using a 'cost of capital' (CoC) methodology similar to the PRA and EIOPA Solvency II Risk Margin approach, whilst incorporating risk drivers consistent with the contract boundaries applicable under IFRS 17. Each entity determines a risk adjustment by applying a CoC rate to the amount of capital required for each future reporting date and discounting the result using risk-free rates adjusted for illiquidity.

The required capital is determined using stresses and diversification factors aligned to the relevant Solvency II methodologies and allocated to groups of contracts in a way that is consistent with the risk profiles of the groups. The CoC rate reflects that used in the group's own EcV reporting, currently 3.25% pa (2022: 3.25%).

To determine the risk adjustments for non-financial risk for reinsurance contracts, the group applies these techniques both gross and net of reinsurance and derives the amount of risk being transferred to the reinsurer as the difference between the two results.

Over a 1 year time horizon and on a net of reinsurance basis, this risk adjustment corresponds to a confidence level of 82%. This is equivalent to estimating that the probability that any changes in best estimate liabilities from non-financial risk over the next year will be less than 82%.

(iv) Transition

IFRS 17 is required to be applied retrospectively unless it is impracticable to do so due to the lack of available and supportable historical information. For a Fully Retrospective Approach (FRA) the CSM at the date of transition is calculated by rolling forward the CSM determined at inception of the contract as if the accounting policies under IFRS 17 had always applied. Where the FRA is impracticable a choice between a 'modified retrospective approach' (MRA) and a 'fair value approach' (FVA) is permitted.

The group has been able to apply the FRA to its Dutch business divisions with the inception date for the contracts acquired being the date of historical acquisition into the group. The FVA has been applied for CA plc in the UK where the length of time elapsed since acquisition into the group has meant that the retrospective application of IFRS 17 is not possible or practicable. Note 3 provides details of the quantitative impact of applying IFRS 17 in these financial statements as at 1 January 2022.

Significant judgements, estimates and assumptions – fair value methodology

As the fully retrospective approach was impracticable for CA, the group have elected to apply a fair value approach as permitted by IFRS 17.C5 to calculate the CSM at the transition date.

The CSM is defined as the difference between the fair value of a group of insurance contracts (i.e. the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) and the fulfilment cash flows measured at that date. The CSM using a fair value approach can therefore be expressed as being equal to the price required to transfer the business less the fulfilment cash flows under IFRS 17.

The price required to transfer the business includes, but is not necessarily limited to:

- (i) a market participant's assessment of risk adjusted realistic liabilities; plus
- (ii) a market participant's compensation for holding capital to support those risks; plus
- (iii) any margin for non-performance risk required by the market participant.

The group has assumed that:

- (i) the market participants risk adjusted liabilities is equal to: CA's IFRS 17 pvFCF plus CA's IFRS 17 RA;
- (ii) the market participants compensation for holding capital is based on a CoC approach using the projected SII required capital plus a solvency buffer; and
- (iii) the market participants assessment of non-performance risk is zero.

The above assumptions result in the CSM being equal to the market participant's compensation for holding capital.

(v) Insurance contract definition, classification and measurement models

Contracts under which the group accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder are classified as insurance contracts. Contracts held by the group under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts. Insurance and reinsurance contracts also expose the group to financial risk.

Contracts that have a legal form of insurance, but do not transfer significant insurance risk and expose the group to financial risk are classified as investment contracts and follow accounting for financial instruments as per IFRS 9.

Under IFRS 17, insurance contracts are classified as direct participating contracts or contracts without direct participation features. Direct participating contracts are contracts for which, at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- the group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

All other insurance contracts and all reinsurance contracts are classified as contracts without direct participation features.

The classification of insurance contracts is important as it determines which measurement model the contracts fall under and therefore impacts subsequent measurement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(a) IFRS 17 – Insurance Contracts (continued)

(v) Insurance contract definition, classification and measurement models (continued)

IFRS 17 contains three measurement models:

- a) General Measurement Model (GMM) – this is the default measurement model and applies to contracts that do not contain direct participating features. Reinsurance contracts must be measured under the GMM.
- b) Variable Fee Approach (VFA) – this is the measurement model used for contracts that are classified as contracts with direct participating features. Such contracts are viewed as creating an obligation to pay policyholders an amount that is equal to the fair value of underlying items, less a variable fee for service. The variable fee comprises the groups share of the fair value of underlying items in the form of investment management service fees. This measurement approach is a modification of GMM whereby the financial and economic impacts affecting the entity are taken to the CSM rather than profit or loss, as is the case under GMM.
- c) Premium Allocation Approach (PAA) – for short-duration contracts, IFRS 17 permits a simplified approach which can be applied to contracts that have a duration of 12 months or less or for which such simplification would produce a measurement of the LRC that would not differ materially from the one that would be produced applying GMM. Disclosure requirements are modified for contracts measured under the PAA.

The implication for subsequent measurement for contracts under GMM and VFA are outlined further in Section (xi).

Significant judgements, estimates and assumptions – measurement model classification

Short-term, stand-alone protection business and associated reinsurance is measured as PAA. Otherwise non-participating business and reinsurance is measured as GMM whilst most participating business has been deemed to qualify to be treated as VFA. However, there are some participating products/policies which, due to the relatively high levels of guarantees or protection benefits over and above any underlying item, that have been classed as GMM business.

(vi) Aggregation of insurance and reinsurance contracts

Insurance contracts are aggregated into groups for measurement purposes. Groups of insurance contracts are determined by identifying portfolios of insurance contracts, each comprising contracts that are subject to similar risks and are managed together. Each portfolio is divided into annual cohorts (i.e. by year of issue) and each annual cohort into a maximum of three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort.

Contracts within a portfolio that would fall into different groups only because law or regulation specifically constrains the group's practical ability to set a different price or level of benefits for policyholders with different characteristics are included in the same group.

Groups of reinsurance contracts are established such that each group comprises a single contract.

(vii) Recognition

An insurance contract issued by the group is recognised from the earliest of:

- the beginning of its coverage period (i.e. the period during which the group provides services in respect of any premiums within the boundary of the contract);
- when the first payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; and
- when facts and circumstances indicate that the contract is onerous.

An insurance contract acquired in a transfer of contracts or a business combination is recognised on the date of acquisition.

When the contract is recognised, it is added to an existing group of contracts or, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

A group of reinsurance contracts is recognised on the following dates: –

- Reinsurance contracts initiated by the group that provide proportionate coverage: The date on which any underlying insurance contract is initially recognised, if later than the beginning of the coverage period of the reinsurance contract.
- Other reinsurance contracts initiated by the group: The beginning of the coverage period of the group of reinsurance contracts. However, if the group recognises an onerous group of underlying insurance contracts on an earlier date and the related reinsurance contract was entered into before that earlier date, then the group of reinsurance contracts is recognised on that earlier date.
- Reinsurance contracts acquired: The date of acquisition.

(viii) Derecognition

The group derecognises a contract when it is extinguished – i.e. when the specified obligations in the contract expire or are discharged or cancelled. The group also derecognises a contract if its terms are modified in a way that would have changed the accounting for the contract significantly had the new terms always existed, in which case a new contract based on the modified terms is recognised. If a contract modification does not result in derecognition, then the group treats the changes in cash flows caused by the modification as changes in estimates of fulfilment cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)****(a) IFRS 17 – Insurance Contracts (continued)****(ix) Insurance acquisition cash flows**

Insurance acquisition cash flows are cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows are allocated to groups of insurance contracts using a systematic and rational method and considering, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort.

Insurance acquisition cash flows arising before the recognition of the related group of contracts are recognised as an asset. Assets for insurance acquisition cash flows arise when they are paid or when a liability is required to be recognised under a standard other than IFRS 17. Such an asset is recognised for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognised, fully or partially, when the insurance acquisition cash flows are included in the measurement of the group of contracts.

(x) Initial measurement

On initial recognition, the group measures a group of insurance contracts as the total of (a) the fulfilment cash flows, which comprise estimates of future cash flows, adjusted to reflect the time value of money and the associated financial risks, and a risk adjustment for non-financial risk; and (b) the CSM. The fulfilment cash flows of a group of insurance contracts do not reflect the group's non-performance risk.

The risk adjustment for non-financial risk for a group of insurance contracts, determined separately from the other estimates, is the compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM of a group of insurance contracts represents the unearned profit that the group will recognise as it provides services under those contracts. On initial recognition of a group of insurance contracts, if the total of (a) the fulfilment cash flows, (b) any cash flows arising at that date and (c) any amount arising from the derecognition of any assets or liabilities previously recognised for cash flows related to the group (including assets for insurance acquisition cash flows under (ix)) is a net inflow, then the group is not onerous. In this case, the CSM is measured as the equal and opposite amount of the net inflow, which results in no income or expenses arising on initial recognition.

For groups of contracts acquired in a transfer of contracts or a business combination, the consideration received for the contracts is included in the fulfilment cash flows as a proxy for the premiums received at the date of acquisition. In a business combination, the consideration received is the fair value of the contracts at that date. If the total is a net outflow, then the group is onerous. In this case, the net outflow is recognised as a loss in profit or loss, or as an adjustment to goodwill or a gain on a bargain purchase if the contracts are acquired in a business combination. A loss component is created to depict the amount of the net cash outflow, which determines the amounts that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue.

(xi) Subsequent measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the LRC and the LIC. The LRC comprises (a) the fulfilment cash flows that relate to services that will be provided under the contracts in future periods and (b) any remaining CSM at that date. The LIC includes the fulfilment cash flows for incurred claims and expenses that have not yet been paid, including claims that have been incurred but not yet reported.

The Fulfilment Cash Flows (FCF) of groups of insurance contracts are updated by the group for current assumptions at the end of every reporting period, using the current estimates of the amount, timing and uncertainty of future cash flows and of discount rates. The way in which the changes in estimates of the FCF are treated depends on which estimate is being updated:

- a) changes that relate to current or past service are recognised in profit or loss; and
- b) changes that relate to future service are recognised by adjusting the CSM or the loss component within the LRC as per the policy below.

For insurance contracts under the GMM, the following adjustments relate to future service and thus adjust the CSM:

- a) experience adjustments – arising from premiums received in the period that relate to future service and related cash flows such as insurance acquisition cash flows and premium-based taxes;
- b) changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph;
- c) differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, determined by comparing (i) the actual investment component that becomes payable in a period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and
- d) changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments (a), (b) and (d) above are measured using discount rates determined on initial recognition (the locked-in discount rates).

