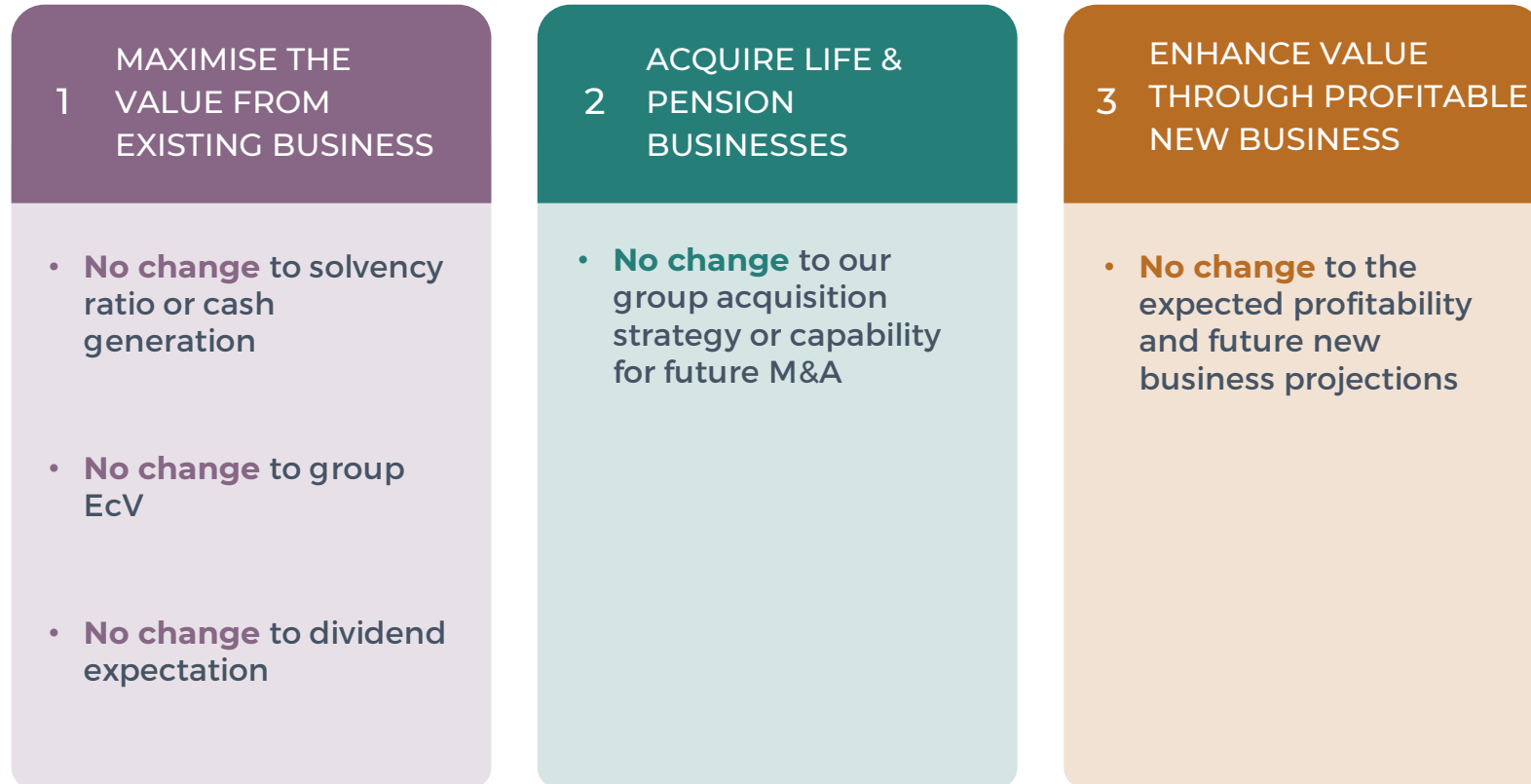


# CHESNARA IFRS 17 & IFRS 9 UPDATE

September 2023

*IFRS 17 and IFRS 9 result in no change to growth ambition, value or cash generation*



*IFRS 17 and IFRS 9 result in no change to the group's growth ambition, value or cash generation*

**Please note** – the numbers shown within this report are currently unaudited

Insurance liabilities

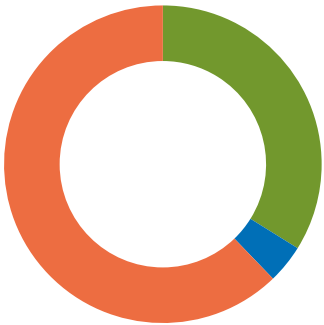
42%

(PAA 0.4%)

