

ANNUAL REPORT
& ACCOUNTS

20
20

Chesnara

WELCOME TO THE
CHESNARA ANNUAL
REPORT & ACCOUNTS

FOR YEAR ENDED 31 DECEMBER 2020

OUR COMPANY HISTORY

2004

Chesnara is born – Countrywide estate agency group divests its life insurance business and this becomes the inaugural portfolio of Chesnara plc with an opening Embedded Value of £126m.

2005

Chesnara makes its first acquisition – City of Westminster Assurance, adding £30.3m of Embedded Value.

2009

Chesnara plc moves into Europe with the acquisition of a Swedish business now called Movestic. The group's Embedded Value reaches £263m. Unlike the UK operation, Movestic is open to new business which adds a further source of Embedded Value growth.

2010

The acquisition of Save & Prosper takes the group's assets under management to over £4 billion.

2013

Direct Line's life assurance business is acquired and by the end of 2014, total group Embedded Value rises above £400m.

2015

Expansion into a new territory with the acquisition of the Waard Group (a closed-book) in the Netherlands.

2017

Building upon our entry to the Dutch market we complete the acquisition of Legal & General Nederland, renamed Scildon, at a 32% discount to its Economic Value of £202.5m.

2019

Completion of the acquisition of a portfolio of 6,000 policies from Monuta Insurance, under Waard Group.

2020

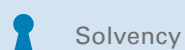
Completion of the acquisition of 44,000 policies from the Dutch branch of Argenta Bank, also under Waard Group.

SYMBOL GUIDE

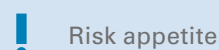
Throughout the Report & Accounts the following symbols are used to help distinguish between the various financial and non-financial measures reported:



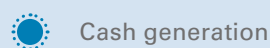
IFRS



Solvency



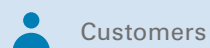
Risk appetite



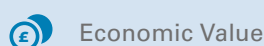
Cash generation



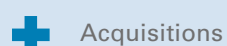
Compliance



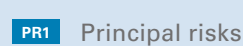
Customers



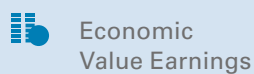
Economic Value



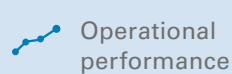
Acquisitions



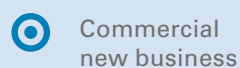
Principal risks



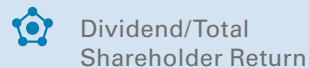
Economic Value Earnings



Operational performance



Commercial new business



Dividend/Total Shareholder Return

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The Shard, London

SECTION A: OVERVIEW



06 — An introduction to Chesnara

08 — Delivering our strategy

10 — 2020 highlights

12 — Measuring our performance

14 — Chairman's Statement

AN INTRODUCTION TO CHESNARA

We aim to provide value for money to our customers and competitive returns to our investors in a compliant manner.

Chesnara plc is a life assurance and pensions consolidator. It has operations in the UK, Sweden and the Netherlands.

Our primary focus is the efficient management of life assurance and pension policies to give fair outcomes to our customers, whilst generating profits to provide attractive dividends and value growth to our investors. Periodically we seek to create further value and sustain our dividend policy by acquiring new companies or books of business. Our acquisition strategy primarily focuses on the territories in which we operate, though we will consider opportunities in other European countries where there is sufficient value and strategic and cultural fit.

The group comprises both open-book and closed-book operations. We write new business where we are confident that conditions will ensure the sales are value adding. The new business operations will always be based on realistic market share expectations and hence the writing of new business will not detract from our core objective of managing in-force books to provide good returns to customers and investors.

Chesnara’s long established culture and values underpin the delivery of our core strategic objectives. Risk and solvency management are at the heart of our robust governance framework and the group is well capitalised. Throughout its history, Chesnara has aimed to deliver fair outcomes and returns for customers whilst providing consistent returns for shareholders.

WHO WE ARE

- We are a responsible and profitable company engaged in the management of life and pension policies in the UK, Sweden and the Netherlands.
- Chesnara plc was formed in 2004 and is listed on the London Stock Exchange.
- The group initially consisted of Countrywide Assured, a closed life and pensions book demerged from Countrywide plc, a large estate agency group.
- Since incorporation, the group has grown through the acquisition of three predominantly closed UK businesses, an open life and pensions business in Sweden and both a closed-book group and an open life and pensions business in the Netherlands. See page 8 for further detail on our history and businesses.

WHAT WE DO



HOW WE OPERATE

- Chesnara devolves management to its divisions which operate within a centrally defined governance and risk management framework.
- A central UK-based team has significant experience and a proven track record in governing, acquiring and successfully integrating life and pension businesses.
- In the UK, we adopt an outsourced operating model to the fullest extent possible, whereas our overseas divisions use outsourced services on a more limited basis.
- Acquisitions are assessed against stringent financial criteria adopting a robust risk-based due diligence process.
- We maintain strong solvency levels.

HOW WE CREATE VALUE

Customer

- Effective customer service operations, clear communication and competitive fund performance, with full regard to all regulatory matters, support our aim to ensure customers receive good returns and service in line with fair outcomes for customers.
- Provide security through strong solvency.

Shareholder

- Surpluses emerge from the in-force books of business through efficient management of the policy base and good capital management practices. These surpluses enable dividends to be paid from the subsidiaries to Chesnara, which fund the attractive dividend strategy and support our wish to be a share held for the long term by our shareholders.
- Growth from both the proven acquisition model and from writing profitable new business in Sweden and the Netherlands has a positive impact on the Economic Value¹ of the business.

UK



SWEDEN



NETHERLANDS



FUNDS UNDER MANAGEMENT¹
£2.3bn

POLICIES
c240,000

FUNDS UNDER MANAGEMENT
£3.7bn

POLICIES
c365,000

FUNDS UNDER MANAGEMENT
£2.5bn

POLICIES
c325,000

¹ Alternative performance measure (APM) used to enhance understanding of financial performance.
Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

DELIVERING OUR STRATEGY

Our company history has helped shape our business, which in turn enables us to deliver against our objectives.



DIVIDEND HISTORY

16 SUCCESSIVE YEARS OF DIVIDEND GROWTH

We recognise the importance of providing stable and attractive dividends to our shareholders. A full year 2020 dividend of 21.94p per share represents an increase of 3% on the prior year and is Chesnara’s sixteenth successive year of dividend growth.

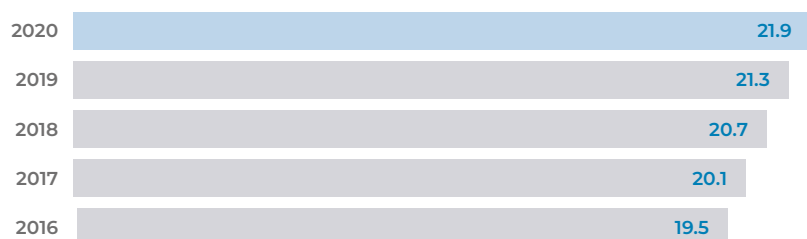


ECONOMIC VALUE¹ GROWTH

288% OF VALUE GROWTH SINCE 2004

Economic Value (EcV)¹ growth is achieved through a combination of efficient management of the existing policies, acquisitions and writing profitable new business. The growth since incorporation includes £148m of new equity since 2004 but is **net of £363m of cumulative dividend payments**. The value of the group is affected by investment market conditions at any given point in time.

Dividend per share history Pence per share



Economic Value history £m



What we've done

8 successful acquisitions across 3 territories

Our deals **demonstrate flexibility and creativity** where appropriate:

- From value enhancing 'bolt-on' deals to more transformative deals
- Open minded regarding deal size
- Capability to find value beyond the UK
- Flexible and efficient deal funding solutions
- Ability to find expedient solutions to de-risk where required

We are **not willing to compromise** on **quality, value** or **risk**. All deals have:

- Been at a competitive discount to Economic Value
- Satisfied our dual financial requirements of generating medium-term cash and enhancing long-term value
- Been within Chesnara's risk appetite
- Been subject to appropriate due diligence
- Been either neutral or positive in terms of customer outcomes
- Supported Chesnara's position as an income investment



CASH GENERATION¹

CUMULATIVE CASH GENERATION HAS EXCEEDED OUR DIVIDENDS BY 152% OVER THE LAST 5 YEARS

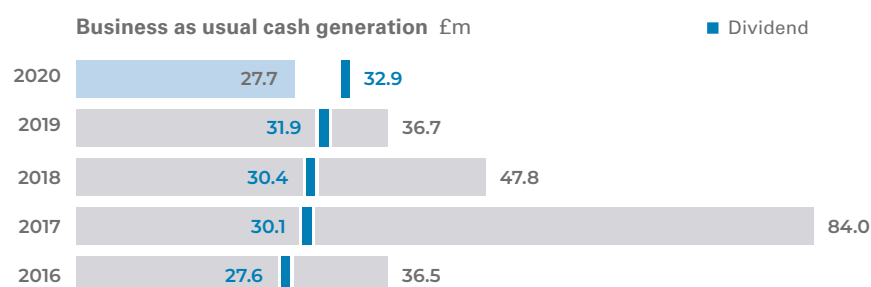
Ultimately the group needs to generate cash to service its dividends. We define cash generation as the movement in the group's surplus own funds above the group's internally required capital. Cumulative cash generation over the last five years represents 152% of the total dividends over the same period.