For insurance contracts under the GMM, the following adjustments do not adjust the CSM:

- a) changes in the FCF for the effect of the time value of money and the effect of financial risk and changes thereof;
- b) changes in the FCF relating to the LIC;
- c) experience adjustments – arising from premiums received in the period that do not relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes; and
- d) experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(a) IFRS 17 – Insurance Contracts (continued)

(xi) Subsequent measurement (continued)

For insurance contracts under the VFA, the following adjustments relate to future service and thus adjust the CSM:

- a) changes in the amount of the group's share of the fair value of the underlying items; and
- b) changes in the FCF that do not vary based on the returns of underlying items:
 - i. changes in the effect of the time value of money and financial risks including the effect of financial guarantees;
 - ii. experience adjustments arising from premiums received in the period that relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes;
 - iii. changes in estimates of the present value of future cash flows in the LRC, except those described in the following paragraph;
 - iv. differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period, determined by comparing (i) the actual investment component that becomes payable in a period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and
 - v. changes in the risk adjustment for non-financial risk that relate to future service.

Adjustments (iii)-(v) are measured using the current discount rates.

For insurance contracts under the VFA, the following adjustments do not adjust the CSM:

- a) changes in the obligation to pay the policyholder the amount equal to the fair value of the underlying items;
- b) changes in the FCF that do not vary based on the returns of underlying items:
 - i. changes in the FCF relating to the LIC;
 - ii. experience adjustments arising from premiums received in the period that do not relate to future service and related cash flows, such as insurance acquisition cash flows and premium-based taxes; and
 - iii. experience adjustments relating to insurance service expenses (excluding insurance acquisition cash flows).

Significant judgements, estimates and assumptions – CSM coverage units

The CSM at the end of the reporting period is allocated to profit and loss based on the relevant underlying coverage units where the number of coverage units in a group is determined by considering, for each contract, the quantity of the benefits provided under a contract and its expected coverage period. The quantity of benefits provided is based on the maximum benefit payment which may become due in a period.

For contracts that provide an investment return or investment related service the account balance is generally considered the main driver for determining the amount of service provided in a period. For products that provide an insurance service the sum assured, in excess of any account balance, is considered the main driver for determining the amount of insurance service provided in a period.

(xii) Loss components

The group establishes a loss component of the liability for remaining coverage for onerous groups of insurance contracts. The loss component determines the amounts of fulfilment cash flows that are subsequently presented in profit or loss as reversals of losses on onerous contracts and are excluded from insurance revenue when they occur. When the fulfilment cash flows are incurred, they are allocated between the loss component and the liability for remaining coverage excluding the loss component on a systematic basis.

(xiii) Contract boundaries

The measurement of a group of contracts includes all of the future cash flows within the boundary of each contract in the group. For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the group can compel the policyholder to pay premiums or has a substantive obligation to provide services (including insurance coverage and any investment services).

A substantive obligation to provide insurance contract services ends when either:

- a) the group has the practical ability to reassess the risks of the particular policyholder and as a result can set a price or level of benefits that fully reflects those risks, or
- b) the group has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and as a result can set a price or level of benefits that fully reflects the risk of that portfolio unless the pricing of the premiums up to the date when the risks are reassessed takes into account the risks that relate to periods after the assessment.

For reinsurance contracts cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

(xiv) Separation of distinct investment components

At inception, the group separates distinct investment components from an insurance or reinsurance contract and accounts for them as if they were stand-alone financial instruments. Distinct investment components are investment components that are not highly inter-related with the insurance components and for which contracts with equivalent terms are sold, or could be sold, separately in the same market or the same jurisdiction.

(xv) Non-distinct investment components

Insurance revenue and insurance service expenses exclude any 'non-distinct investment components'. The group identifies the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs or the contract matures or is terminated without an insured event occurring. Investment components are excluded from insurance revenue and insurance service expenses.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(a) IFRS 17 – Insurance Contracts (continued)

(xvi) Application of accounting policies impacting presentation

The group does not disaggregate amounts recognised in the statement of profit or loss and OCI as permitted by IFRS 17.88.

Income and expenses from reinsurance contracts are presented separately from income and expenses from insurance contracts. Income and expenses from reinsurance contracts, other than insurance finance income or expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result.

The group does not disaggregate changes in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. All changes in the risk adjustment for non-financial risk are included in the insurance service result.

(xvii) Acquisition accounting

IFRS 17 provides specific guidance on accounting for transfers of insurance contracts under a business combination and as such the requirements of IFRS 3 'Business Combinations' are modified as a result on IFRS 17 becoming effective. There is no longer any Acquired Value of In-Force Business (AVIF) calculated in respect of insurance contracts on acquisition and no immediate profit recognised on insurance contracts acquired as was the case when IFRS 4 was extant.

Instead, a CSM is established, recognising the future profit that will be earned from the insurance contracts acquired as the insurance and investment related service is provided. As a result, IFRS 17 will generally result in delayed profit recognition compared to IFRS 4. A delay in profit recognition will also generally be true for existing business as changes in fulfilment cash flows considered to be in respect of future service will adjust the CSM, with revenue recognised only for the current service provided. This is in contrast to IFRS 4 where all changes in the insurance contract value were booked immediately to profit and loss.

(xviii) Additional information on key assumptions

Demographic assumptions

Best estimate assumptions about mortality/longevity, morbidity and policyholder behaviour, such as surrenders, used in estimating future cash flows are developed for homogeneous product types and groups of policyholders at a local entity level. Demographic assumptions are generally based on a combination of national data, standard industry tables, the local entity's recent experience and also future expectations. Experience is monitored through regular studies, the results of which are reflected both in the pricing of new products and in the measurement of existing contracts.

Expense assumptions

Best-estimate assumptions regarding expenses used in the estimation of future cash flows are set at a level that reflects the group's expectations as to future expenditure based on each entity's cost base and annual budgeting process along with longer-term expectations as to how the business will run off. Transition costs and major project expenses are reviewed on a case by case basis as to whether they should be treated as non-attributable. Expenses pertaining to investment costs on assets backing liabilities where no investment service is provided to policyholders, generally term assurance and annuities, are also excluded.

Non-performance of reinsurance

Where appropriate reinsurance cash flows are adjusted for the possibility of loss due to reinsurer default using an approach equivalent to the PRA and EIOPA methodology for the Solvency II Credit Default Adjustment.

(b) IFRS 9 – Financial Instruments

'IFRS 9 Financial Instruments' was effective from 1 January 2018 and replaces 'IAS 39 Financial Instruments: Recognition and Measurement'. The group elected to defer the application of IFRS 9 in the consolidated financial statements, applying the temporary exemption available under 'Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4' up until the previously published group consolidated financial statements as at 31 December 2022.

(i) Financial assets

IFRS 9.4.1 requires financial assets to be classified into the following measurement categories based on an assessment of the business model of the group and the contractual cash flow characteristics of the assets:

- Amortised Cost (AC) where the financial asset is in a 'hold to collect' business model and where contractual cash flows arising are Solely Payments of Principal and Interest (SPPI).
- Fair Value Through OCI (FVTOCI) where the financial asset is in a 'hold to collect and sell' business model and where contractual cash flows arising are Solely Payments of Principal and Interest (SPPI).
- Fair Value Through Profit or Loss (FVTPL) where the financial asset does not fit into either of the above classifications or where the entity elects to measure financial assets at FVTPL.

(ii) Financial liabilities

Almost all accounting requirements for financial liabilities remain unchanged from IAS 39. IFRS 9 has however introduced new requirements for accounting and presentation of changes in the fair value of an entity's own credit risk where the entity has designated to value at fair value (IFRS 9.5.7.7-8). Changes in fair value attributable to the change in the entity's own credit risk are presented in OCI unless this presentation would create or enlarge an accounting mismatch in the P&L, as is the case for the Chesnara plc group.

The two financial liability classification categories are:

- Fair Value Through Profit or Loss (FVTPL); and
- Amortised Cost (AC).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(b) IFRS 9 – Financial Instruments (continued)

(iii) Classification of financial assets

The majority of the group's financial assets and liabilities will be classified as FVTPL, either mandatorily as prescribed by IFRS 9, or by designating as such, as permitted under IFRS 9.4.1.5 to avoid an accounting mismatch that would otherwise have occurred with the valuation of the corresponding liabilities.

The majority of the group's financial instruments were already held at FVTPL under IAS 39 and will continue to be valued at FVTPL under IFRS 9 to reflect the way the business is managed and in line with a fair value approach to SII and EcV reporting. The Solely Payments of Principal and Interest (SPPI) test is used to distinguish between those mandatorily classified as FVTPL and those designated at FVTPL.

The mortgage portfolio held by Waard, comprising both direct mortgages and savings mortgages, was previously valued at AC under IAS 39. Both types of mortgage assets pass the SPPI test as the contractual terms require only fixed payments on fixed dates or variable payments where the amount of the variable payment for a period is determined by applying a floating market rate of interest for that period. They are therefore not required to be classified at FVTPL but they have been designated as FVTPL as this will significantly reduce the accounting mismatch with the corresponding liability, valued under IFRS 17 using current market sourced discount rates, that would arise otherwise. This application of the 'fair value option' aligns with the group's business model which is to manage the business on a fair value basis.

Short-term receivables will be classified as AC and no assets will be categorised as FVTOCI.

Significant judgements, estimates and assumptions – valuation of 'savings mortgages' assets

For certain mortgage assets related to Dutch 'savings mortgage' products, where there is (i) a direct connection to the policyholder's mortgage and (ii) the premiums and crediting rate are set such that the account value will be equal to the balance on the loan; then the asset cash flows are discounted using a curve derived from mortgage rates available in the market.

(iv) Classification of financial liabilities

Financial liabilities are generally classified and measured at AC (IFRS 9.4.2.1), however they can be classified and measured at FVTPL if held for trading or designated as at FVTPL where doing so results in more relevant information (IFRS 9.4.2.2), because either:

- a) It eliminates, or significantly reduces, a measurement of recognition inconsistency; or
- b) A group of financial instruments is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The investment contracts help by the group meet the criteria above for classification at FVTPL as this will significantly reduce the accounting mismatch that would arise otherwise. This is also in line with the group's business model is to manage the business on a fair value basis.

The borrowings liabilities do not match the exceptions listed above and it is appropriate that they are classified as AC under IFRS 9, as was also the case under IAS 39. This includes the Tier 2 debt within the parent company of the group.

(v) Impairment and Expected Credit Losses

IFRS 9 includes an expected loss impairment model (IFRS 9.5.5.1-8) for assets classified as AC or FVTOCI that requires entities to recognise a loss allowance for Expected Credit Losses (ECLs) in line with a three-stage model:

- a) Stage 1 impairment: if the credit risk on a financial instrument has not increased significantly since initial recognition, a loss allowance equal to a 12-month ECL is recognised.
- b) Stage 2 impairment: if the credit risk has increased significantly since initial recognition, a loss allowance equal to lifetime ECLs must be recognised. If the credit risk subsequently improves, it is possible for a financial instrument to revert to a Stage 1 impairment and for the loss allowance to be reduced.
- c) Stage 3 impairment: if an impairment event has occurred, a financial asset is written off and derecognised when the entity has no reasonable expectation of recovering it.