Investment liabilities

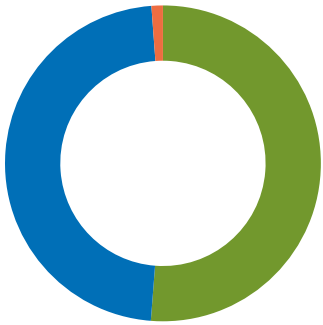
58%

Insurance liabilities by division

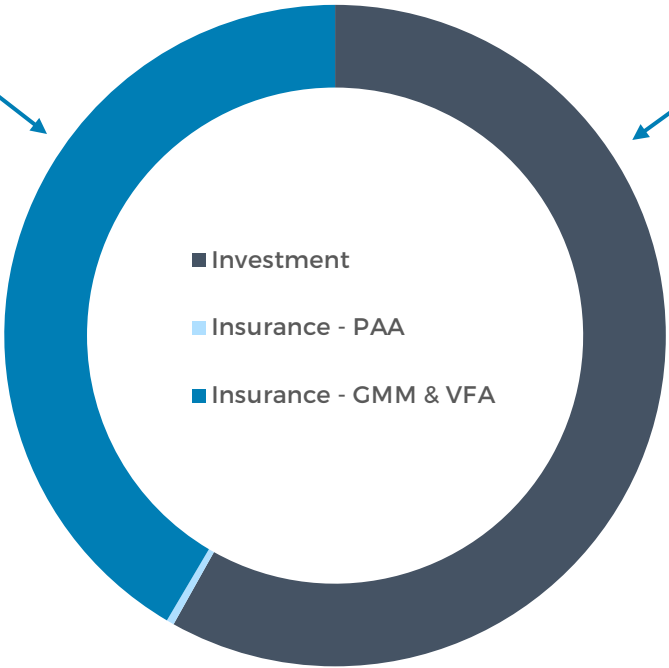


■ UK ■ Sweden ■ Netherlands

Investment liabilities by division



■ UK ■ Sweden ■ Netherlands



Less than half of the group's liabilities are insurance contracts

Please note – the numbers shown within this report are currently unaudited

## IFRS 4

## IFRS 17



*The above illustration represents a simplified view of our products*

*IFRS 17 leads to the creation of a CSM, which is released over the life of our products*

**Please note** – the numbers shown within this report are currently unaudited

Summary income statement £m	HY 2023	HY 2022
Net insurance service result	9.5	3.2
Net investment result	25.0	(46.2)
Fee, commission and other income	48.5	32.2
Other operating expenses	(65.5)	(48.6)
Financing costs	(5.5)	(4.6)
Profit arising on acquisitions	4.0	9.9
<b>Profit/(loss) before income taxes</b>	<b>16.0</b>	<b>(54.2)</b>
Income tax	(0.4)	22.4