CUSTOMERS

OUR PRIMARY RESPONSIBILITIES REMAIN TO OUR CUSTOMERS

- Customers can be confident that they hold policies with a well capitalised group where financial stability is central to our culture and values.
- Our investment returns remain competitive across the group.
- We deliver good customer service levels across the group.



The chart illustrates how business as usual cash generation compares to the total shareholder dividend. For this purpose the cash figure is based on divisional cash generation plus non-exceptional group items. This reflects the underlying effectiveness of the core business in funding the dividend. The headline cash results in this chart are analysed in more detail on pages 46 to 47.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

2020 HIGHLIGHTS

FINANCIAL HIGHLIGHTS

IFRS

£24.6M IFRS PRE-TAX PROFIT

2019 £96.1m

This includes profits arising from economic market conditions¹ of £21.2m and an intangible asset impairment charge of £27.6m.

£43.3M TOTAL COMPREHENSIVE INCOME

2019 £60.6m

The 2020 result includes a foreign exchange gain of £22.6m (2019: loss of £18.7m). [Financial review p50](#)

SOLVENCY

156% GROUP SOLVENCY

2019 155%

We are well capitalised at both group and subsidiary level under Solvency II. [Capital management p42](#)

FuM

£8.5BN FUNDS UNDER MANAGEMENT³

2019 £7.7bn

Strong performance in volatile investment markets during 2020. [Financial statements p119](#)

ECONOMIC VALUE

£636.8M ECONOMIC VALUE⁴

2019 £670.0m

Movement in the year is stated after dividend distributions of £32.3m (2019: £31.3m) and includes a foreign exchange gain of £36.7m (2019: loss of £28.8). [Financial review p49](#)

ECONOMIC VALUE EARNINGS

£(37.6)M ECONOMIC VALUE EARNINGS⁵

2019 £104.0m

The result includes £22.9m of earnings resulting from investment market movements (2019: investment market gain of £121.1m) and operating² losses of £49.8m (2019: profit of £4.1m).

[Financial review p48](#)

COMMERCIAL NEW BUSINESS PROFIT

£10.5M COMMERCIAL NEW BUSINESS PROFIT⁶

2019 £14.4m

During 2020, Scildon has increased market share in both term and individual life markets, which has driven a record new business result (£8.8m) and an uplift of 12.5% on 2019. Pricing pressures and changes to fee income and rebates have continued to suppress Movestic's new business value in 2020, with more modest returns of £1.6m (2019: £6.9m). [Business review p36 to 39](#)

CASH GENERATION

£27.7M GROUP CASH GENERATION⁷

2019 £36.7m

Group and divisional cash generation of £27.7m and £23.6m respectively reflects a challenging year operationally and also reflects significantly lower economic returns than the prior year. The reported cash generation includes a net release from the with-profits funds of £9.2m (2019: £5.1m net growth in restricted surplus). [Financial review p46](#)

£23.6M DIVISIONAL CASH GENERATION⁸

2019 £50.8m

OPERATIONAL & STRATEGIC HIGHLIGHTS

DIVIDEND

FULL YEAR DIVIDEND INCREASE

Total dividends for the year increased by 3% to 21.94p per share (7.65p interim and 14.29p proposed final). This compares with 21.30p in 2019 (7.43p interim and 13.87p final).

ECONOMIC BACKDROP

2020 HAS SEEN SIGNIFICANT VOLATILITY IN INVESTMENT MARKETS AS A RESULT OF COVID-19 EMERGING AS A GLOBAL PANDEMIC

2020 was a turbulent period for equity markets with the impact of the pandemic being felt early in the year as asset values plummeted. At its lowest point the FTSE 100 value fell to c34% below that at the start of the year and, despite gradual recovery, the index closed the year 14% lower than the opening value. Falling interest rates and continued downward pressure on bond yields throughout 2020 also impacted the businesses to varying degrees. Sterling depreciation against the euro and Swedish krona has led to foreign exchange translation gains.

DUTCH ACQUISITION

EXPANSION IN THE NETHERLANDS CONTINUES

Our presence in the Netherlands continued to grow following regulatory approval of a portfolio acquisition from Argenta Bank (announced in 2019), at a discount to EcV of c22%, which completed on 31 August 2020.

OPERATIONALLY RESILIENT DURING PANDEMIC

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

Changes in working practices have been required in order to accommodate appropriate safety measures, such as staff working from home. The group has remained operationally resilient throughout this transition, in particular focusing on ensuring key business services relating to customers continue to be delivered. Where necessary we have introduced changes to processes to help customers who may be in a vulnerable position due to COVID-19, and have ensured that any COVID-19 death claims have been dealt with compassionately.

Notes: Items 1 to 8 below are Alternative Performance Measures (APMs) used by the group to supplement the required statutory disclosures under IFRS and Solvency II, providing additional information to enhance the understanding of financial performance. Further information on these APMs can be found on page 12, throughout the Financial Review and in the APM appendix on pages 211 to 212.

- 1 Economic profit is a measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future.
- 2 Operating profit is a measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.
- 3 Funds Under Management (FuM) represents the sum of all financial assets on the IFRS Balance Sheet.
- 4 Economic Value (EcV) is a financial metric derived from Solvency II. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.
- 5 Economic Value earnings are a measure of the value generated in the period, recognising the longer-term nature of the group's insurance and investment contracts.
- 6 Commercial new business represents the best estimate of cash flows expected to emerge from new business written in the period. It is deemed to be a more commercially relevant and market consistent measurement of the value generated through the writing of new business, in comparison to the restrictions imposed under the Solvency II regime.
- 7 Group cash generation represents the surplus cash that the group has generated in the period. Cash generation is largely a function of the movement in the solvency position, used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.
- 8 Divisional cash generation represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.

MEASURING OUR PERFORMANCE

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

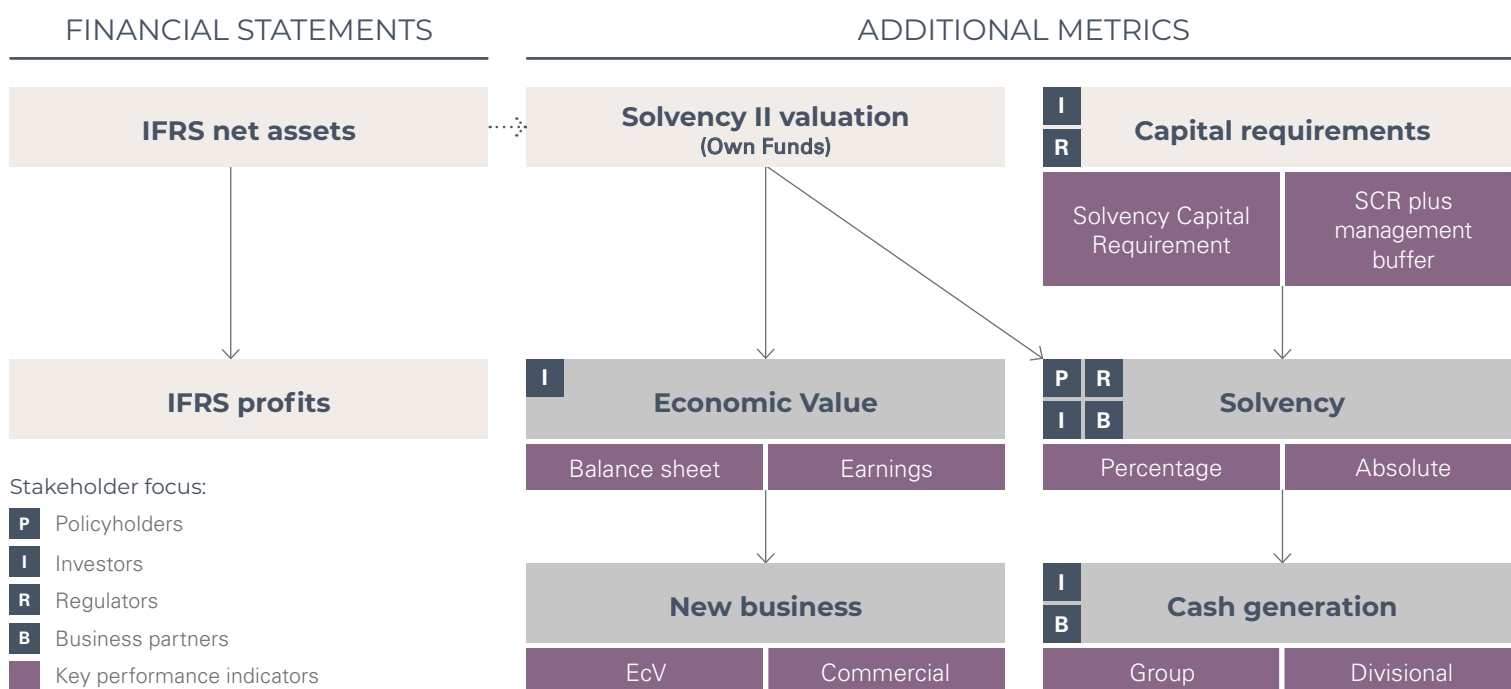
FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

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

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

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

Further detail on APMs can be found in the appendix on pages 211 and 212.