There is also a simplified approach to impairment that is available as a policy choice for contract assets and lease receivables. The standard stipulates the following (IFRS 9.5.5. 15):

- 1) For trade receivables or IFRS 15 contract assets with no significant financing component, the simplified approach is required.
- 2) For trade receivables or IFRS 15 contract assets with a significant financing component, the simplified approach is optional.
- 3) For IFRS 16 lease receivables, the simplified approach is optional.

The simplified approach requires recognition of a loss allowance for an amount equal to lifetime ECLs without the need to consider credit quality of the financial asset for staging purposes. A provision matrix can be used to apply relevant loss rates to outstanding balances at the reporting date as follows:

- a) Determine appropriate groupings of assets.
- b) Determine the historical loss rates over an appropriate period.
- c) Incorporate forward looking macro-economic factors into loss rates.
- d) Calculate the expected credit losses.

The assets held by the group at AC are short-term receivables that include those arising from insurance contracts, those arising from investment contracts, accrued interest income and receivables from fund management companies. The simplified approach to impairment has been applied for all these short-term receivables.

Using the provision matrix method the group has concluded that the provision for ECLs would be materially correct at £nil due to the short-term nature of the financial instruments held and minimal level of historical credit losses. The potential for future defaults has also been taken into account in this assessment. The intercompany balances included in individual company accounts will also have a materially correct ECL provision of £nil due to minimal historical credit losses and low potential for future defaults.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2 Changes in significant accounting policies and significant judgements, estimates and assumptions (continued)

(b) IFRS 9 – Financial Instruments (continued)

(vi) Transition

The group has elected to apply IFRS 9 from 1 January 2022 in these consolidated financial statements. Note 4 provides details of the impact as a result of adopting IFRS 9 in these financial statements as at 1 January 2022.

All other accounting policies remain unchanged from those stated in the 2022 year-end consolidated financial statements.

3 Impact of IFRS 17 and IFRS 9 at transition date

The following table shows by balance sheet line item how the adoption of IFRS 17 and IFRS 9 has impacted the balance sheet that was reported in the consolidated financial statements of the group as at 31 December 2021.

Unaudited	31 December 2021 – as reported £000	Items derecognised £000	Items reclassified £000	IFRS 17 and IFRS 9 remeasurement £000	As at 1 January 2022 £000
Intangible assets	122,161	(44,496)	–	–	77,665
Property and equipment	7,830	–	–	–	7,830
Investment properties	1,071	–	–	–	1,071
Reinsurance contract assets	247,750	–	23,297	(57,516)	213,531
Amounts deposited with reinsurers	38,295	–	–	–	38,295
Financial investments	9,127,116	–	–	48,895	9,176,011
Derivative financial instruments	264	–	–	–	264
Other assets	72,431	–	(25,118)	–	47,313
Deferred tax assets	–	498	2,239	(1,816)	921
Cash and cash equivalents	70,087	–	–	–	70,087
Total assets/transition effects on assets	9,687,005	(43,998)	418	(10,437)	9,632,988
Insurance contract liabilities	3,818,412	–	106,437	107,221	4,032,070
Other provisions	992	–	720	–	1,712
Investment contracts at fair value through income	4,120,572	–	20	(138,616)	3,981,976
Liabilities relating to policyholder funds held by group	990,700	–	–	–	990,700
Lease contract liabilities	2,019	–	–	–	2,019
Borrowings	47,185	–	–	–	47,185
Derivative financial instruments	–	–	–	–	–
Deferred tax liabilities	15,699	(9,561)	2,239	2,191	10,568
Deferred income	2,809	(504)	2,168	–	4,473
Other current liabilities	230,194	(399)	(111,166)	–	118,629
Bank overdrafts	256	–	–	–	256
Total liabilities/transition effects on liabilities	9,228,838	(10,464)	418	(29,204)	9,189,588
Net assets/transition effects on shareholders' equity	458,167	(33,534)	–	18,767	443,400

The group has adopted IFRS 17 retrospectively, applying the fully retrospective approach across the group with the exception of CA, for which the fair value at transition approach was applied.

Accordingly, for the entities applying the full retrospective approach, the group has identified, recognised and measured each group of insurance contracts as if IFRS 17 had always applied since the date of their acquisition into the group; derecognised any existing balances that would not exist if IFRS 17 had always applied; and recognised any resulting difference in net equity. For insurance contracts within the group that are eligible for PAA, the group has concluded that only current and prospective information was required to reflect the circumstances at the transition date.

For CA, the group has determined that the necessary historical information is not available in order to apply the fully retrospective for any of the contract groups. It was therefore impracticable to apply the fully retrospective approach and the fair value approach has been applied.

The group has elected to apply IFRS 9 within these condensed financial statements from 1 January 2022 in line with IFRS 17 in order to avoid any potential accounting mismatch that may otherwise arise, as the measurement of assets under IFRS 9 cannot be considered without reference to the liabilities under IFRS 17.

The overall impact to the net equity position of the group at 1 January 2022 as a result of applying IFRS 17 and IFRS 9 is a reduction in net equity of £14.767m.

There are various offsetting impacts which result in this overall reduction of net equity, the key ones being:

Items derecognised:

Derecognition of Acquired Value of In-Force Business (AVIF) and Deferred Acquisition Costs (DAC) in respect of insurance contracts:

Under IFRS 17 there is no insurance AVIF recognised on acquisitions and which is then subsequently amortised. Similarly, DAC is no longer recognised for new contracts written, instead an asset for insurance acquisition cash flows is recognised in the balance sheet for the relevant group of contracts and is derecognised on initial calculation of the opening CSM for the contract group. AVIF of £34.1m and DAC of £10.4m have been derecognised from the consolidated group balance sheet at the date of transition, with a corresponding adjustment to net equity. Together with the deferred tax and other smaller impacts, this results in a reduction of net equity of £33.5m at the transition date.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3 Impact of IFRS 17 and IFRS 9 at transition date (continued)

IFRS 17 and IFRS 9 remeasurement:

- Recognition of the CSM as an explicit liability representing future unearned profits. At 1 January 2022, a CSM of £109.1m net of reinsurance was established resulting in a decrease to net equity.
- Recognition of an explicit liability for Risk Adjustment for non-financial risk. At 1 January 2022, a RA of £39.7m net of reinsurance was established resulting in a decrease to net equity.
- In addition to the above factors, the move from a variety of local methodologies with different areas of implicit margin to a valuation of ‘best estimate’ future cash flows discounted using market interest rates. Net of reinsurance this results in an increase to net equity of £167.6m at 1 January 2022.

Items reclassified:

The group has also reclassified all rights and obligations arising from portfolios of insurance and reinsurance contracts such as (i) outstanding claims in respect of insurance contracts and the reinsurers share of outstanding claims (ii) receivables and payables related to insurance and reinsurance contracts. These reclassifications have not impacted the net equity of the group at the transition date.

4 Earnings per share

Earnings per share are based on the following:

	Unaudited six months ended 30 June		Unaudited year ended 31 December
	2023	2022	2022
Profit/(loss) for the period attributable to shareholders (£000)	15,531	(31,711)	(33,289)
Weighted average number of ordinary shares	150,430,393	150,153,465	150,239,599
Basic earnings per share	10.32p	(21.12)p	(22.16)p
Diluted earnings per share	10.25p	(20.87)p	(21.90)p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2023 is based upon 150,369,603 shares in issue at the beginning of the period and 150,570,190 at the end of the period. No shares were held in treasury.

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 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 2022 is based upon 150,145,602 shares in issue at the beginning of the period and 150,369,603 shares in issue at the end of the period. No shares were held in treasury.

There were 1,165,272 share options outstanding at 30 June 2023 (30 June 2022: 1,815,601). 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 2022.

5 Retained earnings

		Unaudited six months ended 30 June	
	Note	2023 £000	2022 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January (as reported)			265,052
Transition adjustment	3		(14,767)
Balance at 1 January (restated)		183,567	250,285
Profit/(loss) for the period		15,531	(31,711)
Share based payment		342	504
Dividends			
Final approved and paid for 2021		–	(22,103)
Final approved and paid for 2022		(22,799)	–
Balance at period end		176,641	196,975

The interim dividend in respect of 2022, approved and paid in 2022 was paid at the rate of 8.12p per share.

The final dividend in respect of 2022, approved and paid in 2023, was paid at the rate of 15.16p per share so that the total dividend paid to the equity shareholders of the company in respect of the year ended 31 December 2022 was made at the rate of 23.28p per share.

An interim dividend of 8.36p per share in respect of the year ending 31 December 2023 payable on 10 November 2023 to equity shareholders of the company registered at the close of business on 29 September 2023, the dividend record date, was approved by the directors after the balance sheet date. The resulting dividend of £12.6m has not been provided for in these financial statements and there are no income tax consequences.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5 Retained earnings (continued)

The following table summarises dividends per share in respect of the six-month period ended 30 June 2023 and the year ended 31 December 2022:

	Six months ended 30 June 2023 Pence	Year ended 31 December 2022 Pence
Interim – approved/paid	8.36	8.12
Final – proposed/paid	–	15.16
Total	8.36	23.28

6 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 2023 comprise:

UK: This segment represents the group's UK life insurance and pensions run-off portfolio and comprises the business of Countrywide Assured plc (CA) and Sanlam Life & Pensions UK (CASLP).

CA consists of its original business and that of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business transferred to CA during 2006. It 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. It 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, as well as the portfolio of policies acquired from Canada Life on 16 May 2023.

Sanlam Life & Pensions UK (CASLP) was acquired on 28 April 2022 and subsequently changed its the legal name to CASLP.

CA and CASLP 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 2022 Annual Report and Accounts.

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

Ward Group: This segment represents the group's closed Dutch life business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering.

During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.

On 1 October 2019, the Waard Group acquired a small portfolio of policies from Monuta insurance, which consists of term and savings policies.

On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies. The completion took place on the 31 August 2020, at which stage Waard Group obtained control.

On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, unit-linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The portfolio was successfully migrated on 10 April 2021.

On 25 November 2021, Waard entered into an agreement with Monument Re Group to acquire Robein Leven, a specialist provider of traditional and linked savings products, mortgages and annuities in the Netherlands. The acquisition was successfully completed on 28 April 2022, thereby extending the existing group.