<b>Profit/(loss) for the period after taxes</b>	<b>15.6</b>	<b>(31.7)</b>
Foreign exchange (loss)/gain	(15.3)	1.9
Other comprehensive income	(0.1)	-
<b>Total comprehensive income</b>	<b>0.2</b>	<b>(29.8)</b>
<b>Movement in CSM</b>	<b>54.1</b>	<b>6.0</b>

- We have delivered positive insurance profits in the period
- Increase in investment returns primarily from improved equity returns and narrowing credit spreads being the main contributors
- Fee income increased primarily due to the acquisitions and higher FUM values in Movestic generating higher fund rebate income
- Operating costs have increased due to the acquisitions over the past 12 months
- Conservatrix acquisition contributed a day 1 gain of £4m together with a contribution to the overall operating profit
- The group has added £54m of CSM in the period, largely driven by the two deals executed in H1 2023.

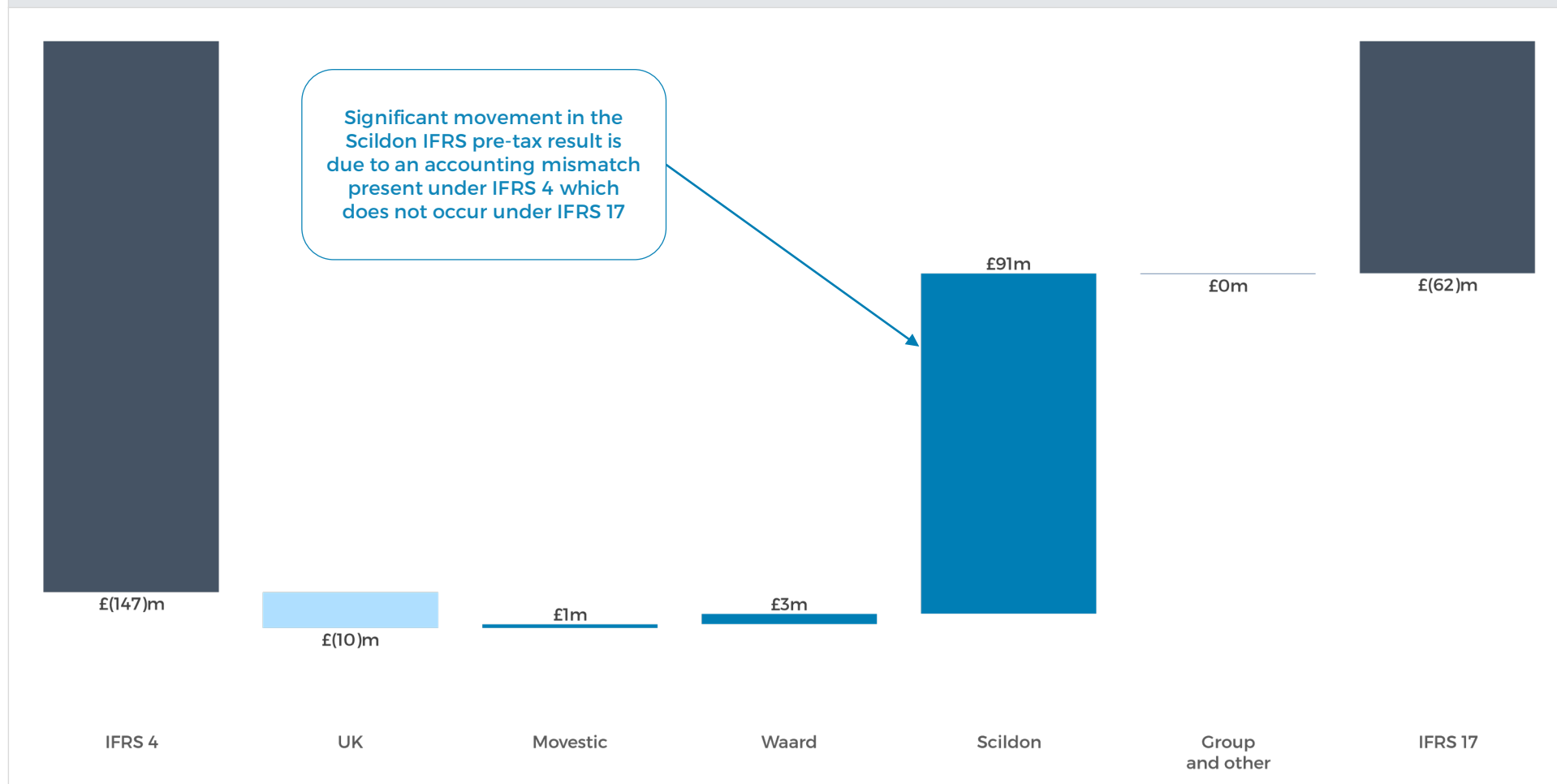
**The movement in CSM is important to consider alongside the income statement.**