SOLVENCY

Solvency is a fundamental financial measure which is of paramount importance to investors and policyholders. It represents the relationship between the value of the business as measured on a Solvency II basis and the capital the business is required to hold – the Solvency Capital Requirement (SCR). Solvency can be reported as an absolute surplus value or as a ratio.

Solvency gives policyholders comfort regarding the security of their provider. This is also the case for investors together with giving them a sense of the level of potential surplus available to invest in the business or distribute as dividends (subject to other considerations and approvals).

Further details on pages 41 to 43 & 213 to 214

ECONOMIC VALUE

Economic Value (EcV) is deemed to be a more meaningful measure of the long-term value of the group and it generally approximates to Embedded Value reporting, which was used before the introduction of SII. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations of long-term policies.

EcV is derived from Solvency II Own Funds and recognises the impact of future profit expectations from existing business.

An element of the EcV earnings each period is the economic value of new business. Factoring in the real world investment returns and removing the impact of risk margins is used by the group to determine the value of new business on a commercial basis.

Further details on pages 48 to 49 & 211 to 212

CASH GENERATION

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Group cash generation is calculated as the movement in the group's surplus own funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart.

Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.

Further details on pages 46 to 47 & 212 to 214

OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

Measure	KEY STAKEHOLDERS				What is it and why is it important?	Page
	Policyholder	Investor	Regulators	Business partner*		
Customer service levels					How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report & Accounts refer to a number of indicators of customer service levels.	34-39
Broker satisfaction					Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Report & Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	36-39
Policy investment performance					This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating.	36-39
Industry performance assessments					This is a comparative measure of how well our investments are performing against the rest of the industry, which provides valuable context to our performance.	34-39
Funds under management					This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds under management are also a strong indicator of fee income.	7
Policy count					Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.	7
Total shareholder returns					This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.	51
New business profitability					This shows our ability to write profitable new business which increases the value of the group. This is an important indicator given one of our core objectives is to 'enhance value through profitable new business'.	36-39
New business market share					This shows our success at writing new business relative to the rest of the market and is important context for considering our success at writing new business against our target market shares.	36-39
Gearing ratio					The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources. The appropriate use of debt is an efficient source of funding but in general Chesnara seeks to avoid becoming overly dependent on permanent debt on the balance sheet.	51
Knowledge, skills and experience of the board of directors					This is a key measure given our view that the quality, balance and effectiveness of the board of directors has a direct bearing on delivering positive outcomes to all stakeholders.	68-69

KEY Primary interest Secondary interest

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

CHAIRMAN'S STATEMENT



'The group has remained operationally and financially resilient throughout the COVID-19 pandemic. Ensuring minimal impact on our customers has been at the centre of our response'.

2020 has been a unique and challenging year. Whilst our core strategic priorities remain unchanged, the pandemic has created a focus on additional short-term priorities, namely:

- The welfare of employees;
- Ensuring good business continuity with no detrimental impact on customer outcomes or the regulatory framework;
- Maintaining the shareholder dividend strategy without compromising financial stability; and
- Protecting the business fundamentals to maximise the potential for post COVID-19 recovery.

I believe these areas of focus were important to protect stakeholder interests under difficult circumstances. I am pleased to report good outcomes against each of these considerations resulting in a good balance of positive outcomes across all our key stakeholders.

Despite the emerging new priorities, adverse operating conditions and continued downward pressure on yields, it is reassuring to report a stable pre-dividend Economic Value and cash generation levels that enable the divisions to propose a further c£48m of dividends to the parent company.

The financial stability during the year combined with a clear expectation of future divisional dividends means I am pleased to report continuation of our dividend strategy with a 3% increase in the proposed final dividend and hence total dividend.

Luke Savage
Chairman

Before I report the headline results and expand upon how we have delivered against our core strategic priorities, I would like to concentrate on how the COVID-19 pandemic has impacted our short-term attention and how we have worked hard to ensure our stakeholders have been well protected during such difficult conditions. Our areas of enhanced short-term focus relate to staff welfare, customers and regulators, shareholder dividends and maximising the potential for post-COVID-19 recovery. Taking each in turn:

Employee welfare

From very early in the pandemic, our initial priority was to ensure staff could work safely from home. At the same time, we have invested to make sure our offices are as safe as possible so that on the occasions any staff do need to work from the office and when government guidelines allowed, they could do so with minimum risk. From an economic welfare perspective all employees have been paid in full throughout, without the use of the government furlough scheme.

Business continuity – customers and regulators

The emergence of COVID-19 gave rise to significant changes in the way we work, largely as a result of the group having to respond to governmental rules that were put in force in the jurisdictions within which we (and our outsourcers) operate. It is pleasing to report that we undertook a smooth transition to these remote working conditions, which have remained largely in force over the course of the year, with no significant immediate or ongoing disruption to key customer related business services.

Maintaining the shareholder dividend strategy

We have managed to maintain our dividend model and increase the dividend payment in 2020 by 3%. Importantly, this has been done without compromising the financial stability of group. The post dividend group solvency ratio has increased slightly to 156% (31 December 2019: 155%) and the closing Chesnara cash and instant access liquidity funds balance remains healthy at £59.9m (31 December 2019: £75.5m).

Protecting the business

A balance has been struck between delivering good results in the year and protecting the business so that we can maximise the potential for future profits as the world recovers from the pandemic. As things stand, we believe the business fundamentals remain solid and offer a good foundation for the future. Total Funds Under Management¹ closed higher than the opening position, policy persistency in our closed operations was better than expected and despite the challenges of COVID-19, Scildon goes into 2021 with over 7% more policies in-force than was the case pre-COVID-19 at the end of 2019. Despite smaller total new business markets in the year, our new business market shares have held up relatively well in Sweden and we have made notable market share gains in the Netherlands. In summary, the business in terms of funds, policy counts and new business market shares remain strong and offers a solid foundation for profit growth post COVID-19. In short, to date we have weathered the pandemic storm well and emerge in good shape.

Moving onto the results during the year. Despite the aforementioned generally positive assessment of the year, the reality is that in the short-term, adverse conditions have had a detrimental impact on the results. In Scildon, cash generation has been adversely impacted by the continued downward pressure on yields, which contributes to an overall cash loss of £22.3m (2019: gain £22.6m). Against this backdrop, with the exception of Scildon cash, I am pleased that the consolidated results on all metrics demonstrate a level of resilience synonymous with Chesnara's financial track record and ability to increase the dividend through difficult conditions.

From an IFRS perspective, we are reporting a reduction in pre-tax profits compared with the 2019 result of £96.1m, to £24.6m in 2020. All divisional results are generally lower than last year, with Scildon seeing the largest reduction. In addition, the group results include the impact of a £27.6m impairment to the AVIF (Acquired Value in Force) intangible assets, largely relating to Scildon. From an IFRS balance sheet perspective it is pleasing to report that Funds Under Management¹ have grown c10% since the start of the year.

Although we were able to protect the pre dividend Economic Value¹ which closed the year at £669.1m, marginally lower than at the end of 2019, the impact of the dividend payment resulted in an overall post dividend reduction in EcV of 5% (2019: 7% increase in post dividend EcV). Our long-term aim is to at least protect the post-dividend value. Clearly and perhaps unsurprisingly, this has not been achieved during 2020. However in light of the challenges faced the level of reduction has been well contained and was significantly less than the gains in 2019. In addition, actions regarding catastrophe risk reinsurance and lapse risk reduction, together with the impact of post balance sheet yield recovery, will have reversed a good proportion of the Scildon 2020 cash loss.

Despite a level of increased uncertainty at the point the 2019 accounts were issued, as predicted we received the vast majority of the 2019 closing proposed divisional dividends. Total divisional dividend receipts of £40.6m have ensured we close the difficult year with £59.9m in cash and instant access liquidity funds at the Chesnara company level. The cash generation results for the year mean we expect further divisional dividend receipts totalling £47.8m during 2021, comfortably funding the 2021 shareholder dividends whilst maintaining a healthy residual cash balance. We do not expect the Movestic dividend of c£10m to be received until the final quarter of 2021.

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



MAXIMISE VALUE FROM EXISTING BUSINESS

Robust levels of cash generation supplied by all divisions except Scildon have resulted in cash generation of £27.7m.

See pages 34 to 39 for further information.

The businesses have continued to generate sufficient cash¹ to support Chesnara's dividend strategy. In addition, during the challenging conditions, management have focused on capital management actions to optimise the solvency and cash generation potential across the group. This has resulted in material enhancements to the cash results in 2020. We have also progressed further actions to the point they will be applied in the first half of 2021 and will in turn enhance cash generation in 2021. Further information regarding management actions is included on page 47.