On 1 January 2023, Waard Leven N.V. completed the acquisition of the insurance portfolio of Nederlandsche Algemeene Maatschappij van Levensverzekering 'Conservatrix' N.V. ('Conservatrix'), a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. A capital contribution of £35m has been provided by Chesnara to support the solvency position of the Conservatrix business, consisting of a £21m contribution from Chesnara and £14m of existing Waard resources.

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 2023.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**6 Operating segments (continued)****(i) Segmental reporting for the six months ended 30 June 2023**

Unaudited						
	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities £000	Total £000
Insurance revenue	35,088	5,459	21,222	56,279	–	118,048
Insurance service expense	(31,575)	(2,895)	(11,815)	(56,103)	–	(102,388)
Net expenses from reinsurance contracts held	(2,544)	(991)	(1,009)	(1,600)	–	(6,144)
Insurance service result	969	1,573	8,398	(1,424)	–	9,516
Net investment return	112,876	360,943	30,630	91,091	7,472	603,012
Net finance income from insurance contracts issued	(21,742)	(18,411)	(29,975)	(81,767)	–	(151,895)
Net finance (expenses)/income from reinsurance contracts held	(1,461)	(144)	50	(972)	–	(2,527)
Net change in investment contract liabilities	(83,782)	(274,551)	1,438	–	–	(356,895)
Change in liabilities relating to policyholders' funds held by the group	–	(66,705)	–	–	–	(66,705)
Net investment result	5,891	1,132	2,143	8,352	7,472	24,990
Fee, commission and other operating income	18,878	29,411	193	–	3	48,485
Total revenue net of investment result	25,738	32,116	10,734	6,928	7,475	82,991
Other operating expenses	(18,419)	(28,072)	(4,691)	(2,300)	(12,019)	(65,501)
Financing costs	(46)	(289)	(6)	–	(5,167)	(5,508)
Profit arising on business combinations and portfolio acquisitions	–	–	3,969	–	–	3,969
Profit/(loss) before tax	7,273	3,755	10,006	4,628	(9,711)	15,951

(ii) Segmental assets and liabilities as at 30 June 2023

Unaudited						
	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities £000	Total £000
Segment assets	4,577,236	4,105,753	956,095	1,919,903	138,773	11,697,760
Segment liabilities	(4,434,047)	(4,020,113)	(873,416)	(1,804,885)	(202,947)	(11,335,408)
Segment net assets	143,189	85,640	82,679	115,018	(64,174)	362,352

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6 Operating segments (continued)

(iii) Segmental reporting for the six months ended 30 June 2022

Unaudited						
	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance revenue	32,158	6,016	7,540	60,959	–	106,673
Insurance service expense	(31,953)	(2,578)	(7,570)	(57,187)	–	(99,288)
Net expenses from reinsurance contracts held	(733)	(1,974)	(668)	(804)	–	(4,179)
Insurance service result	(528)	1,464	(698)	2,968	–	3,206
Net investment return	(343,661)	(895,636)	(85,591)	(265,356)	2,142	(1,588,102)
Net finance income from insurance contracts issued	134,726	24,570	79,171	244,808	–	483,275
Net finance (expenses)/income from reinsurance contracts held	(17,465)	(802)	(192)	9,251	–	(9,208)
Net change in investment contract liabilities	199,940	526,037	–	–	–	725,977
Change in liabilities relating to policyholders' funds held by the group	–	341,856	–	–	–	341,856
Net investment result	(26,460)	(3,975)	(6,612)	(11,297)	2,142	(46,202)
Fee, commission and other operating income	8,204	23,922	75	–	–	32,201
Total revenue net of investment result	(18,784)	21,411	(7,235)	(8,329)	2,142	(10,795)
Other operating expenses	(12,086)	(21,602)	(1,844)	(2,353)	(10,757)	(48,642)
Financing costs	(13)	(470)	(1)	–	(4,099)	(4,583)
Profit arising on business combinations and portfolio acquisitions	9,565	–	301	–	–	9,866
Loss before tax	(21,318)	(661)	(8,779)	(10,682)	(12,714)	(54,154)

(iv) Segmental reporting for the year ended 31 December 2022

Unaudited						
	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance revenue	65,117	11,895	16,907	130,112	–	224,031
Insurance service expense	(58,194)	(4,079)	(17,751)	(125,848)	–	(205,872)
Net (expenses)/income from reinsurance contracts held	(1,729)	(2,899)	(1,563)	155	–	(6,036)
Insurance service result	5,194	4,917	(2,407)	4,419	–	12,123
Net investment return	(280,802)	(876,844)	(93,313)	(302,326)	(3,585)	(1,556,870)
Net finance income from insurance contracts issued	161,633	19,052	90,960	276,049	–	547,694
Net finance (expenses)/income from reinsurance contracts held	(24,083)	(501)	(275)	11,368	–	(13,491)
Net change in investment contract liabilities	109,718	461,256	–	–	–	570,974
Change in liabilities relating to policyholders' funds held by the group	–	392,884	–	–	–	392,884
Net investment result	(33,534)	(4,153)	(2,628)	(14,909)	(3,585)	(58,809)
Fee, commission and other operating income	29,120	44,110	133	–	–	73,363
Total revenue net of investment result	780	44,874	(4,902)	(10,490)	(3,585)	26,677
Other operating expenses	(28,909)	(41,568)	(3,142)	(5,555)	(14,231)	(93,405)
Financing costs	(228)	(823)	(1)	–	(9,497)	(10,549)
Profit arising on business combinations and portfolio acquisitions	9,565	–	5,796	–	–	15,361
(Loss)/profit before tax	(18,792)	2,483	(2,249)	(16,045)	(27,313)	(61,916)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

6 Operating segments (continued)

(v) Segmental assets and liabilities as at 31 December 2022

Unaudited						
	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Segment assets	4,748,869	3,945,968	542,640	1,900,968	112,671	11,251,116
Segment liabilities	(4,566,294)	(3,843,690)	(469,434)	(1,785,422)	(201,685)	(10,866,525)
Segment net assets	182,575	102,278	73,206	115,546	(89,014)	384,591

7 Insurance service result

	Unaudited six months ended 30 June 2023 £000	Unaudited six months ended 30 June 2022 £000
Insurance revenue		
Contracts not measured under the PAA:		
Amounts relating to changes in the liability for remaining coverage:		
Expected incurred claims and other directly attributable expenses	90,610	81,969
Change in risk adjustment for non-financial risk for the risk expired	8,287	6,463
CSM recognised for the services provided	11,964	10,605
Insurance acquisition cash flows recovery	1,728	1,620
Insurance revenue for contracts not measured under the PAA	112,589	100,657
Insurance revenue for contracts measured under the PAA	5,459	6,016
Total insurance revenue	118,048	106,673
Insurance service expenses		
Incurred claims and other directly attributable expenses	(78,701)	(76,874)
Changes that relate to past service – changes in the FCF relating to the LIC	3,145	2,922
Losses on onerous contracts and reversals of those losses	(25,104)	(23,716)
Insurance acquisition cash flows amortisation	(1,728)	(1,620)
Insurance acquisition cash flows impairment	–	–
Total insurance service expenses	(102,388)	(99,288)
Net income/(expenses) from reinsurance contracts held		
Reinsurance expenses (allocation of reinsurance premiums paid) – contracts not measured under the PAA		
Amounts relating to changes in the remaining coverage:		
Expected incurred claims and other directly attributable expenses recovery	(23,353)	(23,007)
Change in risk adjustment for non-financial risk for the risk expired	(1,098)	(1,042)
CSM recognised for the services received	(2,282)	(2,473)
Reinsurance expenses (allocation of reinsurance premiums paid) – contracts not measured under the PAA	(26,733)	(26,522)
Reinsurance expenses (allocation of reinsurance premiums paid) – contracts measured under the PAA	(1,112)	(1,974)
Amounts recoverable for incurred claims and other incurred insurance service expenses	23,076	22,996
Changes in amounts recoverable that relate to past service – adjustments to incurred claims	(1,513)	458
Recoveries of loss on recognition of onerous underlying contracts	292	1,050
Recoveries of losses on onerous underlying contracts and reversals of such losses	(154)	(187)
Effect of changes in the risk of reinsurers' non-performance	–	–
Total net expenses from reinsurance contracts held	(6,144)	(4,179)
Total insurance service result	9,516	3,206

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8 Net investment result

In the tables that follow the investment return on surplus shareholder assets is included in the insurance contracts column.

Investment result for the six months ended 30 June 2023 (unaudited)

	Insurance contracts £000	Investment contracts (without DPF's) £000	Total £000
Net Investment return			
Interest revenue from financial assets not measured at FVTPL	–	–	–
Net income from FVTPL investments	179,412	423,600	603,012
Net credit impairment losses	–	–	–
Total net investment return	179,412	423,600	603,012
Finance income/(expenses) from insurance contracts issued			
Change in fair value of underlying assets of contracts measured under VFA	(126,274)	–	(126,274)
Interest accreted	(28,311)	–	(28,311)
Effect of changes in interest rates and other financial assumptions	1,130	–	1,130
Effect of changes in FCF at current rates when CSM is unlocked at locked in rates	1,560	–	1,560
Total finance expenses from insurance contracts issued	(151,895)	–	(151,895)
Finance income from reinsurance contracts issued			
Interest accreted	2,721	–	2,721
Effect of changes in interest rates and other financial assumptions	(4,716)	–	(4,716)
Effect of changes in FCF at current rates when CSM is unlocked at locked in rates	(532)	–	(532)
Total finance expenses from reinsurance contracts issued	(2,527)	–	(2,527)
Net change in investment contract liabilities	–	(356,895)	(356,895)
Change in liabilities relating to policyholder funds held by the group	–	(66,705)	(66,705)
Net investment result	24,990	–	24,990

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**8 Net investment result (continued)**

Investment result for the six months ended 30 June 2022 (unaudited)			
	Insurance contracts £000	Investment contracts (without DPF's) £000	Total £000
Net Investment return			
Interest revenue from financial assets not measured at FVTPL	–	–	–
Net income from FVTPL investments	(520,269)	(1,067,833)	(1,588,102)
Net credit impairment losses	–	–	–
Total net investment return	(520,269)	(1,067,833)	(1,588,102)
Finance income/(expenses) from insurance contracts issued			
Change in fair value of underlying assets of contracts measured under VFA	249,854	–	249,854
Interest accreted	16,113	–	16,113
Effect of changes in interest rates and other financial assumptions	220,813	–	220,813
Effect of changes in FCF at current rates when CSM is unlocked at locked in rates	(3,505)	–	(3,505)
Total finance income from insurance contracts issued	483,275	–	483,275
Finance income from reinsurance contracts issued			
Interest accreted	(1,579)	–	(1,579)
Effect of changes in interest rates and other financial assumptions	(7,622)	–	(7,622)
Effect of changes in FCF at current rates when CSM is unlocked at locked in rates	(7)	–	(7)
Total finance expenses from reinsurance contracts issued	(9,208)	–	(9,208)
Net change in investment contract liabilities	–	725,977	725,977
Change in liabilities relating to policyholder funds held by the group	–	341,856	341,856
Net investment result	(46,202)	–	(46,202)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9 Financial assets and liabilities

The carrying amount of financial assets and liabilities held by the group split by classification category are shown in the tables below.