**New CSM created represents future profits that are expected to be released to the income statement over time and whilst a lot of the associated costs for creating this new CSM are recognised in the year, the expected profit is deferred over the life of the products.**

*The income statement result should be considered alongside the movement in CSM*

**Please note** – the numbers shown within this report are currently unaudited

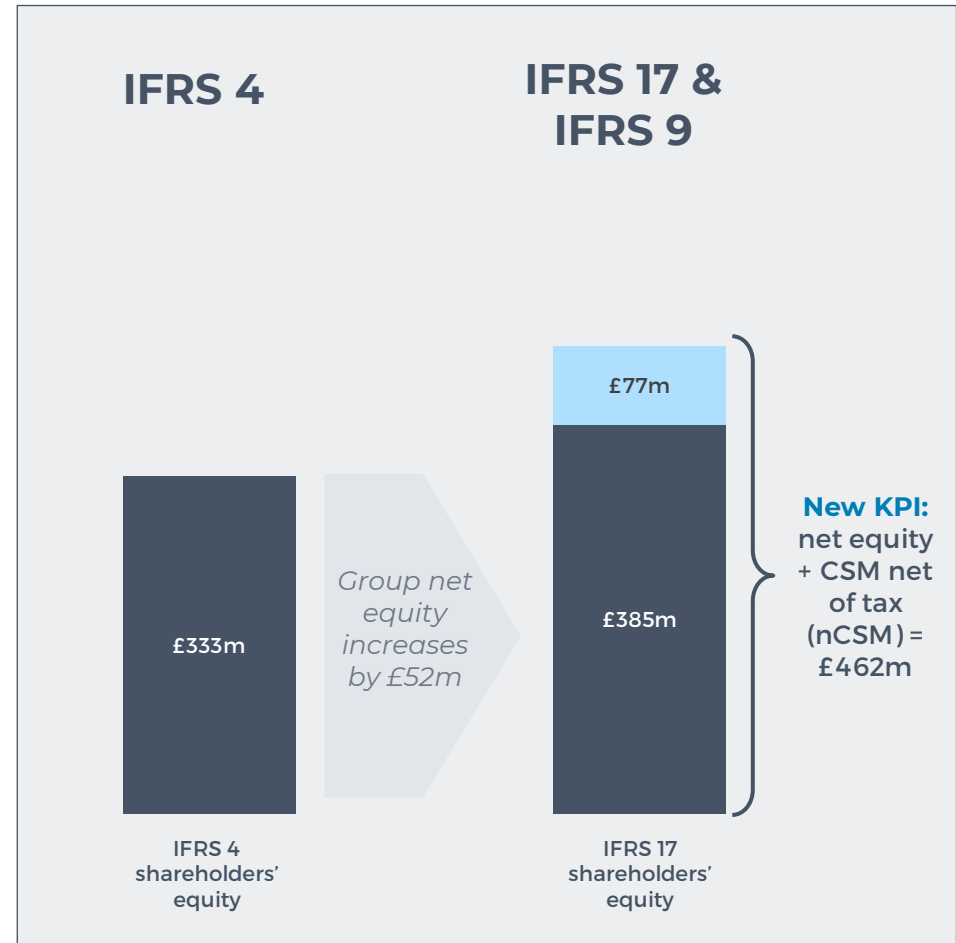
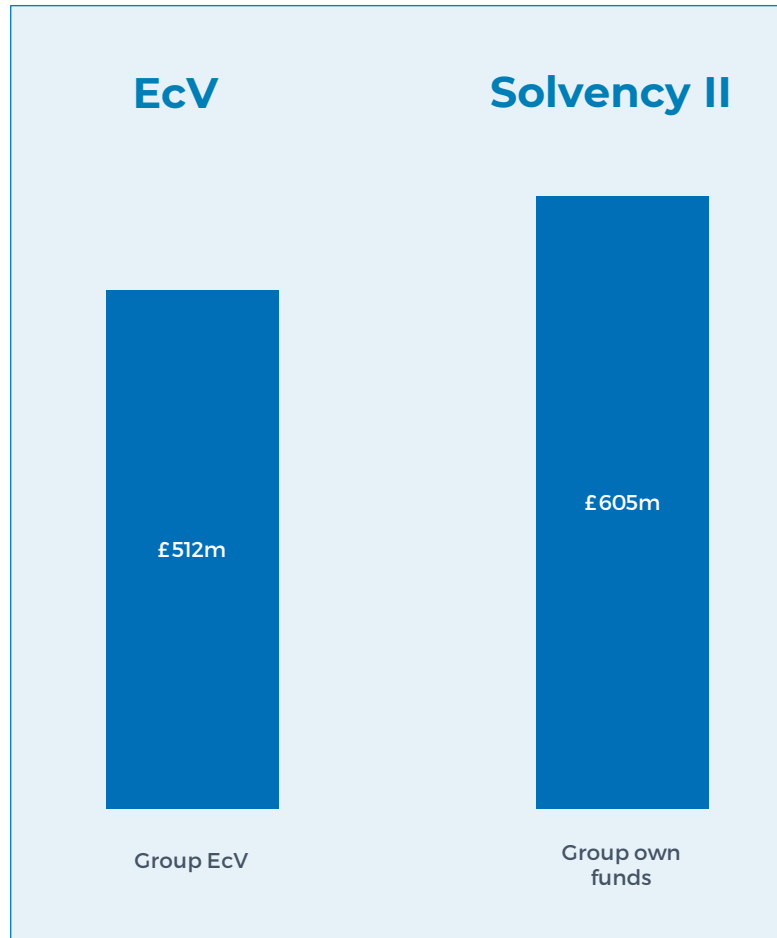
## CSM MOVEMENT FY 22 TO HY 23