Overall, we have been able to protect the pre-dividend value of the existing businesses. There have however been specific areas where conditions, in part driven by COVID-19, have resulted in value losses. Conditions during the pandemic in Sweden have driven a notable increase in transfer activity. This has led to a loss in value from an increase in policies transferring out. Despite this increase in transfers, the overall Funds Under Management have marginally increased and to the extent the current spike in outward transfers is considered to be partially due to COVID-19 conditions including temporary competitor pricing, we would expect the Swedish business to stabilise in 2021.

In addition to the capital management actions, management have also delivered notable value enhancing actions. In particular changes to asset management providers have added c£14m of incremental EcV (£10m of this value was recognised in the 2019 results).

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMS can be found in the 'Additional Information' section of this Annual Report & Accounts.

I CHAIRMAN'S STATEMENT (CONTINUED)

02

ACQUIRE LIFE AND PENSIONS BUSINESSES

The acquisition of Argenta Insurance in the Netherlands completed on 31 August with an incremental value¹ impact of c£9m.

See page 40 for further information.

COMPLETION OF OUR ACQUISITION OF ARGENTA INSURANCE IN THE NETHERLANDS

Over the past two years, Waard has completed three acquisitions (including a small deal of c9,000 policies agreed before the end of 2020 and is awaiting regulatory approval), the largest being the Argenta portfolio. Whilst none are large, we are developing a reputation as a natural acquirer of small portfolios no longer seen as core by vendors. Whilst we remain optimistic that more substantial opportunities exist, the merits of focusing on simple, well priced, lower value transactions should not be underestimated. The recent deals has delivered incremental value¹ of c£9m and has contributed to growth in excess of 40% in the Waard closed business policy count, leading to associated cost efficiency gains.

Small deals will not transform Chesnara but they can, along with other actions mean we can deliver gradual EcV¹ growth whilst continuing the dividend payment strategy. Similarly, in the UK we remain optimistic about more significant opportunities but likewise are mindful of the cumulative merits of smaller, well priced transactions.

Our balance sheet and existing debt arrangements which create a 7.4% leverage¹ ratio, provide sufficient funding capacity for numerous small deals or a larger deal of up to approximately £120m without the need for additional funding sources such as Tier 2 debt or equity.

03

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

Commercial new business profit¹ of £10.5m: Record new business profits in Scildon of £8.81m but COVID-19 conditions in Sweden have resulted in a reduction in Movestic's new business profits to £1.64m

See pages 36 to 39 for further information.

COMMERCIAL NEW BUSINESS PROFITS¹ OF £10.5M REPLACE 33% OF THE REDUCTION IN ECV CAUSED BY THE DIVIDEND PAYMENTS IN THE YEAR

Chesnara writes new business in both Sweden and the Netherlands. The ultimate aim is to create sufficient annual profits, either through returns on existing business, or through writing new business, to replace a significant proportion of the Economic Value lost by way of dividend payments.

Despite a degree of COVID-19 related pressure on Dutch new business markets, especially during the second half of the year, new business volumes have held up well, largely due to a welcome improvement in market shares. This has resulted in a further improvement in new business profits with an increase of 12.5% to £8.8m (2019: £7.8m – restated at 2020 exchange rates).

By contrast, pension new business broker markets in Sweden were hit more heavily by pandemic restrictions. In addition, we experienced a modest reduction in market shares. This tends to be the case during periods of heightened equity market volatility when unit-linked companies such as Movestic are deemed less attractive than traditional investments with guarantees or performance smoothing. This has resulted in a reduction in Movestic's new business profitability with a total profit in the year of £1.6m (2019: £6.9m). Historically, as equity markets stabilise or increase in value then the Movestic market shares have tended to recover. We would

therefore expect a degree of recovery in 2021 with steady state post COVID-19 profit levels ultimately recovering to pre-pandemic levels.

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

In Movestic we are nearing completion of our digitalisation programme and in Scildon we are coming to the final stages of modernising our pensions processes. This is expected to have a positive impact on both costs and pension new business levels in Scildon, with the business well positioned to take advantage of the anticipated growth in the defined contribution market. The programme will then move to the term product migration through 2021 and into 2022, delivering expected efficiencies and strengthening the business's market and operating position. The expected costs and benefits are included within the 2020 year end position.

Solvency

The group continues to show a robust solvency ratio of 156% at 31 December 2020 (31 December 2019: 155%). The closing solvency position is stated after recognising the £21.4m cost of the proposed final dividend, which is expected to be paid in May 2021.

To further improve capital efficiency we have also chosen to apply the volatility adjustment in the UK in 2021, which will be implemented alongside plans to refine the mix of assets that back certain non-linked policies in the UK, following approval from the PRA.

Regulation and governance

IFRS 17

Our programme has progressed well during the year. Notably we selected Willis Towers Watson to provide a group-wide tool to calculate the contractual service margin and store the associated data and implementation of the tool commenced during the second half of 2020. As part of our continual assessment of our plans, we have increased our budget to reflect the complexity and scale of the programme and have fully provided for the costs in our solvency position. Looking forward, 2021 will be focused on the operational implementation of the CSM tool and associated processes, and as such is a key priority for management and the group board.

We continue to be of the view that IFRS 17 should not have any significant bearing on the commercial assessment of Chesnara, with our expectation that capital management decision making will continue to be driven by regulatory solvency and Economic Value as opposed to our IFRS results and position.

Regulatory compliance

Compliance with regulation remains a priority for the group. We have continued to maintain a positive and constructive relationships with regulatory bodies across the group.

Governance framework

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

Corporate purpose and Section 172 reporting

Chesnara has always assessed its corporate purpose by considering the following eight aspects of our business and by looking at the business from the perspective of all stakeholders. Increased emphasis on reporting in line with Section 172 of the Companies Act (S172) has therefore not required any notable change in our approach to decision making. It has however formalised the requirement to consider and report how we ensure we act in a way to find an optimal long-term balance for stakeholder outcomes. The Report & Accounts include a section at page 26 that demonstrates how we comply with S172 requirements and how our governance framework and culture considers the interests of all stakeholders.

1 Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

'AT CHESNARA WE HAVE ALWAYS MANAGED OUR BUSINESS IN A RESPONSIBLE WAY AND HAVE A STRONG SENSE OF ACTING IN A FAIR MANNER, GIVING FULL REGARD TO THE RELATIVE INTERESTS OF ALL STAKEHOLDERS.'

The section also provides detailed insight into the major decisions the board has made during the year and reports how we have assessed the long-term impact on our stakeholders.

Business model

- Our acquisition strategy is built upon long term commitments to the markets we operate in. Our consolidation model therefore offers a genuine solution to the challenges certain insurance markets face.

The products and services we provide

- We help protect people and their dependants through the provision of life, health and disability cover or by providing savings and pensions which help customers with their financial needs in the future. We seek to provide customers and their advisers with helpful and reliable support.

Sustainability

- We continued in 2020 to build on our sustainability/ESG activities, looking at both our own operational impacts and also investments, whether they are under our own control or by offering sustainable fund offerings for client chosen investments.
- Movestic became a signatory to the UN's Principles of Responsible Investment and targeted five of the UN's Sustainable Development Goals to focus on. This was replicated in the UK through completion of our fund manager rationalisation project and selection of Schroders, with availability of ESG data, reporting and focus being at the core of our decision to place our funds with them for management.

Shareholder proposition

- Investors, especially in a low interest rate environment do have a genuine need for income and hence our investor proposition, track record and responsible approach provides an investment opportunity for individuals seeking sustainable equity-based income.

Taxation

- As detailed in our tax strategy, we adopt a responsible and open approach to taxation and, consequently, pay the appropriate taxes throughout the group.

Staff

- We provide high quality jobs with competitive remuneration and good working conditions both directly and through outsourced arrangements. Across the group staff have been able to work from home during COVID-19 restrictions.

Suppliers and partners

- We seek mutually respectful and sustainable relationships with our suppliers. We believe that supplier relationships only work in the long term if the terms and conditions are mutually beneficial. Our instinct and natural preference is to maintain established long-term supplier relationships where they remain commercially competitive and operationally viable.

Local community

- In the UK our investment and continued commitment to the North West and Preston in particular creates high quality financial services roles outside of London.
- All divisions support local community initiatives to the extent deemed appropriate given our financial responsibilities as a PLC.

Outlook

Sustainability of the business model

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

We believe one consequence of the pandemic will be an acceleration towards remote, digital customer engagement. In light of this I am pleased to report that Movestic's digitalisation programme is nearing completion and Scildon is shortly due to migrate to a new pension platform with enhanced end to end processes. Both these successful developments leave us well positioned to react to shifting customer service demands.