Financial assets and liabilities as at 30 June 2023 (unaudited)				
	Amortised cost £000	FVTPL – designated £000	FVTPL – mandatory £000	Total £000
Equity securities	–	–	203,439	203,439
Holdings in collective investment schemes	–	–	8,139,658	8,139,658
Debt securities	–	1,191,239	–	1,191,239
Policyholder funds held by the group	–	1,116,495	–	1,116,495
Mortgage loan portfolio	–	357,928	–	357,928
Total financial investments	–	2,665,662	8,343,097	11,008,759
Derivative financial instruments	–	–	3,160	3,160
Other assets	48,897	–	–	48,897
Cash and cash equivalents	–	144,284	–	144,284
Total financial assets	48,897	2,809,946	8,346,257	11,205,100
Financial liabilities				
Investment contract liabilities	–	5,629,313	–	5,629,313
Liabilities relating to policyholder funds held by the group	–	1,116,495	–	1,116,495
Borrowings	209,344	–	–	209,344
Derivative financial instruments	–	–	127	127
Other current liabilities	140,788	–	–	140,788
Total financial liabilities	350,132	6,745,808	127	7,096,067

Financial assets and liabilities as at 31 December 2022 (unaudited)				
	Amortised cost £000	FVTPL – designated £000	FVTPL – mandatory £000	Total £000
Equity securities	–	–	223,472	223,472
Holdings in collective investment schemes	–	–	8,157,208	8,157,208
Debt securities	–	932,711	–	932,711
Policyholder funds held by the group	–	986,768	–	986,768
Mortgage loan portfolio	–	265,988	–	265,988
Total financial investments	–	2,185,467	8,380,680	10,566,147
Derivative financial instruments	–	–	141	141
Other assets	46,041	–	–	46,041
Cash and cash equivalents	–	175,293	–	175,293
Total financial assets	46,041	2,360,760	8,380,821	10,787,622
Financial liabilities				
Investment contract liabilities	–	5,660,778	–	5,660,778
Liabilities relating to policyholder funds held by the group	–	986,768	–	986,768
Borrowings	211,976	–	–	211,976
Derivative financial instruments	–	–	3,850	3,850
Other current liabilities	123,373	–	–	123,373
Total financial liabilities	335,349	6,647,546	3,850	6,986,745

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10 Financial asset and liability fair value disclosures

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

The group held the following financial instruments at fair value at 30 June 2023.

Fair value measurement at 30 June 2023 (unaudited)				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment properties	1,176	–	97,573	98,749
Financial assets				
Equities – Listed	203,439	–	–	203,439
Holdings in collective investment schemes	8,014,796	–	124,862	8,139,658
Debt securities – Government Bonds	666,417	24,384	–	690,801
Debt securities – Other debt securities	446,116	54,322	–	500,438
Policyholders' funds held by the group	1,090,430	–	26,065	1,116,495
Mortgage loan portfolio	–	357,928	–	357,928
Derivative financial instruments	–	3,160	–	3,160
Total	10,422,374	439,794	248,500	11,110,668
Financial liabilities				
Investment contracts at fair value through income	–	5,695,738	–	5,695,738
Liabilities related to policyholders' funds held by the group	1,116,495	–	–	1,116,495
Derivative financial instruments	–	127	–	127
Total	1,116,495	5,695,865	–	6,812,360

Fair value measurement at 31 December 2022 (unaudited)				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment properties	1,215	–	93,266	94,481
Financial assets				
Equities – Listed	223,472	–	–	223,472
Holdings in collective investment schemes	7,977,562	46,505	133,141	8,157,208
Debt securities – Government Bonds	420,681	24,200	–	444,881
Debt securities – Other debt securities	432,870	54,960	–	487,830
Policyholders' funds held by the group	951,667	–	35,101	986,768
Mortgage loan portfolio	–	265,988	–	265,988
Derivative financial instruments	–	141	–	141
Total	10,007,467	391,794	261,508	10,660,769
Financial liabilities				
Investment contracts at fair value through income	–	5,660,778	–	5,660,778
Liabilities related to policyholders' funds held by the group	986,768	–	–	986,768
Derivative financial instruments	–	3,850	–	3,850
Total	986,768	5,664,628	–	6,651,396

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10 Financial asset and liability fair value disclosures (continued)

Investment properties

The investment properties are valued by external Chartered Surveyors using industry standard techniques based on guidance from the Royal Institute of Chartered Surveyors. The valuation methodology includes an assessment of general market conditions and sector level transactions and takes account of expectations of occupancy rates, rental income and growth. Properties undergo individual scrutiny using cash flow analysis to factor in the timing of rental reviews, capital expenditure, lease incentives, dilapidation and operating expenses; these reviews utilise both observable and unobservable inputs.

Policyholder funds held by the group

There is a small holding of assets classified as Level 3 amounting to £26.0m (December 2022: £35.1m) 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.

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 £26.0m (December 2022: £35.1m) 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 2023 was 4.9% (31 December 2022: 4.9%).

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 2023 this resulted in discounting the cash flows in each mortgage using a range from 4.29% to 4.92% (31 December 2022: 4.29% to 4.92%).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

10 Financial asset and liability fair value disclosures (continued)

Significant unobservable inputs in level 3 instrument valuations (continued)

An impairment percentage is applied to those loan cash flows which are in arrears, to reflect the chance of the loan actually going into default. For those loans which are 1, 2 or 3 months in arrears, an impairment percentage is applied to reflect the chance of default. This percentage ranges from 0.60% for 1 month in arrears to 13.70% for loans which are 3 months in arrears (31 December 2022: 0.60% for 1 month in arrears to 13.70% for loans which are 3 months in arrears). 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 percent increase in the conditional prepayment rate would reduce the value of the asset by £1.7m (31 December 2022: £1.7m).

A 1 percent decrease in the conditional prepayment rate would increase the value of the asset by £2.0m (31 December 2022: £2.1m).

A 1 percent increase in the discount rate would reduce the value of the asset by £9.0m (31 December 2022: £9.6m).

A 1 percent decrease in the discount rate would increase the value of the asset by £10.4m (31 December 2022: £11.1m)

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

Unaudited	30 June 2023 £000	31 December 2022 £000
At start of period	261,508	190,229
Additions – acquisition of a subsidiary	–	102,974
Transfers into Level 3	–	–
Total gains and losses recognised in the income statement	(10,388)	(42,224)
Purchases	4,471	14,691
Settlements	(48)	(11,452)
Exchange rate adjustment	(7,043)	7,290
At the end of period	248,500	261,508

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:

Unaudited	Carrying amount		Fair value	
	30 June 2023 £000	31 December 2022 £000	30 June 2023 £000	31 December 2022 £000
Financial liabilities				
Borrowings	209,344	211,976	152,433	157,000

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

The Tier 2 debt is fair valued based on the price available in the market at the balance sheet date.

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**11 Insurance and reinsurance contracts****(a) Composition of the balance sheet****(i) Composition of the balance sheet as at 30 June 2023 (unaudited)**

	(UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Total £000
Insurance contracts					
Insurance contract liabilities	1,390,100	161,614	780,343	1,772,462	4,104,519
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	1,390,100	161,614	780,343	1,772,462	4,104,519
Insurance contract assets	10,190	–	–	–	10,190
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	10,190	–	–	–	10,190
Reinsurance contracts					
Reinsurance contract assets	164,502	12,108	2,731	–	179,341
Reinsurance contract liabilities	2,000	–	–	10,807	12,807

(ii) Composition of the balance sheet as at 31 December 2022 (unaudited)

	(UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Total £000
Insurance contracts					
Insurance contract liabilities	1,447,584	160,570	463,714	1,749,233	3,821,101
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	1,447,584	160,570	463,714	1,749,233	3,821,101
Insurance contract assets	–	–	–	–	–
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	–	–	–	–	–
Reinsurance contracts					
Reinsurance contract assets	174,678	15,806	3,468	–	193,952
Reinsurance contract liabilities	2,149	–	–	11,387	13,536

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(iii) Composition of the balance sheet as at 1 January 2022 (unaudited)

	(UK) £000	Movestic (Sweden) £000	Ward Group (Netherlands) £000	Scildon (Netherlands) £000	Total £000
Insurance contracts					
Insurance contract liabilities	1,536,138	189,369	386,315	1,920,248	4,032,070
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	1,536,138	189,369	386,315	1,920,248	4,032,070
Insurance contract assets	–	–	–	–	–
Assets for insurance acquisition cash flows	–	–	–	–	–
Total	–	–	–	–	–
Reinsurance contracts					
Reinsurance contract assets	217,678	19,081	5,584	–	242,343
Reinsurance contract liabilities	–	–	–	28,812	28,812

(b) Movements in insurance contract balances – analysis by remaining coverage and incurred claims

(i) Movements in insurance contract balances for the period 1 January 2023 to 30 June 2023 (unaudited)

	Liabilities for remaining coverage		Liabilities for incurred claims			Total £000
	Excluding loss component £000	Loss component £000	For contracts not under PAA £000	PV of future cash flows £000	Risk adjustment £000	
Insurance contract liabilities as at 1 January 2023	3,579,890	85,321	116,130	38,170	1,590	3,821,101
Changes in the statement of profit and loss						
Insurance revenue						
Contracts measured under the fair value approach	(29,976)	–	–	–	–	(29,976)
Contracts measured under the fully retrospective approach	(88,072)	–	–	–	–	(88,072)
Insurance revenue total	(118,048)	–	–	–	–	(118,048)
Insurance service expenses						
Incurred claims and other directly attributable expenses	–	(33,121)	105,903	5,860	59	78,701
Adjustments to liabilities for incurred claims	–	–	(121)	(2,864)	(160)	(3,145)
Losses and reversals of losses on onerous contracts	–	25,104	–	–	–	25,104
Amortisation of insurance acquisition cash flows	1,728	–	–	–	–	1,728
Insurance service expense total	1,728	(8,017)	105,782	2,996	(101)	102,388
Insurance service result	(116,320)	(8,017)	105,782	2,996	(101)	(15,660)
Net finance expenses from insurance contracts	151,783	196	–	(123)	39	151,895
Effect of movements in exchange rates	(88,367)	(2,514)	(1,413)	(3,349)	(141)	(95,784)
Total amounts recognised in comprehensive income	(52,904)	(10,335)	104,369	(476)	(203)	40,451
Investment components	(140,734)	–	140,734	–	–	–
Cash flows						
Premiums received	499,567	–	–	–	–	499,567
Claims and other directly attributable expenses paid	–	–	(258,909)	(4,769)	–	(263,678)
Insurance acquisition cash flows	(3,112)	–	–	–	–	(3,112)
Total cash flows	496,455	–	(258,909)	(4,769)	–	232,777
Insurance contract liabilities as at 30 June 2023	3,882,707	74,986	102,324	32,925	1,387	4,094,329