*Under IFRS 17, the 2022 pre-tax result has improved by £85m*

**Please note** – the numbers shown within this report are currently unaudited

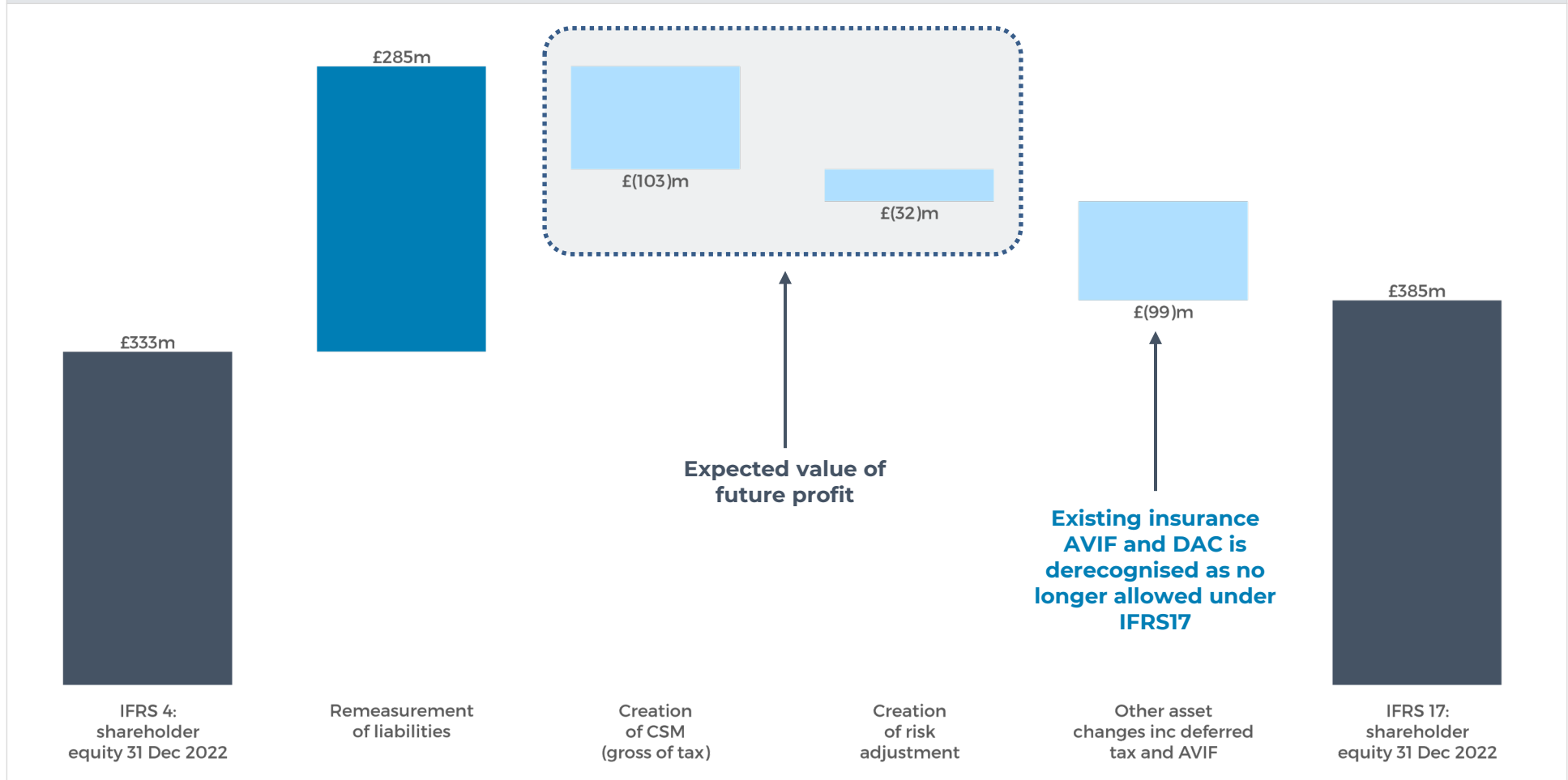




*IFRS shareholder equity has increased by £52m when comparing IFRS 17 to IFRS 4*

**Please note** – the numbers shown within this report are currently unaudited

## SHAREHOLDER EQUITY RECONCILIATION – IFRS 4 TO IFRS 17

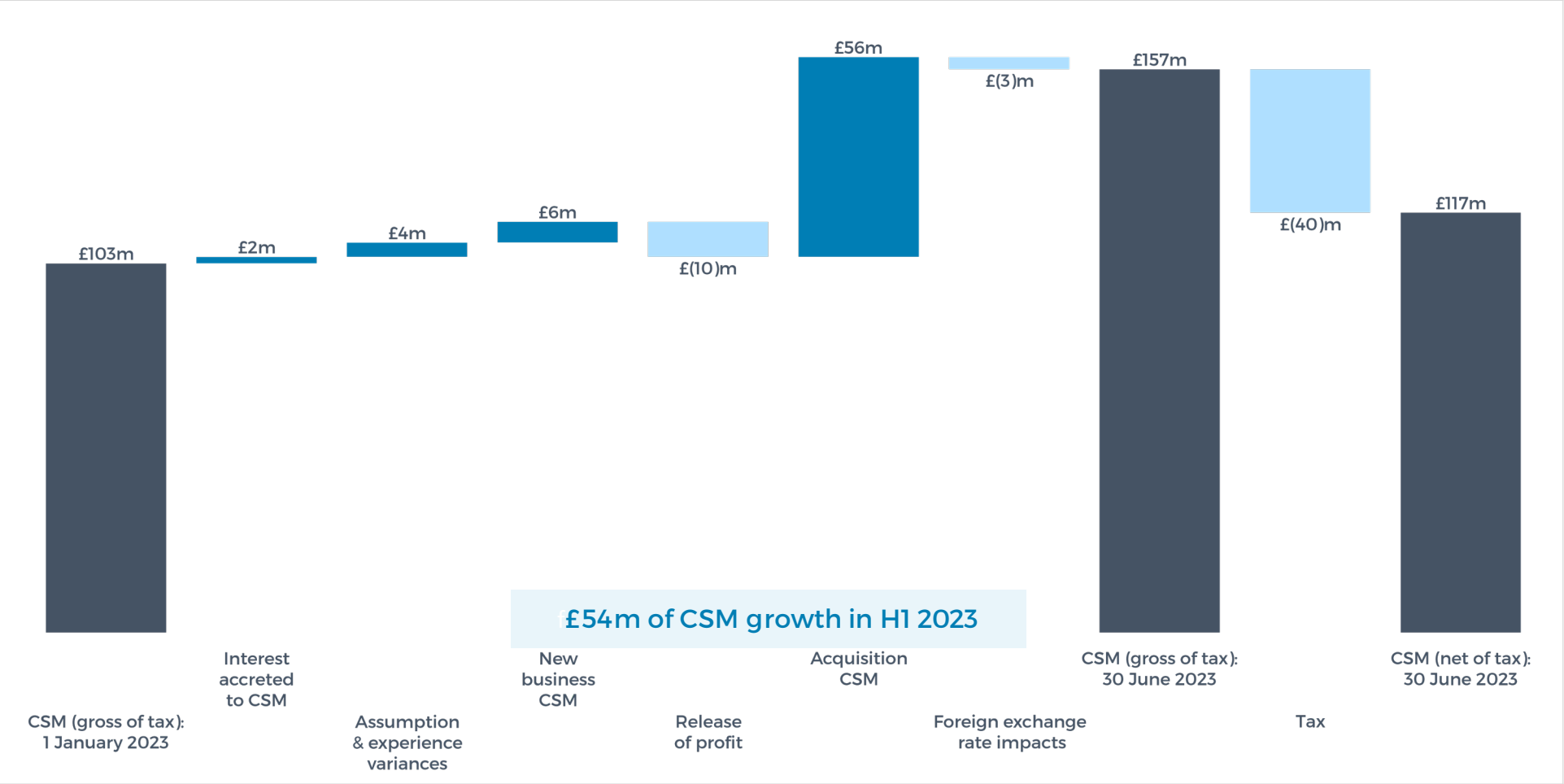


*The CSM and risk adjustment represent pools of expected future profit*

**Please note** – the numbers shown within this report are currently unaudited

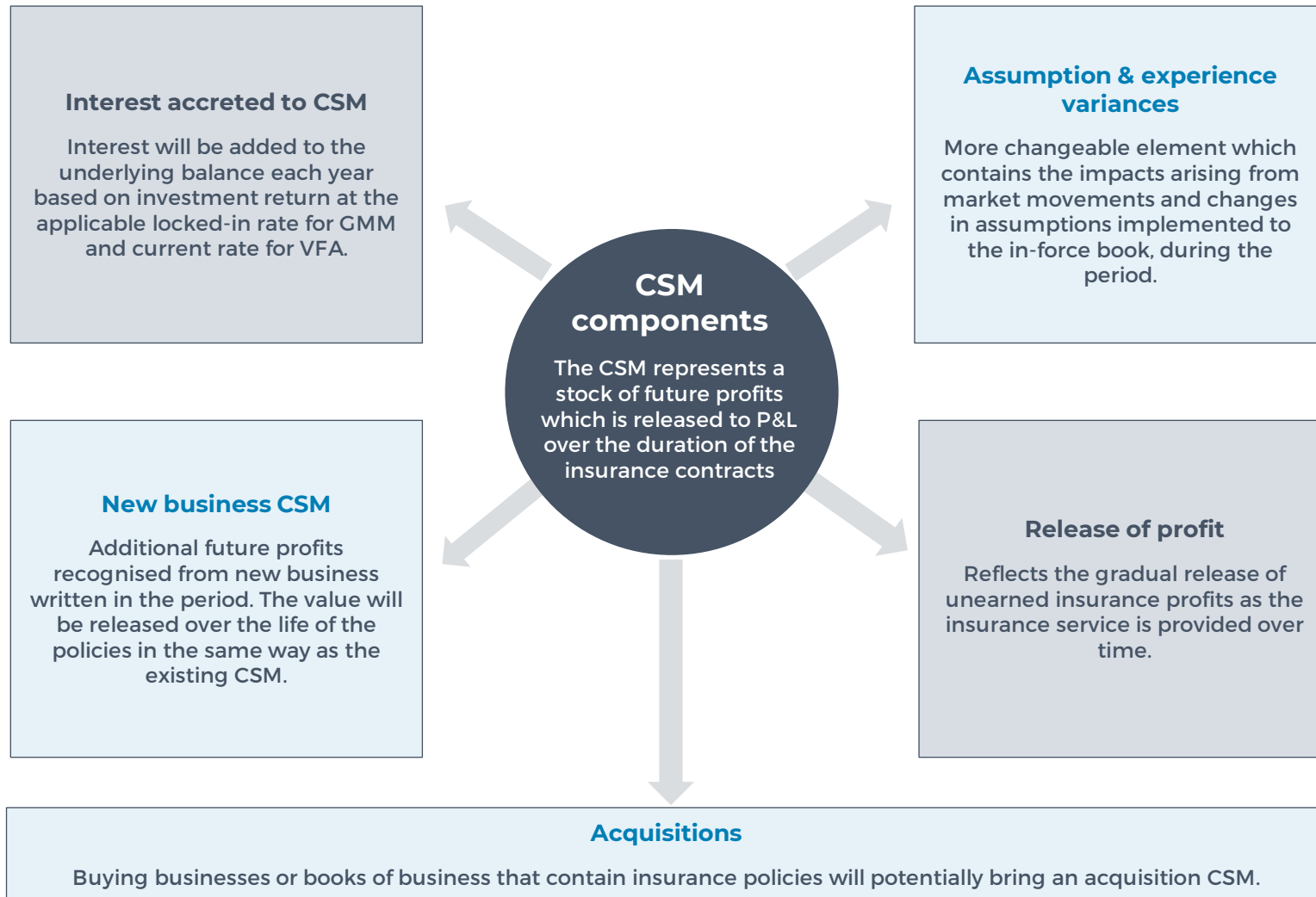


CSM MOVEMENT FY 22 TO HY 23



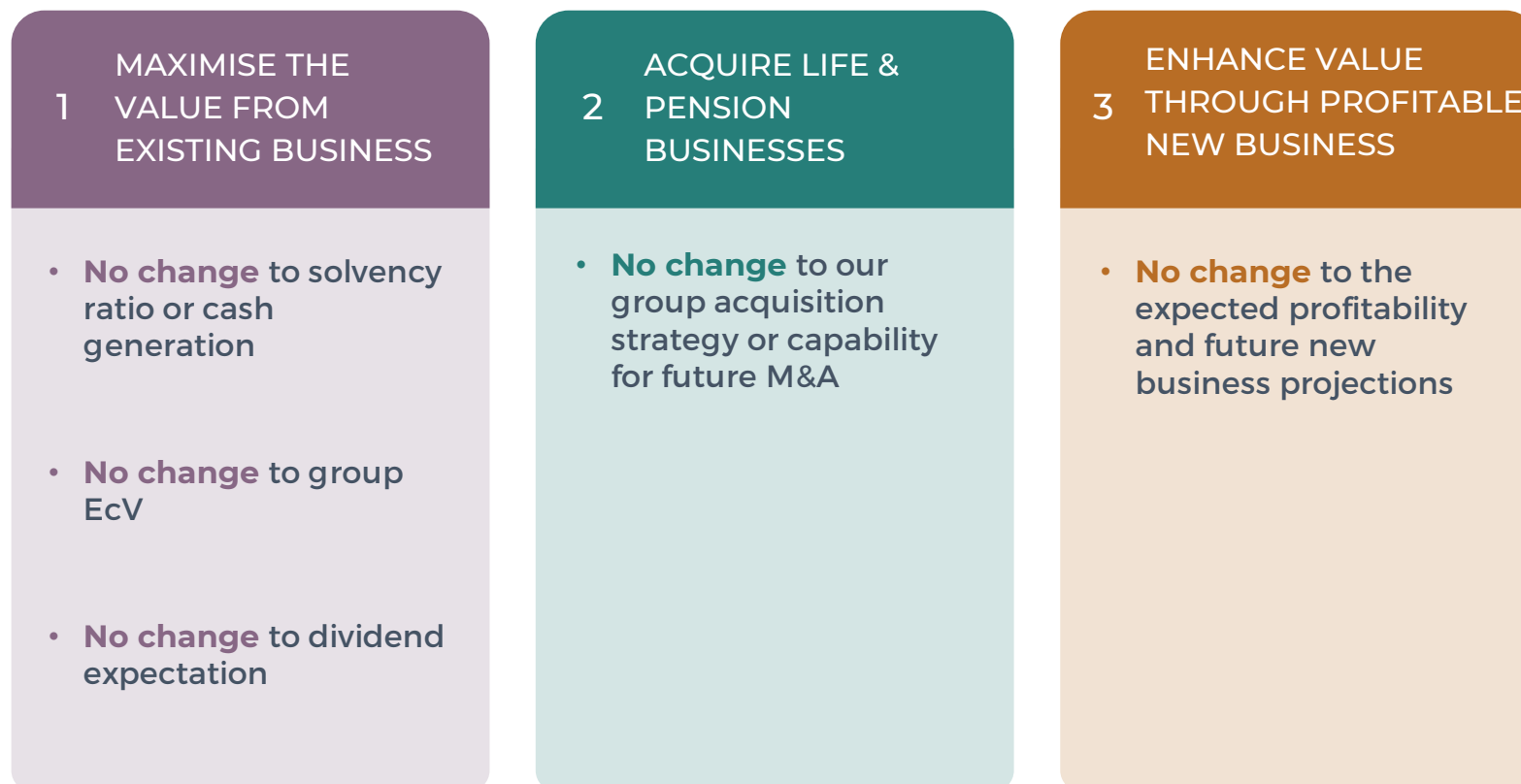
We have delivered a £54m increase in the gross of tax CSM

*Please note – the numbers shown within this report are currently unaudited*



*There are a number of components that will impact CSM each year*