Brexit

We have consistently reported that we expected minimal impact from Brexit. Having now exited the EU we have indeed experienced very limited disruption. The only area where we have seen an impact is with regards to a modest divergence of the Solvency II regulatory rules from the PRA compared to those from EIOPA. The changes have had no financial impact at this stage. We continue to expect a high level of equivalence between regulatory reporting regimes but are mindful of the possibility of an increased level of divergence as the PRA are enabled to move to UK specific terms. 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. That said, we continue to monitor the potential impact of Brexit closely and it continues to be identified within our Principal Risks and Uncertainties (see pages 55 to 59 for more information).

Sustainability of the dividend

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

– **Ongoing cash generation¹ expectations from the existing portfolios**

The cash generation model continues to show a good level of resilience to difficult conditions. Longer term the EcV offers a useful proxy to the total level of future cash. The closing EcV (which conservatively assumes risk free asset returns) represents over 19 years coverage of the current full year dividend.

- **New business** has minimal positive impact on short term cash due to the associated acquisition costs and capital strain. New business does however create future positive cash flows. Incremental future cash flows at the end of 2020 as a result of new business in the year are £22.4m (2019: £27.0m).

– **Strong and stable solvency**

- **Management actions and acquisitions** – there remains the potential for capital management actions and acquisitions to create material future cash generation and capital releases. Actions are scheduled for 2021 including catastrophe risk reinsurance in Scildon and cross group lapse capital optimisation. These actions in particular have a material positive impact on the prospects of future dividends from Scildon.

- **Chesnara plc cash reserves** – in the medium term the existence of £59.9m of cash and instant access liquidity funds on the parent company balance sheet combined with a low 7.4% gearing ratio¹ provide comfort over the ability to support future dividend payments.

Sustainability in ESG terms

We continue to increase our focus on ESG matters and environmental sustainability in particular. We have again ensured our operations are carbon neutral and commit to this as a permanent objective. The focus moving forward will shift towards improving the sustainability characteristics of the investment portfolio.

In light of the above, I am confident that after we have overcome the short-term challenges from COVID-19 including doing everything in our power to keep colleagues and business partners safe, Chesnara is well positioned to continue to provide value to policyholders and shareholders.



Luke Savage
Chairman

29 March 2020

Lighthouse, Oland, Sweden



SECTION B: STRATEGIC REPORT

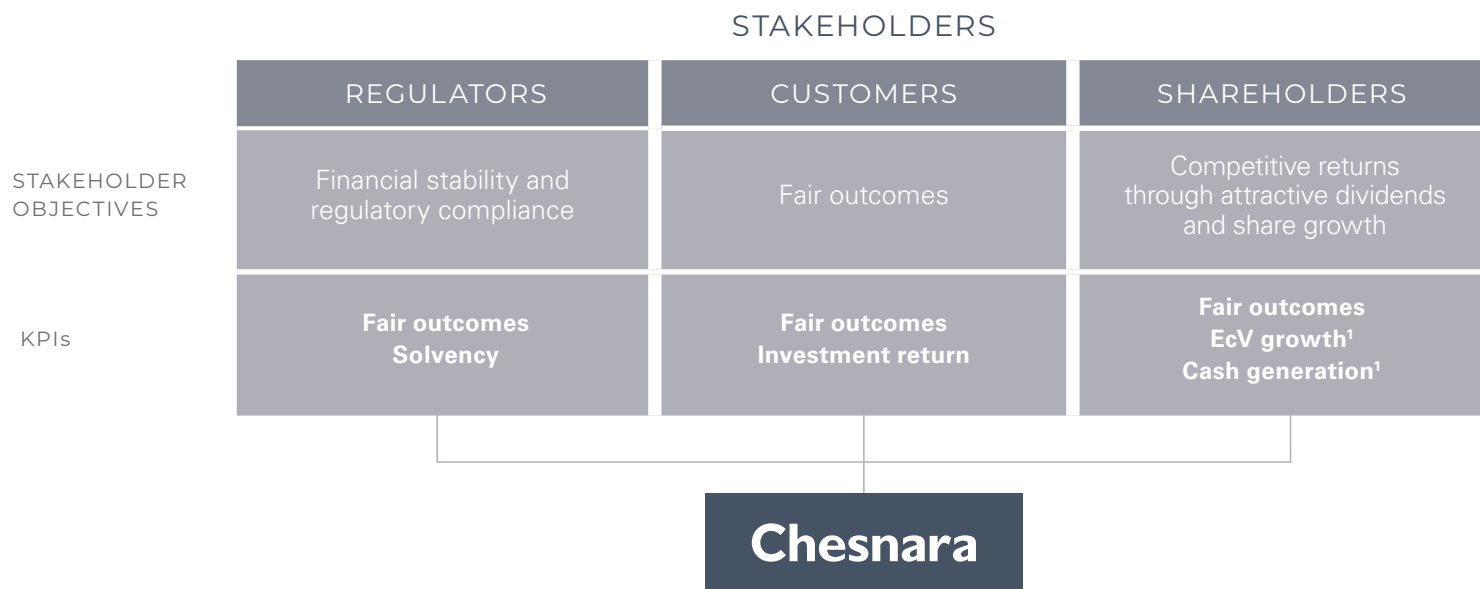


20	—	Overview of our business model, strategy and culture & values
22	—	Our strategy
24	—	Our culture & values
26	—	Section 172
34	—	Business review
41	—	Capital management
44	—	Financial review
51	—	Financial management
53	—	Risk management
60	—	Corporate and social responsibility




OVERVIEW OF OUR BUSINESS MODEL, STRATEGY AND CULTURE & VALUES

Our strategy focuses on delivering value to customers and shareholders. The strategy is delivered through a proven business model underpinned by a robust risk management and governance framework and our established culture & values.

OUR BUSINESS MODEL



HOW WE ORGANISE OURSELVES

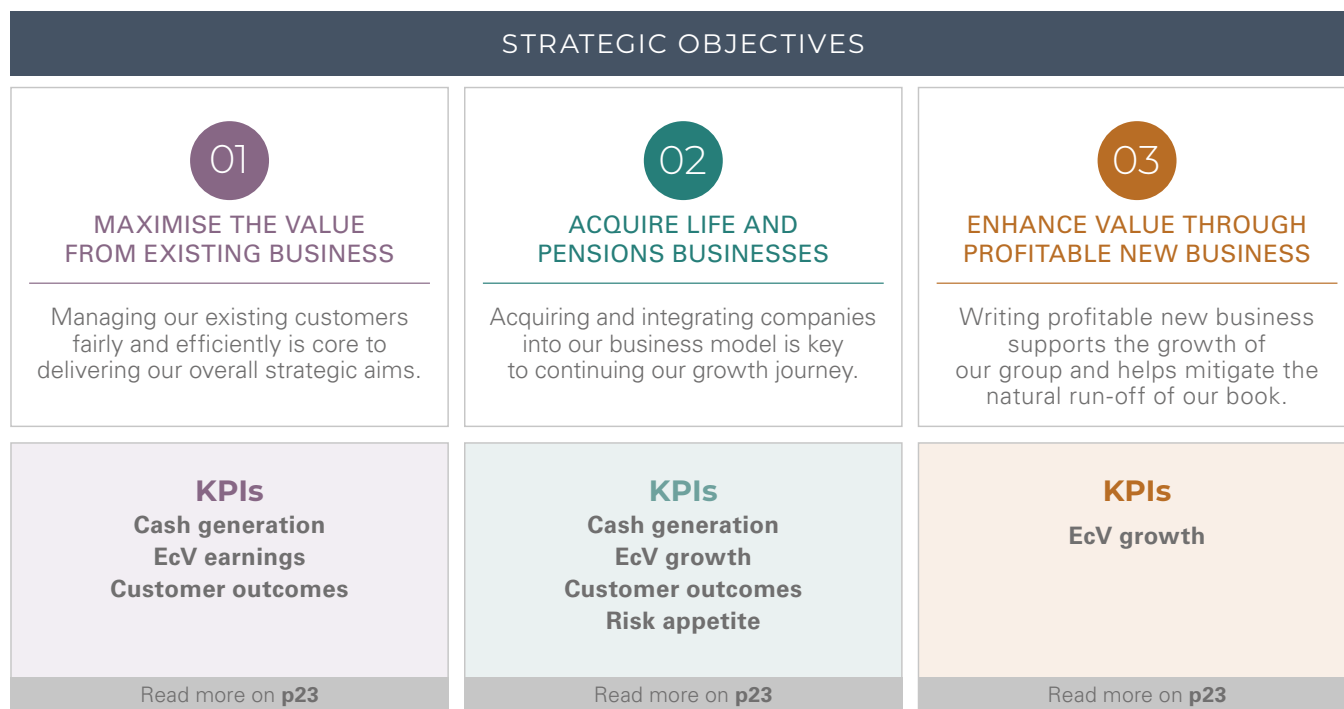
	CASH GENERATION AND ECONOMIC VALUE GROWTH			Read more on p23
DIVISION	UK 	NETHERLANDS 		SWEDEN 
OPERATING COMPANY	COUNTRYWIDE ASSURED	WAARD GROUP	SCILDON	MOVESTIC
STRATEGIC OBJECTIVES	01 02	01 02	01 03	01 03
	Read more on p34	Read more on p38		Read more on p36
KEY PRODUCTS	Underwriting linked pension business; life insurance, covering both index-linked and unit linked; endowments; whole of life; annuities and some with profit business.	Underwriting mainly term life policies, with some unit linked and non-life policies.	Underwriting of protection, individual savings and group pensions contracts.	Predominantly the underwriting of unit-linked pensions and savings. Also provides some life and health product offerings.
NUMBER OF POLICIES	c240,000	c125,000	c205,000	c365,000
DISTRIBUTION METHOD	N/A	N/A	Sold through a broker network.	Largely through a network of brokers, although some is directly to customers.