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(b) Movements in insurance contract balances – analysis by remaining coverage and incurred claims (continued)

(ii) Movements in insurance contract balances for the period 1 January 2022 to 31 December 2022 (unaudited)

	Liabilities for remaining coverage		Liabilities for incurred claims			
	Excluding loss component £000	Loss component £000	For contracts not under PAA £000	PV of future cash flows £000	Risk adjustment £000	Total £000
Insurance contract liabilities as at 1 January 2022	3,803,839	67,332	112,000	46,707	2,192	4,032,070
Changes in the statement of profit and loss						
Insurance revenue						
Contracts measured under the fair value approach	(59,145)	–	–	–	–	(59,145)
Contracts measured under the fully retrospective approach	(164,886)	–	–	–	–	(164,886)
Insurance revenue total	(224,031)	–	–	–	–	(224,031)
Insurance service expenses						
Incurred claims and other directly attributable expenses	–	(19,413)	184,895	10,993	103	176,578
Adjustments to liabilities for incurred claims	–	–	–	(6,645)	(373)	(7,018)
Losses and reversals of losses on onerous contracts	–	32,805	–	–	–	32,805
Amortisation of insurance acquisition cash flows	3,507	–	–	–	–	3,507
Insurance service expense total	3,507	13,392	184,895	4,348	(270)	205,872
Insurance service result	(220,524)	13,392	184,895	4,348	(270)	(18,159)
Net finance expenses from insurance contracts	(545,963)	265	23	(1,735)	(284)	(547,694)
Effect of movements in exchange rates	109,806	4,332	2,683	(1,033)	(48)	115,740
Total amounts recognised in comprehensive income	(656,681)	17,989	187,601	1,580	(602)	(450,113)
Investment components	(292,261)	–	292,261	–	–	–
Cash flows						
Premiums received	731,644	–	–	–	–	731,644
Claims and other directly attributable expenses paid	–	–	(475,732)	(10,117)	–	(485,849)
Insurance acquisition cash flows	(6,651)	–	–	–	–	(6,651)
Total cash flows	724,993	–	(475,732)	(10,117)	–	239,144
Insurance contract liabilities as at 31 December 2022	3,579,890	85,321	116,130	38,170	1,590	3,821,101

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(c) Movements in insurance contract balances – analysis by measurement component – contracts not measured under the PAA

(i) Movements in insurance contract balances for the period 1 January 2023 to 30 June 2023 (unaudited)

	Present value of cash flows £000	Risk adjustment £000	CSM (new contracts and contracts measured under FRA) £000	CSM (contracts measured under FVA) £000	Total £000
Insurance contract liabilities as at 1 January 2023	3,594,193	44,907	103,662	36,275	3,779,037
Changes that relate to current service					
CSM recognised for services provided	–	–	(9,390)	(2,574)	(11,964)
Change in risk adjustment for non-financial risk for risk expired	–	(3,353)	–	–	(3,353)
Experience adjustments	(22,759)	–	–	–	(22,759)
Total changes that relate to current service	(22,759)	(3,353)	(9,390)	(2,574)	(38,076)
Changes that relate to future service					
Contracts initially recognised in the period	(69,710)	8,913	62,652	–	1,855
Changes in estimates that adjust the CSM	(13,264)	12,063	1,133	68	–
Changes in estimates that result in losses or reversals of losses on onerous underlying contracts	27,901	(5,123)	468	–	23,246
Total changes that relate to future service	(55,073)	15,853	64,253	68	25,101
Changes that relate to past service					
Adjustments to liabilities for incurred claims	(121)	–	–	–	(121)
Total changes that relate to past service	(121)	–	–	–	(121)
Insurance service result	(77,953)	12,500	54,863	(2,506)	(13,096)
Net finance expenses from insurance contracts	149,639	391	1,574	374	151,978
Effect of movements in exchange rates	(86,557)	(1,281)	(4,252)	–	(92,090)
Total amounts recognised in comprehensive income	(14,871)	11,610	52,185	(2,132)	46,792
Cash flows					
Premiums received	494,091	–	–	–	494,091
Claims and other directly attributable expenses paid	(258,909)	–	–	–	(258,909)
Insurance acquisition cash flows	(3,111)	–	–	–	(3,111)
Total cash flows	232,071	–	–	–	232,071
Insurance contract liabilities as at 30 June 2023	3,811,393	56,517	155,847	34,143	4,057,900

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(c) Movements in insurance contract balances – analysis by measurement component – contracts not measured under the PAA

(ii) Movements in insurance contract balances for the period 1 January 2022 to 31 December 2022 (unaudited)

	Present value of cash flows £000	Risk adjustment £000	CSM (new contracts and contracts measured under FRA) £000	CSM (contracts measured under FVA) £000	Total £000
Insurance contract liabilities as at 1 January 2022	3,781,561	53,393	110,966	35,395	3,981,315
Changes that relate to current service					
CSM recognised for services provided	–	–	(13,760)	(5,380)	(19,140)
Change in risk adjustment for non-financial risk for risk expired	–	(6,729)	–	–	(6,729)
Experience adjustments	(17,278)	–	–	–	(17,278)
Total changes that relate to current service	(17,278)	(6,729)	(13,760)	(5,380)	(43,147)
Changes that relate to future service					
Contracts initially recognised in the year	(21,133)	9,106	19,155	–	7,128
Changes in estimates that adjust the CSM	6,611	6,077	(18,625)	5,937	–
Changes in estimates that result in losses or reversals of losses on onerous underlying contracts	30,620	(4,944)	–	–	25,676
Total changes that relate to future service	16,098	10,239	530	5,937	32,804
Changes that relate to past service					
Adjustments to liabilities for incurred claims	–	–	–	–	–
Total changes that relate to past service	–	–	–	–	–
Insurance service result	(1,180)	3,510	(13,230)	557	(10,343)
Net finance expenses from insurance contracts	(532,545)	(13,765)	313	323	(545,674)
Effect of movements in exchange rates	109,481	1,769	5,613	–	116,863
Total amounts recognised in comprehensive income	(424,244)	(8,486)	(7,304)	880	(439,154)
Cash flows					
Premiums received	719,259	–	–	–	719,259
Claims and other directly attributable expenses paid	(475,732)	–	–	–	(475,732)
Insurance acquisition cash flows	(6,651)	–	–	–	(6,651)
Total cash flows	236,876	–	–	–	236,876
Insurance contract liabilities as at 31 December 2022	3,594,193	44,907	103,662	36,275	3,779,037

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(d) Movements in reinsurance contract balances – analysis by remaining coverage and incurred claims

(i) Movements in reinsurance contract balances for the period 1 January 2023 to 30 June 2023 (unaudited)

	Assets for remaining coverage		Assets for incurred claims			
	Excluding loss-recovery component £000	Loss-recovery component £000	For contracts not under PAA £000	Future cash flows £000	Risk adjustment £000	Total £000
Reinsurance contract assets as at 1 January 2023	134,397	4,001	26,498	15,108	412	180,416
Reinsurance expenses – allocation of reinsurance premiums paid	(27,844)	–	–	–	–	(27,844)
Amounts recoverable from reinsurers						
Recoveries of incurred claims and other insurance service expenses	–	–	21,441	1,609	24	23,074
Changes in the expected recoveries for past claims	–	–	–	(1,442)	(71)	(1,513)
Changes in the loss recovery component	–	139	–	–	–	139
Effect of changes in non-performance risk of reinsurers	–	–	–	–	–	–
Net (expenses)/income from reinsurance contracts held	(27,844)	139	21,441	167	(47)	(6,144)
Net finance expenses from reinsurance contracts	(2,387)	4	–	(152)	8	(2,527)
Effect of movements in exchange rates	781	(132)	(349)	(1,287)	(35)	(1,022)
Total amounts recognised in comprehensive income	(29,450)	11	21,092	(1,272)	(74)	(9,693)
Investment components	(1,253)	–	1,253	–	–	–
Cash flows						
Premiums paid net of ceding commission	20,550	–	–	–	–	20,550
Recoveries from reinsurance contracts held	–	–	(23,299)	(1,440)	–	(24,739)
Total cash flows	20,550	–	(23,299)	(1,440)	–	(4,189)
Reinsurance contract assets as at 30 June 2023	124,244	4,012	25,544	12,396	338	166,534

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**11 Insurance and reinsurance contracts (continued)****(d) Movements in reinsurance contract balances – analysis by remaining coverage and incurred claims (continued)****(ii) Movements in reinsurance contract balances for the period 1 January 2022 to 31 December 2022 (unaudited)**

	Assets for remaining coverage		Assets for incurred claims			
	Excluding loss-recovery component £000	Loss-recovery component £000	For contracts not under PAA £000	Future cash flows £000	Risk adjustment £000	Total £000
Reinsurance contract assets as at 1 January 2022	166,636	2,493	25,140	18,635	627	213,531
Reinsurance expenses – allocation of reinsurance premiums paid	(53,787)	–	–	–	–	(53,787)
Amounts recoverable from reinsurers						
Recoveries of incurred claims and other insurance service expenses	–	–	47,045	2,714	48	49,807
Changes in the expected recoveries for past claims	–	–	–	(3,207)	(171)	(3,378)
Changes in the loss recovery component	–	1,320	–	–	–	1,320
Effect of changes in non-performance risk of reinsurers	–	–	–	2	–	2
Net (expenses)/income from reinsurance contracts held	(53,787)	1,320	47,045	(491)	(123)	(6,036)
Net Finance expenses from reinsurance contracts	(12,984)	(6)	–	(423)	(78)	(13,491)
Effect of movements in exchange rates	(1,347)	194	525	(414)	(14)	(1,056)
Total amounts recognised in comprehensive income	(68,118)	1,508	47,570	(1,328)	(215)	(20,583)
Investment components	(3,951)	–	3,951	–	–	–
Cash flows						
Premiums paid net of ceding commission	39,830	–	–	–	–	39,830
Recoveries from reinsurance contracts held	–	–	(50,163)	(2,199)	–	(52,362)
Total cash flows	39,830	–	(50,163)	(2,199)	–	(12,532)
Reinsurance contract assets as at 31 December 2022	134,397	4,001	26,498	15,108	412	180,416