**Please note** – the numbers shown within this report are currently unaudited



*IFRS 17 and IFRS 9 result in no change to the group's growth ambition, value or cash generation*

**Please note** – the numbers shown within this report are currently unaudited

# Appendices



## APPENDIX 1: SUMMARY OF OUR IMPLEMENTATION CHOICES



	UK	Movestic	Scildon	Waard
<b>Measurement basis</b>	A combination of the General Measurement Model and the Variable Fee Approach is applied	The Premium Allocation Approach is applied for the large majority of insurance business	A combination of the General Measurement Model and the Variable Fee Approach is applied	A combination of the General Measurement Model and the Variable Fee Approach is applied
<b>Transition approach</b>	Transition balance sheet is calculated using the fair value approach	Transition balance sheet is calculated using the fair value approach	Transition balance sheet is calculated using the full retrospective approach to date of acquisition	Transition balance sheet is calculated using the full retrospective approach to date of acquisition
<b>Contractual Service Margin</b>	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units	Not applicable for PAA	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units	Calculated at portfolio level applicable to Measurement Model and amortised according to Coverage Units
<b>Discount rates</b>	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L	Bottom-up approach using risk-free rate applied in all cases. Recognised through P&L
<b>Risk adjustment measurement</b>	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level	Derived using a 'Cost of Capital' approach at a portfolio level
<b>Asset measurement basis</b>	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations. Amortised cost used on an exception basis	Assets predominantly recorded at Fair Value in line with IFRS 9 regulations, including the mortgage loan portfolio. Amortised cost used on exception basis