CHESNARA CULTURE & VALUES – RESPONSIBLE RISK BASED MANAGEMENT

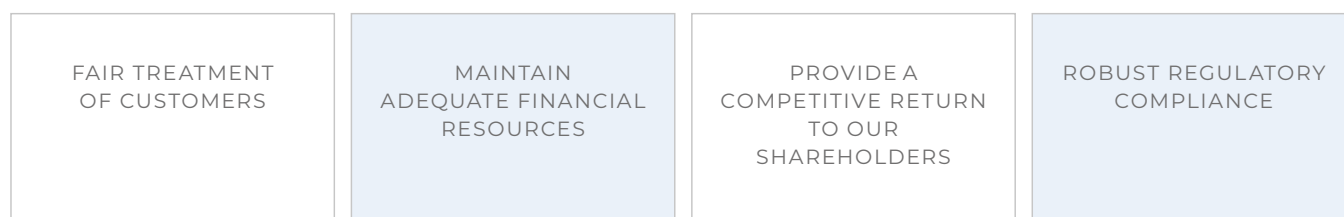
Chesnara is a European life and pensions consolidator, is listed on the London Stock Exchange, and has subsidiaries in the UK, Sweden and the Netherlands. It is closed to new business in the UK but continues to write new policies in Sweden and the Netherlands.

How we organise ourselves, along with our key stakeholders, and products, is shown in the diagram below. The business model supports the successful delivery of our key strategic objectives, whilst maintaining our strong culture & values. These are outlined further on pages 22 to 25.

OUR STRATEGY



OUR CULTURE & VALUES – RESPONSIBLE RISK BASED MANAGEMENT



¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

OUR STRATEGY

STRATEGIC OBJECTIVE

WHY THIS MATTERS

HOW WE DELIVER OUR BUSINESS MODEL

MAXIMISE VALUE FROM EXISTING BUSINESS

The existing books of policies are the principal source of cash generation¹ and are hence at the heart of the investment case for our shareholder.

A centralised governance oversight and corporate management team ensure robust and consistent governance across the group. Operating autonomy is devolved to the divisions to ensure we benefit from our strong divisional management teams. The UK business adopts an outsourced business model. Core operations are not outsourced in Sweden or the Netherlands.

01

ACQUIRE LIFE AND PENSION BUSINESSES

Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the longer-term cash generation potential of the group.

- Identify potential deals through an effective network of advisers and industry associates.
- We assess deals applying well established criteria which consider the impact on cash generation and Economic Value¹ under best estimate and stressed scenarios.
- We work cooperatively with regulators.
- The financial benefits are viewed in the context of the impact the deal will have on the enlarged group's risk profile.
- Transaction risk is minimised through stringent risk-based due diligence procedures and the senior management team's acquisition experience and positive track record.
- We fund deals with debt, equity or cash depending on the size and cash flows of each opportunity.
- Our acquisition strategy includes both UK and non-UK markets.

02

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

The primary focus of our operations is to ensure we manage the existing policy base in an efficient and compliant manner. That said, the Chesnara financial model supports modest incremental value generation through writing new business. New business profits are an important and welcome source of regular value growth which supplements the growth delivered from our existing policy base and periodic acquisitions.

Our two operating subsidiaries that are open to new business are Movestic in Sweden and Scildon in the Netherlands. Movestic primarily focuses on unit-linked pensions and savings business, distributed largely through IFAs, and has a profitability model based upon realistic market shares. Scildon sells protection products, individual savings and group pensions contracts via a broker-led distribution model, and as with Movestic, new business operations assume realistic market shares. For both open businesses, we believe that to achieve higher volumes would require a pricing strategy that may compromise the keen focus on ensuring the business we write is profitable.

03

PRINCIPAL RISKS: FOR FURTHER INFORMATION SEE PAGES 55 TO 59
HOW WE MEASURE DELIVERY
Cash generation¹

Cash generated by the existing business is an important measure for how the business is performing. It is defined as the movement in the surplus of capital resources over capital requirements set by the board. As such cash can be generated by either profits arising in the period or a reduction in capital requirements.

EcV growth

Value generation is measured by reference to the movement in Economic Value¹ over the period.

Customer outcomes

This is measured through monitoring:

- customer service metrics;
- policyholder fund performance against industry and market expectations;
- customer complaint levels; and
- our compliance with regards to regulatory conduct matters.

**RISKS:
WHAT CAN STOP US
MEETING THIS OBJECTIVE**

- **PR1** Adverse investment market conditions can result in lower assets under management and hence lower fee income from unit-linked business. For products with guarantees, this can increase the cost of fulfilling the guarantees.
- **PR4** Increased lapses on cash generative/value enhancing products.
- **PR4 PR6** Loss of key brokers can result in increases in the level of customers moving to competitors.
- **PR2** Regulatory change can potentially impact the cash flows arising from the existing business.
- **PR5** Expenditure levels could exceed those assumed.
- **PR1** Foreign currency fluctuations can impact the sterling value emerging from overseas operations.

**RISKS:
WHAT CAN WE DO
ABOUT THIS**

- Where appropriate, active investment management with the aim of delivering competitive investment returns for policyholders.
- Outsourcer service levels that ensure strong customer service standards.
- Expense assumptions are deemed to be realistic and the cost base is well controlled, predictable and within direct management influence.
- Close monitoring of persistency levels and strong customer service standards help manage lapse rates and ensure customers do not unknowingly exit when it is not in their interest to do so.

UPDATE
UK

Pages 34-35


Sweden

Pages 36-37


Netherlands

Pages 38-39


Cash generation

Collectively our future acquisitions must be suitably cash generative to continue to fund the Chesnara dividend strategy.

EcV enhancement

Acquisitions are required to have a positive impact on the Economic Value per share.

Customer outcomes

Acquisitions must ensure we protect, or ideally enhance, customer interests.

Risk appetite

Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.

- **PR3** There is the risk that if a lack of suitable acquisition opportunities come to market at a realistic valuation, the investment case for Chesnara diminishes over time.
- **PR3** There is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the group.
- Operating in three territories increases our options thereby reducing the risk that no further value adding deals are done.
- A broader target market also increases the potential for deals that meet our strategic objectives.
- Each acquisition is supported by a financial deal assessment model which includes high quality financial analysis. This is reviewed and challenged by management and the board, mitigating the risk of a bad deal being pursued.

Page 40

EcV enhancement

We measure the amount of Economic Value added through selling new contracts. The value added takes full account of all costs incurred to ensure the profit represents true incremental value.

- **PR8** The attractiveness of products can be influenced by economic conditions, politics and the media.
- **PR6 PR8** New business volumes are sensitive to the quality of service to intermediaries and the end customer.
- **PR8** In Sweden, new business remains relatively concentrated towards several large IFAs.
- **PR8** A competitive market puts pressure on new sales margins.
- In Sweden, continue to extend the breadth of IFA support and develop more direct to customer capabilities.
- Ensure high quality of service to existing network of intermediaries.
- Focus on other margin drivers beyond product pricing, such as the fund management operation.
- In the Netherlands, enhance business processes and product offering to be attractive to brokers and consumers.

Sweden

Pages 36-37


Netherlands

Pages 38-39



¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

OUR CULTURE & VALUES

Our long established and proven culture & values underpin the delivery of our core strategic objectives. Risk management is at the heart of our robust governance framework. Our values are strongly influenced by the recognition of our responsibility to a range of key stakeholders including customers, regulators and our investors.

CULTURE & VALUES

WHY IMPORTANT?

FAIR TREATMENT OF CUSTOMERS

Maintaining adequate financial resources is at the heart of good business conduct. Effective capital management is a key requirement that underpins our cultural objectives. Further information regarding the group's solvency position is included on pages 41 to 43.

The fair treatment of customers across the group is our primary responsibility. It is also important to the Chesnara business strategy as it promotes stronger relationships with our customers, distributors and regulators. When applying the terms of our customer contracts, coupled with guidance and requirements set out by our local regulators, we place a high priority on taking account of the fair treatment of our customers.

RESPONSIBLE RISK-BASED MANAGEMENT FOR THE BENEFIT OF ALL OF OUR STAKEHOLDERS

Risk taking is a key part of our business model - taking the 'right risks' and managing them well is essential to our success. We achieve this by understanding the key risk drivers of the business plan and strategy and by making sure we monitor these risks and take appropriate risk-based decisions in a timely fashion, for the benefit of all of our stakeholders.

PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS

As a public company, it is imperative that we offer an attractive investment proposition. Given the majority of our investors hold our shares in 'income funds', it is important that we deliver an attractive and sustainable dividend. We also recognise the benefit of an investment that offers clarity and consistency of performance.

ROBUST REGULATORY COMPLIANCE

Working constructively with our regulators and complying with regulatory requirements and guidance is imperative to the delivery of our objectives. The regulators' desire for robust and responsible governance is very much part of our culture and a principal aim of the Chesnara board.

WHAT WE HAVE DONE

- Our primary focus during 2020 was to ensure that we dealt with the challenges of COVID-19 in a robust way throughout the group. From a customer perspective this primarily involved ensuring that our key business services affecting customers continued largely unaffected whilst we transitioned to, and maintained, a largely remote working model. It is pleasing to say that this process took place with minimal business disruption.
- Across the group, we have continued to deliver a good standard of customer service.
- The UK division completed the implementation of its customer strategy in support of regulatory guidelines, embedding revised processes into business as usual operations.
- The UK's administrative outsource service partners have delivered within stringent service level requirements.
- Where complaints do arise, we continue to manage them in accordance with best regulatory practice.
- We closely monitor any regulatory developments to ensure we continue to treat our customers fairly in accordance with regulatory requirements.

- The ORSA process has been fully utilised in the context of providing risk oversight over the impact of the COVID-19 pandemic.
- Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review.
- We have continued the journey to optimise the capital efficiency of the assets held by Scildon, having sold corporate bonds during 2019 which have been replaced by mortgage assets during 2020.
- We have agreed with the Dutch regulator, the DNB, to reduce the internal capital management buffer for the Dutch entities from 85% to 75%.
- In the UK business we have applied for the Volatility Adjustment during this year, which will be implemented following approval from the PRA.

- Continued our dividend strategy of increasing our dividend each year, even during turbulent investment market conditions.
- Maintained a robust solvency position in all divisions and at group level which supports the continued dividend strategy.
- Expanded operations in the Netherlands by completing the acquisition of a portfolio of term life and savings products from Argenta Bank. A further portfolio acquisition was agreed in the territory, due to be announced complete in 2021.

- Maintenance of robust levels of solvency throughout the group and all divisions throughout the year.
- Continued to place a high priority on compliance and maintaining an open dialogue with our regulators.
- Progressed our ESG strategy and laid the foundations for further progress in 2021.
- Progressed the IFRS 17 project including the selection of a group-wide calculation engine supplier.
- Demonstrated our operational resilience through how we have responded to the challenges of COVID-19.

THE OUTCOMES

- Generally low level of complaints across the group has continued.
- Transparent customer communications, supporting better customer outcomes.
- No deterioration in service levels and any claims, including COVID-19 claims, have been paid in business as usual expectations.

- Robust solvency despite the significant market volatility in the year as a result of COVID-19.
- Ongoing constructive dialogue with regulators across the different territories in which the group operates.

- Dividend track record continues, with 3% dividend growth in 2020.
- Over the past five years, £152.9m of dividends have been paid.
- Further strengthening our position in the Netherlands with value adding portfolio acquisitions, enhancing cash generation potential.

- Ongoing constructive relationships with UK, Swedish and Dutch regulators.
- Continued adherence to internal governance policies and principles.
- Achieved UN Principles of Responsible Investment (UNPRI) signatory status for Movestic and, via our outsourced investment management supplier Schroders, for Countrywide Assured, along with a group-wide commitment to identified goals within the UN's Sustainability Development Goals (UNSDG).

SECTION 172 • THE BOARD’S APPROACH

Our Section 172 reporting seeks to communicate the board’s approach to decision-making, who our key stakeholders are and how they are considered by the board when making decisions.

Section 172 statement

The directors of Chesnara believe that they have acted in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have had regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term;
- b) the interests of the company’s employees;
- c) the need to foster the company’s business relationships with suppliers, customers and others;
- d) the impact of the company’s operations on the community and the environment;
- e) the desirability of the company to maintain a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the company.

The following disclosures provide further insight supporting the above statement over the course of 2020. The disclosures have been split into three key sections:

The board’s approach	The overall approach taken by the board in ensuring that the requirements of Section 172 are met.
Key stakeholders	This covers the key stakeholders that the board considers are important to the long-term success of the company; how the company depends on these stakeholders; how key stakeholders are impacted by the decisions of the company; and how we engage with those stakeholders.
Significant decisions	This covers the significant decisions made by the board during the year and how the directors have considered key stakeholders in making these decisions.

THE BOARD’S APPROACH

Role of the Chairman

As described on page 72 within the Corporate Governance Report, it is the role of the Chairman to lead the board in the determination of the group’s strategy, to ensure that the board is furnished with sufficient information in order to support its decision making, and to ensure that relevant stakeholders have been taken into account when making decisions.

Business planning

The principal process supporting the longer-term decision making of the board is the group business planning process. This is a three-stage process that takes place throughout the course of the year, as follows:

<p>STAGE 1</p> <p>Strategic planning</p> <p>The first stage of the business planning process incorporates reviewing and challenging the strategy of the group as a whole. It presents an opportunity to ‘stand back’ and review the overall strategy of the group. Approving the strategy provides a framework for the group and its subsidiaries to prepare more detailed operational plans.</p>	<p>STAGE 2</p> <p>Review and challenge of divisional and group operational plans</p> <p>Following completion of the group driven strategic planning process, and any associated feedback to the operating divisions of the group, operational plans are developed and critically reviewed by the group. The key objectives within the operational plans are explicitly linked to the strategic objectives of the group in order to ensure that the key management actions that have been identified support delivery of the group strategy.</p>	<p>STAGE 3</p> <p>Detailed business plans supported by financial projections</p> <p>Following review and feedback from the operational planning stage, final business plans are produced at both a divisional and group level. These include the final operational deliverables for the short to medium term and their associated consequences, alongside the projected financial outcomes of delivering the plans.</p>
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This section of the strategic report is therefore designed to provide insight into how the directors of Chesnara have discharged their responsibilities under Section 172 of the Companies Act, and in particular having had regard to the matters set out in Section 172 (1) (a) to (f) when performing their duties.

The business planning process for 2020 confirmed that the board wishes to continue to pursue the following strategy:

01

MAXIMISE THE VALUE FROM EXISTING BUSINESS

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

The strategy of the group is executed whilst ensuring that the group conducts its affairs in line with the following core culture and value principles:

- Fair treatment of customers
- Responsible risk-based management for the benefit of all of our stakeholders
- Provide a competitive return to our shareholders
- Robust regulatory compliance
- Maintain adequate financial resources

These are described in more detail on pages 22 to 25.

Each key objective within the group business plan is supported by relevant information in order to support the review and challenge process by the board, having regard to the factors required by Section 172 (1) (a) to (f).

Further information on how the board considers each key stakeholder group is provided on pages 28 to 30.

As referred to above, business plans are supported by associated financial budgets and projections. This helps to ensure the both the shorter terms and longer-term financial consequences of following the plan are appropriately considered in the context of all our stakeholders, in particular our shareholders. The key financial items / metrics that are projected include are shown to the right.

Having a clear view of all of these metrics supports the directors in assessing whether the business plan is expected to meet the expectations of our stakeholders.

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.

Key financial metrics in the business planning process:



ECONOMIC VALUE¹



CASH GENERATION¹



SOLVENCY



IFRS PROFITS



DIVISIONAL AND GROUP DIVIDENDS



EXPENSES



NEW BUSINESS PROFIT EXPECTATIONS¹

Corporate governance and responsibilities map

Complementing the business planning process for making decisions is the existence of the 'Chesnara Corporate Governance and Responsibilities Map', which operates at group board level and with business unit equivalents in place to reflect territory considerations. The objectives of the maps are to '...set out the mechanisms of governance for Chesnara and the framework of governance requirements to be observed across the group, including principles, policies, delegations of authority and decision-making arrangements'. Each map contains a framework that supports decision making and includes relevant guidance on what decisions can be made locally and what requires escalation to the Chesnara board. It also provides guidance on what information is required to support board decision making.

Board papers and matters discussed

The board agenda and associated supporting documents are designed to support the board in directing the business, which includes, amongst other things, discharging its responsibilities in relation to Section 172 (1) (a) to (f). For each meeting, a suite of relevant board papers is produced, with one of the key sources of information produced for the board, over and above the group business planning process, being the group's quarterly MI pack. This is designed to be a 'one stop' holistic view of the group as a whole and covers, amongst other things, the following items of relevance to the requirements of Section 172:

- Divisional updates, including financial results, business plan progress, key customer initiatives, regulatory interactions, key outsourcer / supplier matters etc.;
- Matters pertaining to investor relations;
- Consolidated financial results across various different metrics;
- Investment performance analysis, covering both customer and shareholder returns;
- Progress updates on key objectives within the business plan;
- Risk matters affecting the group;
- Regulatory updates across the group; and
- Internal audit matters.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

SECTION 172 • KEY STAKEHOLDERS

The following table identifies the key stakeholders that the board considers are important to the long-term success of the company, primarily because of the businesses' dependencies on the stakeholder group (as explained in column 2 of the table). It provides some insight into how the company engages with these stakeholders and how they are considered when making strategic decisions. Matters arising in relation to each stakeholder group are communicated by management to the board in MI pack at each board meeting. This statement is intended to provide visibility of the considerations by the directors in the performance of their duty. It is worth noting that not all stakeholders have the same interests and whilst there is considerable overlap, they can at times conflict. The board's role is to weigh these factors up when setting the strategy and operational plans of the business.