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(e) Movements in reinsurance contract balances – analysis by measurement component – contracts not measured under the PAA

(i) Movements in reinsurance contract balances for the period 1 January 2023 to 30 June 2023 (unaudited)

	Present value of cash flows £000	Risk adjustment £000	CSM (new contracts and contracts measured under FRA) £000	CSM (contracts measured under FVA) £000	Total £000
Reinsurance contract assets as at 1 January 2023	113,366	14,302	29,081	7,864	164,613
Changes that relate to current service					
CSM recognised for services received	–	–	(1,974)	(307)	(2,281)
Change in risk adjustment for non-financial risk for risk expired	–	(1,098)	–	–	(1,098)
Experience adjustments	(2,109)	–	–	–	(2,109)
Total changes that relate to current service	(2,109)	(1,098)	(1,974)	(307)	(5,488)
Changes that relate to future service					
Contracts initially recognised in the period	(1,666)	483	1,183	–	–
Changes in estimates that adjust the CSM	1,987	694	(1,018)	(1,557)	106
CSM adjustment for income on initial recognition of onerous underlying contracts	–	–	292	–	292
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	–	–	(63)	–	(63)
Total changes that relate to future service	321	1,177	394	(1,557)	335
Changes that relate to past service					
Adjustments to assets for incurred claims	–	–	–	–	–
Total changes that relate to past service	–	–	–	–	–
Effect of changes in non-performance risk of reinsurers	–	–	–	–	–
Net (expense)/income from reinsurance contracts held	(1,788)	79	(1,580)	(1,864)	(5,153)
Net finance income from reinsurance contracts held	(2,639)	61	141	54	(2,383)
Effect of movements in exchange rates	1,529	(366)	(897)	–	266
Total amounts recognised in comprehensive income	(2,898)	(226)	(2,336)	(1,810)	(7,270)
Cash flows					
Premiums paid net of ceding commission	20,381	–	–	–	20,381
Recoveries from reinsurance contracts held	(23,299)	–	–	–	(23,299)
Total cash flows	(2,918)	–	–	–	(2,918)
Reinsurance contract assets as at 30 June 2023	107,550	14,076	26,745	6,054	154,425

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

11 Insurance and reinsurance contracts (continued)

(e) Movements in reinsurance contract balances – analysis by measurement component – contracts not measured under the PAA (continued)

(ii) Movements in reinsurance contract balances for the period 1 January 2022 to 31 December 2022 (unaudited)

	Present value of cash flows £000	Risk adjustment £000	CSM (new contracts and contracts measured under FRA) £000	CSM (contracts measured under FVA) £000	Total £000
Reinsurance contract assets as at 1 January 2022	141,961	15,224	29,840	7,423	194,448
Changes that relate to current service					
CSM recognised for services received	–	–	(4,039)	(1,039)	(5,078)
Change in risk adjustment for non-financial risk for risk expired	–	(2,100)	–	–	(2,100)
Experience adjustments	2,412	–	–	–	2,412
Total changes that relate to current service	2,412	(2,100)	(4,039)	(1,039)	(4,766)
Changes that relate to future service					
Contracts initially recognised in the year	(5,381)	1,659	3,722	–	–
Changes in estimates that adjust the CSM	625	1,769	(3,804)	1,410	–
CSM adjustment for income on initial recognition of onerous underlying contracts	–	–	1,333	–	1,333
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	–	–	296	–	296
Total changes that relate to future service	(4,756)	3,428	1,547	1,410	1,629
Changes that relate to past service					
Adjustments to assets for incurred claims	–	–	–	–	–
Total changes that relate to past service	–	–	–	–	–
Effect of changes in non-performance risk of reinsurers	–	–	–	–	–
Net (expense)/income from reinsurance contracts held	(2,344)	1,328	(2,492)	371	(3,137)
Net finance income from reinsurance contracts held	(10,396)	(2,847)	182	70	(12,991)
Effect of movements in exchange rates	(2,780)	597	1,551	–	(632)
Total amounts recognised in comprehensive income	(15,520)	(922)	(759)	441	(16,760)
Cash flows					
Premiums paid net of ceding commission	37,089	–	–	–	37,089
Recoveries from reinsurance contracts held	(50,164)	–	–	–	(50,164)
Total cash flows	(13,075)	–	–	–	(13,075)
Reinsurance contract assets as at 31 December 2022	113,366	14,302	29,081	7,864	164,613

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12 Borrowings

Unaudited	30 June 2023 £000	31 December 2022 £000
Tier 2 debt	200,471	200,356
Amount due in relation to financial reinsurance	6,667	9,607
Other	2,206	2,013
Total	209,344	211,976

The fair value of amounts due in relation to Tier 2 debt at 30 June 2023 was £144.0m (31 December 2022: £148.0m).

The fair value of amounts due in relation to financial reinsurance at 30 June 2023 was £6.2m (31 December 2022: £9.0m).

Other borrowings comprises capital amounts outstanding on mortgage bonds taken out over properties held in the unit-linked policyholder funds of the UK division. The mortgage over each property is negotiated separately, varies in term and bears interest at fixed or floating rates that are agreed at the time of inception of the mortgage. The fair value is not materially different to the carrying values shown above.

13 Business combination

Conservatrix

On 22 July 2022, Chesnara announced the acquisition of the insurance portfolio of Nederlandsche Algemeene Maatschappij van Levensverzekering 'Conservatrix' N.V. ('Conservatrix'), a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. The acquisition was completed on 1 January 2023, following Court and Regulatory approvals.

The acquisition was effected through the transfer of the insurance portfolio (together with other assets and liabilities set out in the table below) into Waard Leven N.V., Chesnara's Dutch closed-book subsidiary. In order to support the solvency position of the Conservatrix insurance portfolio, a Capital Contribution of £35m has been provided by Chesnara, consisting of a £21m contribution from Chesnara and £14m of existing Waard resources. The cash consideration for the acquisition was €1.

The acquisition is classed as a Business Combination under IFRS 3 and the fair value of the assets and liabilities recognised at 1 January 2023 are as follows:

Unaudited	Fair value £000
Assets	
Financial investments	366,698
Other assets	1,308
Deferred tax asset	33,387
Cash	31,415
Total assets	432,808
Liabilities	
Insurance contracts	346,173
Other provision	12,591
Investment contracts	70,075
Total liabilities	428,839
Fair value of net assets	3,969
Net assets acquired	3,969
Total consideration paid	-
Profit arising on business combination	3,969

A profit of £4.0m has been recognised on acquisition. This profit on acquisition has been recorded as a 'Profit arising on business combinations and portfolio acquisitions' on the face of the statement of comprehensive income. A day one gain has arisen on business combination, as by applying the pricing model that we generally adopt, we offered a purchase price which was at a discount to our own assessment of the value of the net assets to be acquired.

The CSM on acquisition has been calculated as the difference between the fair value of the insurance liabilities and the fulfilment cash flows. This has resulted in a CSM of £45.4m being recognised as at 1 January 2023. This amount forms part of the CSM value for 'Contracts initially recognised in the year' in Note 11(c)(i).

The group determined that a significant number of the contracts acquired did not have any significant insurance risk at the acquisition date and have therefore been classed as investment contracts, to be accounted for under IFRS 9.

The assets and liabilities acquired are included within the respective line items on the face of the cash flow statement.

The results of Conservatrix have been included in the consolidated financial statements of the group with effect from 1 January 2023, within Waard Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**14 Portfolio transfer****Canada Life**

On 16 May 2023, Chesnara announced it had reached an agreement to acquire the onshore individual protection business of Canada Life Ltd, representing approximately 47,000 life insurance and critical illness policies. The transaction is initially in the form of a reinsurance agreement with the liabilities 100% ceded by Canada Life Ltd and accepted by CA plc, with the effective date being 1 January 2023. From this date all risks and rewards relating to the policies were transferred to CA plc along with the economic benefit of those risks and rewards.

The initial commission paid by CA plc to Canada Life Ltd for this reinsurance inwards transaction was £9.0m and was funded from internal group resources. The CSM on initial recognition has been calculated as £10.3m as at 1 January 2023.

Customers' policies are expected to transfer to CA plc in 2024, subject to the completion of a court-approved Part VII transfer.

15 Post balance sheet event

The Directors are not aware of any significant post balance sheet events that require disclosure in the condensed interim financial statements.

16 Approval of consolidated report for the six months ended 30 June 2023

This condensed consolidated report was approved by the board of directors on 20 September 2023. A copy of the report will be available to the public at the company's registered office, 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, PR1 8UY and at **www.chesnara.co.uk**

SECTION D: ADDITIONAL INFORMATION

Blackfriars Bridge, London

- 82** Financial calendar
- 82** Key contacts
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- 88** Note on terminology

FINANCIAL CALENDAR

21 September 2023
Results for the six months ended
30 June 2023 announced

28 September 2023
Interim ex-dividend date

29 September 2023
Interim dividend record date

20 October 2023
Last date for dividend reinvestment
plan elections

10 November 2023
Interim dividend payment date

31 December 2023
End of financial year

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ALTERNATIVE PERFORMANCE MEASURES

Throughout this 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 throughout the financial review (pages 27 to 36).