*Please note – the numbers shown within this report are currently unaudited*

## APPENDIX 2: CHANGE IN ACCOUNTING TREATMENT BETWEEN IFRS 4 AND IFRS 17



	IFRS 4	IFRS 17
<b>CSM</b>	No equivalent: implicit margins are added and included within the insurance liabilities value.	Explicit margin equal to future profit yet to be earned, which is then amortised to P&L based on service provided to policyholders
<b>Risk Adjustment</b>		Explicit stresses for non-financial risk used to calculate a risk adjustment. The run-off of the risk adjustment also contributes to future profit.
<b>New Business Profit</b>	Expected profits are recognised on day 1 and taken to P&L.	Expected day 1 profits are deferred through the CSM.  New business losses are taken to the P&L at outset.
<b>Non-economic Assumption Changes</b>	Prudent assumptions with impact from assumption changes being recognised in P&L.	Best estimate assumptions with any assumption changes relating to future service adjusting the CSM
<b>Financial Assumption Changes</b>	Impact recognised immediately in P&L.	Impact of changes to financial assumptions continue to be recorded through P&L for GMM products (generally non-linked business) but will be recorded in the CSM for products measured under VFA (generally unit-linked business).
<b>Investment Variances</b>	Variances to expected returns are recorded in investment variance.	No change, variances to expected returns are recorded in investment variance.
<b>Expenses</b>	Attributable and non-attributable expenses are included within the insurance liabilities.	Non-attributable expenses are not included within IFRS 17 insurance liabilities, these are recognised as they are incurred in P&L.
<b>Non-Insurance Business</b>	Approach to non-insurance business is unchanged.	

**Please note** – the numbers shown within this report are currently unaudited

Term	Explanation
<b>Insurance liabilities</b>	Financial obligations in respect of insurance contracts. Included within the scope of IFRS 17.
<b>Investment liabilities</b>	Financial obligations in respect of investment contracts. Outside of the scope of IFRS 17.
<b>Measurement model</b>	Approach to measuring insurance liabilities where estimates are remeasured in each reporting period. Three alternatives exist, the General Measurement Model, the Variable Fee Approach and the Premium Allocation Approach.
<b>General measurement model</b>	The General Measurement Model (GMM) is the 'default' measurement model, which applies to insurance contracts with limited, or no pass-through of investment risks to policyholders.
<b>Variable fee approach</b>	The Variable Fee Approach (VFA) is the measurement model applied to insurance contracts with significant investment-related pass-through elements.
<b>Premium allocation approach</b>	Premium Allocation Approach (PAA) is a simplified measurement model which can be applied to short-term contracts.
<b>Fair value approach</b>	Transition approach that uses the price that would be received for an asset in an orderly transaction between market participants at the measurement date.
<b>Fully retrospective approach</b>	Transition approach where the Contractual Service Margin (CSM) at the date of transition to IFRS 17 will be based on an assessment of the CSM for each group of contracts at inception of the group together with a roll-forward of those amounts to the transition date.
<b>Coverage units</b>	Standard unit of life insurance coverage used as a proxy for the amount of benefit provided. Used within IFRS 17 to facilitate appropriate allocation of CSM across reporting periods.
<b>Contractual service margin (CSM)</b>	The CSM represents a stock of future profits which is released to P&L over the duration of the insurance contracts.
<b>Risk adjustment</b>	Additional reserve held for non-financial risks.

**Please note** – the numbers shown within this report are currently unaudited



Simplified IFRS 17 Income Statement (illustrative)	
Insurance revenue	
Insurance service expenses	
<b>Net insurance service result</b>	
Net investment income	
Net finance expenses from insurance contracts	
Changes in investment contract liabilities	
<b>Net investment result</b>	
Fee income	
Non-attributable expenses	
<b>Net income/(loss)</b>	



**Net insurance service result:** new distinct insurance business result: comprises the net result from providing insurance services in respect of current service only. Future service impacts will hit the CSM



**Net investment result:** new separate investment result: contains the investment return earned on assets together with the financial impacts from insurance contracts



**Other income and expenses:** fee income in respect of investment business and expenses associated with managing the non-insurance business

*The income statement will separate results by insurance and investment contracts*

**Please note** – the numbers shown within this report are currently unaudited

	IAS 39 → IFRS 9
Classification and measurement basis	<ul style="list-style-type: none"> <li>• Reduced number of classification and measurement models for financial instruments and applies a single classification approach to all types of financial assets</li> <li>• Consistent with how they are currently measured, the majority of financial instruments will be measured at <b>fair value through profit and loss</b></li> </ul>
Mortgage portfolio	<ul style="list-style-type: none"> <li>• Currently measured at amortised cost</li> <li>• Will be <b>reclassified at fair value through profit and loss</b> to match the corresponding liabilities in order to reduce the impacts of an accounting mismatch</li> </ul>
Impairment	<ul style="list-style-type: none"> <li>• A single impairment model for all financial instruments which recognises expected credit losses at each reporting period</li> <li>• Due to the short term nature of our financial instruments and the minimal historical losses on these asset classes this is <b>expected to be nil</b></li> </ul>
Disclosure	<ul style="list-style-type: none"> <li>• Additional disclosures required containing the carrying amounts of financial instruments under each measurement category and the expected credit losses will be required</li> </ul>

*No significant change expected from the transition from IAS 39 to IFRS 9*

**Please note** – the numbers shown within this report are currently unaudited

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