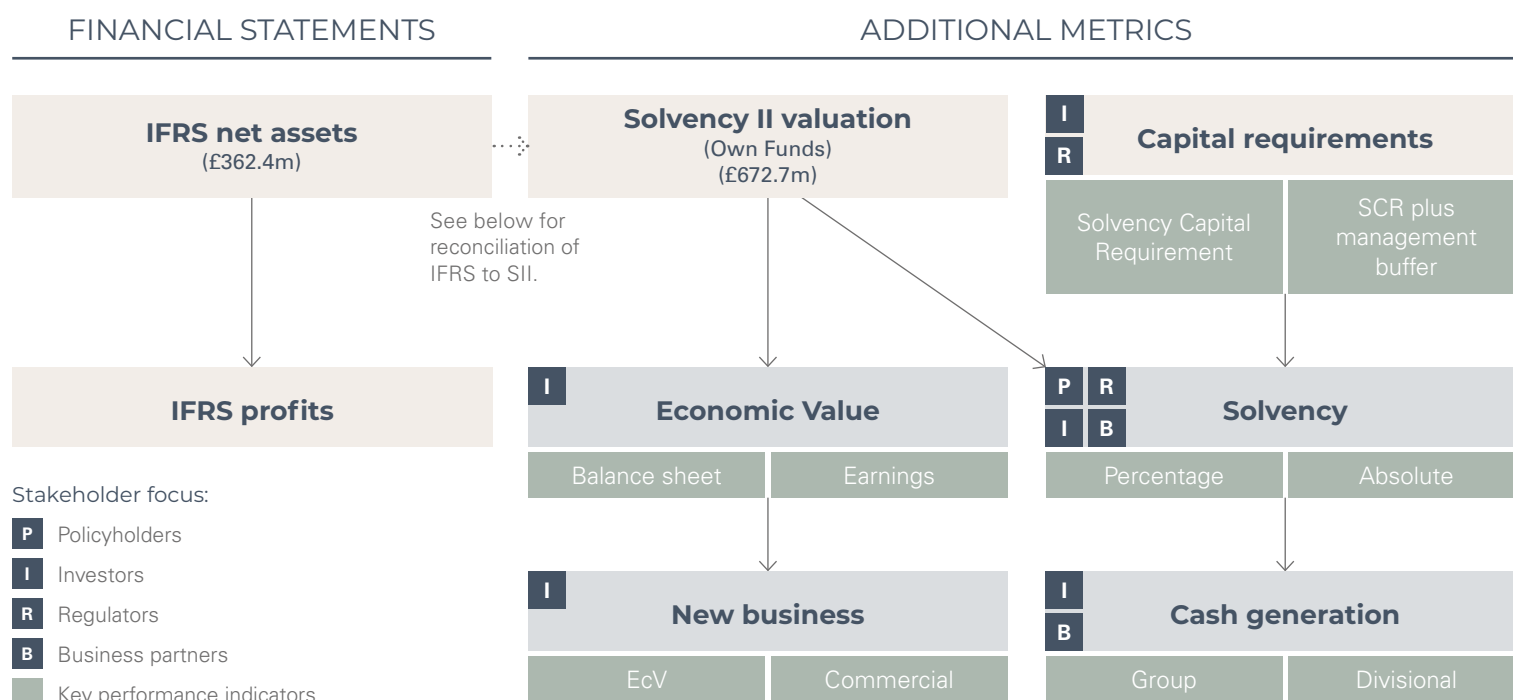
APM	WHAT IS IT?	WHY DO WE USE IT?	REF
Group cash generation	Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Group cash generation is calculated as the movement in the group's surplus Own 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 29 and reconciliation on page 86
Divisional cash generation	Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Divisional cash generation represents the movement in surplus Own Funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.	It is an important indicator of the operating performance of the business before the impact of group level operations and consolidation adjustments.	See cash generation on page 29
Commercial cash generation	Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the inherent commercial cash generated by the business.	Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to technical complexities or exceptional items. The result is deemed to better reflect the group's view of commercial performance, showing key drivers within that.	See cash generation on page 30
Economic Value (EcV)	EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group. We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.	EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time. The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives.	See EcV analysis on page 32

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

APM	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 31
EcV operating earnings	This is the element of EcV earnings (see above) that are generated from the company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.	EcV operating earnings are important as they provide an indication of the underlying value generated by the business. It can help identify profitable activities and also inefficient processes and potential management actions.	See EcV earnings analysis on page 31
EcV economic earnings	This is the element of EcV earnings (see above) that are derived from investment market conditions in the period and any economic assumption changes in the future.	EcV economic earnings are important in order to measure the additional value generated from investment market factors.	See EcV earnings analysis on page 31
Commercial new business profit	A more commercially relevant measure of new business profit than that recognised directly under the Solvency II regime, allowing for a modest level of return, over and above risk-free, and exclusion of the incremental risk margin Solvency II assigns to new business.	This provides a fair commercial reflection of the value added by new business operations and is more comparable with how new business is reported by our peers, improving market consistency.	See business review section on pages 17 to 23
Funds Under Management (FuM)	FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.	FuM 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 47
Acquisition value gain (incremental value)	Acquisition value gains reflect the incremental Economic Value added by a transaction, exclusive of any additional risk margin associated with absorbing the additional business.	The EcV gain from acquisition will be net of any associated increase in risk margin. The risk margin is a temporary Solvency II dynamic which will run off over time.	
Leverage/ gearing	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as debt divided by debt plus equity, with the equity denominator adding back the net of tax CSM liability, 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 IFRS balance sheet on page 35

RECONCILIATION OF METRICS

The diagram below shows the interaction between the IFRS metrics and the Alternative Performance Measures used by the group.



As shown above, 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 2023	31 Dec 2022	Rationale
Group IFRS net assets	362.4	333.1	
Removal of intangible assets; AVIF, DAC and DIL	(113.0)	(166.3)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	10,633.7	10,316.0	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II technical provisions. The main differences in methodology are discussed further below.
Inclusion of SII technical provisions, net of reinsurance	(10,448.6)	(10,020.3)	
Other valuation differences	11.6	2.2	Other immaterial valuation differences.
Mortgage loan valuation difference	37.2	–	Valuation difference of the mortgage debt between IFRS and SII.
Deferred tax valuation differences	8.4	9.9	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(12.6)	(22.8)	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 valuation differences	56.5	–	Valuation difference of Tier 2 debt between IFRS and SII.
Tier 2 debt under SII	144.0	200.0	Tier 2 capital plus the restriction placed on the subordinated debt within Own Funds under Solvency II requirements.
Tier 2/3 restrictions	(6.8)	(46.7)	
Ring-fenced surpluses	(0.1)	–	Solvency II requires that Own Funds are reduced by any surpluses that are restricted. For Chesnara this relates to surpluses within the two S&P with-profits funds, which are temporarily restricted. These restrictions are removed through periodic capital transfers.
Group SII Own Funds	672.7	605.1	

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

- Under IFRS 9 the value of investment contracts is taken as the unit liability whilst under Solvency II a non-unit reserve and Risk Margin are required.
- Best estimate assumptions are used for both IFRS 17 and Solvency II, however the former requires the CSM to be held for which there is no equivalent under Solvency II.
- Both bases require a margin for adverse deviation, respectively the Risk Adjustment and the Risk Margin, but whilst the approach used is very similar, the cost of capital applied is different.
- For the most part the yield curves adopted for discounting under IFRS 17 are very similar to those used in Solvency II, the exception being that for certain Dutch 'savings mortgage' products the IFRS 17 liabilities use a yield curve derived from mortgage rates available in the market.
- The reserve for future expenses held in Chesnara plc under Solvency II is not permitted under IFRS.
- Other valuation differences relate to the definition of contract boundary and the allowability, or otherwise, of certain expenses such as investment management expenses on products where no investment service is provided.

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 2023 and 31 December 2022 is as follows:

£m	30 June 2023	31 Dec 2022
Group SII Own Funds (OF)	672.7	605.1
Solvency Capital Requirement (SCR)	328.0	306.7
Solvency surplus	344.8	298.4
Solvency ratio	205%	197%

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 83 and the financial review section.

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

	£m
Opening Solvency II surplus:	
Own Funds – 31 Dec 2022	605.1
Remove Tier 2 impact on Own Funds	(153.3)
SCR – 31 Dec 2022	(306.7)
Remove Tier 2 impact on SCR	8.6
Additional capital to meet normal internal operating range (40% of SCR)	(119.2)
Surplus available for distribution – 31 Dec 2022	34.5
Closing Solvency II surplus:	
Own Funds – 30 Jun 2023	672.8
Remove Tier 2 debt at book value	(200.0)
SCR – 30 Jun 2023	(328.0)
Additional capital to meet normal internal operating range (40% of SCR)	(131.2)
Surplus available for distribution – 30 Jun 2023	13.6

The closing Solvency II position at 30 June 2023 reflects payment of the final 2022 dividend of £22.8m paid during the period and reflects a foreseeable dividend of £12.6m due to be paid later in 2023. 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	(21.0)
Add back: Movement in Tier 3 asset and restrictions	18.9
Add back: Foreseeable year end dividend	12.6
Add back: acquisition impact	0.6
Group cash generation	11.1

GLOSSARY

AGM	Annual General Meeting.	Leverage (gearing)	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, usually presented as a ratio, defined as debt divided by debt plus equity, as measured under IFRS.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	London Stock Exchange	London Stock Exchange plc.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	LTIP	Long-Term Incentive Scheme – A reward system designed to incentivise executive directors' long-term performance.
BAU cash generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Movestic	Movestic Livförsäkring AB.
BLAGAB	Basic life assurance and general annuity business.	Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
CA	Countrywide Assured plc.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	Official List	The Official List of the Financial Conduct Authority.
CASLP	Sanlam Life & Pensions UK	Operating profit	A measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance metric – APM).
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.	Ordinary shares	Ordinary shares of 5 pence each in the capital of the company.
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.	ORSA	Own Risk and Solvency Assessment.
CSM	Contractual Service Margin (CSM) represents the unearned profit that an entity expects to earn on its insurance contracts as it provides services.	Own Funds	Own Funds – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the company in those capital resources.
Divisional cash generation	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.	PAA	Premium allocation approach – a simplified measurement model which can be applied to short-term contracts.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	PRA	Prudential Regulation Authority.
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.	QRT	Quantitative Reporting Template.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	RA	Risk adjustment is the additional reserve held for non-financial risks.
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).	RCF	3 year Revolving Credit Facility of £100m (currently unutilised) put in place in July 2021.
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.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
FCA	Financial Conduct Authority.	RMF	Risk Management Framework.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	Robein Leven	Robein Leven N.V.
Form of proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	Scildon	Scildon N.V.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	Shareholder(s)	Holder(s) of ordinary shares.
GMM	General measurement model – the default measurement model which applies to insurance contracts with limited or no pass-through of investment risks to policyholders.	Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
Group	Chesnara plc and its existing subsidiary undertakings.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
Group cash generation	This represents the absolute cash generation for the period at total group level, comprising divisional cash generation as well as both exceptional and non-exceptional group activity.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors' short-term performance.
Group Own Funds	In accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the group in those capital resources.	SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.	Swedish business	Movestic and its subsidiaries and associated companies.
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.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
HCL	HCL Insurance BPO Services Limited.	TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
IFRS	International Financial Reporting Standards.	Tier 2	Term debt capital (Tier 2 Subordinated Notes) issued in February 2022 with a 10.5 year maturity and 4.75% coupon rate.
IFA	Independent Financial Advisor.	Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
KPI	Key Performance Indicator.	TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
LACDT	Loss Absorbing Capacity of Deferred Tax.	UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
		UK business	CA, S&P and CASLP.
		VA	The Volatility Adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.
		VFA	Variable fee approach – the measurement model that is applied to insurance contracts with significant investment-related pass-through elements.
		Waard	The Waard Group.

NOTE ON TERMINOLOGY

As explained in Note 6 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, as well as the portfolio of policies acquired from Canada Life on 16 May 2023;
CASLP – ‘SLP’	Sanlam Life & Pensions UK 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; and the insurance portfolio of Conservatrix acquired on 1 January 2023;
Scildon	which was acquired on 5 April 2017; and
Other group activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

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