	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
CUSTOMERS	Our customers are key to the long-term success of the group, both in terms of retaining existing customers and attracting new ones to our open books of business. Without our customers, Chesnara would cease to exist.	Our primary concern is ensuring that our customers have policies with a financially strong company that treats them fairly and meets their expectations and needs. Our financial management, culture and values statements ensure that this is embedded across the group. We closely manage all aspects of the customer journey, covering customer experience, communications, policyholder expectations, product value for money, and our solvency.	<p>Our primary engagement with customers comes from a combination of outward communication from the company, coupled with the company dealing with customer contact, be it through policy changes, queries or claims.</p> <p>From an outwards communication perspective, our aim is to ensure we provide transparent and understandable information to our customers, be it in the form of regular written letters / booklets, information available on our website or through any other material made available to customers.</p> <p>From the perspective of responding to customer contact, we seek to make our processes as helpful to the customer as possible, mindful of different customer group preferences. This involves ensuring that our customer contact staff are well trained for telephony or email correspondence and making other technology available where feasible (such as the use of apps).</p> <p>We obtain feedback from on the way we engage with our customers through periodic market research or customer focus groups.</p>	<p>Policy lapses</p> <p>Complaints</p> <p>Customer survey scores</p>
SHAREHOLDERS	Having a strong and stable shareholder base is seen as critical for the long-term success of the group. Our shareholder support facilitates pursuing our long-term strategy, including the potential for raising new capital for acquisition purposes.	Any business decision that is made that affects either the future dividend payments of the group, or its long-term sustainability will be of significant interest to our shareholders. If either of those elements are put under pressure, it is likely to reduce confidence in the group, and could lead to a reduction in shareholder returns.	<p>We primarily engage with shareholders through the following key channels:</p> <ul style="list-style-type: none"> – Formal public financial reporting, which we produce every six months. – Public and private presentations to shareholders immediately after issuing our financial results. – Our Annual General Meeting. – Periodically, we hold 'investor days' with our shareholders, which are designed to provide further insight into our business and give shareholders an opportunity to meet a wider range of Chesnara senior management. – Periodically, we will contact shareholders for feedback in advance of formal publication of particular matters, such as material changes to our remuneration policy. <p>In the event that we are looking to raise additional equity our shareholders are engaged at the appropriate point in the process.</p>	<p>Significant shareholder purchases / sales</p> <p>Overall shareholder mix</p> <p>Shareholder feedback</p> <p>Share price</p>
BANKS	Maintaining a strong relationship with our banks is key. This helps to ensure that day-to-day banking remains efficient and cost effective, longer term lending remains accessible and compliant and potential new facilities are competitive and readily available. We are required to manage our finances in such a way that complies with the covenants attached to our debt facilities.	The banks earn a return on the facilities that are provided to the group. Chesnara's role is to ensure that we manage our finances and strategy in a way that minimises the risk of loss to our lenders, whilst also enabling further funding opportunities by continuing to grow our business.	Our regular engagement with banks takes the form of quarterly covenant compliance reporting, which is required for our existing debt arrangements. On a more ad-hoc basis we will engage with our bankers in the event of a change in our business or to seek new funding, say to support an acquisition. In the event of an acquisition where we would like to secure more funding, we work with our bankers to ensure that we are providing relevant information in order to support the banks' loan decision making process.	<p>Gearing ratio¹</p> <p>EcV¹ position</p> <p>Solvency</p>

	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
INTERMEDIARIES	<p>The new business operations of Scildon and Movestic utilise intermediaries in order to distribute their products, with most new business being derived from this channel rather than directly sales to the end customer. As a result we rely on good quality intermediaries who understand our products and customers well.</p>	<p>Selling our products will be a source of revenue for our intermediaries. When dealing with the end customer, intermediaries will rely on quality information being provided by us in a timely manner.</p>	<p>We strive to work closely with our intermediaries, engaging in a number of ways. In both Movestic and Scildon, all intermediaries have access to a partner website, where they can administer customer processes and obtain information as required. The Swedish division also host an annual conference to engage with intermediaries, facilitating two-way discussion around products, services and market developments. Other areas of engagement include frequent meetings with intermediaries, on an individual basis. All stakeholder engagement was undertaken in a COVID-19 appropriate manner.</p>	<p>Sales volumes by intermediary</p> <p>Profitability by intermediary in Movestic</p> <p>Customer complaints by intermediary</p>
OUTSOURCERS	<p>Outsourcers play a significant part in the day to day operations of our activities, especially in the UK. Without our outsourcers operating effectively, we may see an impact on our performance, and our relationship with customers, which could lead to potential regulatory issues.</p>	<p>Our outsourcers have an opportunity to share in the growth of the group through further acquisitions or portfolio transfers. Our outsourcers rely on the ongoing financial stability of the group in order to ensure that the services provided under any existing arrangements continue to be paid for by Chesnara.</p>	<p>We view having strong, open and honest relationships with our outsourcers as key to the long-term success of our business. We engage with our outsourcers through various scheduled meetings, focusing on a combination of specific function-driven relationship meetings and wider meetings focusing on the overall relationship. We view it as important that our outsource partners are suitably informed regarding business developments in Chesnara, and that Chesnara is aware of any relevant business changes in our outsourcers. This ongoing communication enhances the relationships and works towards maintaining the longer-term success of the group.</p>	<p>Service levels</p> <p>Financial strength</p>
EMPLOYEES	<p>Our people are our greatest assets and create and deliver the strategy of the group. We recognise that to be able to meet the expectations that we have set ourselves, we need to ensure that we continue to attract, promote and retain the best candidates. Without high performing and motivated staff Chesnara would not be able to deliver against its strategic aims.</p>	<p>The group has a significant impact on its employees, be it through its short-term and long-term financial success, its strategy, operational plans and operating model. We aim to provide a place of work that supports and develops the group's employees and we recognise that the group's day-to-day culture and its overall remuneration and benefits package also has a significant effect on employees.</p>	<p>Chesnara, and its subsidiaries have various mechanisms in place to ensure appropriate levels of engagement exist with employees. This involves:</p> <ul style="list-style-type: none"> – Completing staff feedback surveys. – Holding regular update briefings covering matters such as business performance, policy updates or any other matters that are relevant to employees. – Holding regular employee forums to discuss any employee related matters. – Having an appointed non-executive director who is responsible for employee-related matters. – Ensuring that we have relevant employee policies in place and that these are available to our employees. – Having a robust and transparent performance management framework in place. <p>Our corporate and social responsibility statement on pages 60 to 65 provides further information.</p>	<p>Staff surveys</p> <p>Feedback from employee forums</p> <p>Feedback from appointed NED</p> <p>Staff turnover</p>

1 Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

SECTION 172 • KEY STAKEHOLDERS (CONTINUED)

	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
REGULATOR	<p>Compliance with regulatory requirements is fundamental to the success of the group. Without it, we would not be able to maintain our existing status as a life and pensions provider.</p>	<p>The manner in which Chesnara manages itself, both from a prudential and conduct perspective, will dramatically affect how regulators view and interact with Chesnara and its subsidiaries. The higher risk that the group is deemed to be to the regulator, the more focus that Chesnara and its subsidiaries are deemed to require. In addition, through being a member of the ABI, Chesnara also has the potential opportunity to respond to and shape future regulatory change in the UK.</p>	<p>Our engagement with regulators generally takes the following forms:</p> <ul style="list-style-type: none"> – Regulators across the group typically have regular routines and practices in place to support the delivery of their oversight objectives. This typically takes the form of periodic meetings with management, and also involves the group furnishing regulators with relevant information. Chesnara fully supports this process. – The submission of quarterly and annual financial and risk reporting. – Chesnara management will also typically engage with regulators as and when required should there be a business update that would warrant so, for example at the appropriate point during an acquisition process. 	<p>Relationship with supervisory team</p> <p>Formal feedback from regulators</p>
SUPPLIERS	<p>The group has a relatively small but stable set of suppliers, who provide quality and efficiency, and whom we rely upon. Most of our suppliers are those providing professional services to which the group rely upon high quality support and advice.</p>	<p>For those key suppliers of Chesnara, we are likely to be an important source of revenue, and therefore Chesnara’s ongoing success in terms of delivering its growth plans and remaining financially stable will be of significant interest to our suppliers.</p>	<p>A number of Chesnara’s suppliers take the form of the provision of a service or advice as opposed to the supply of goods. For these suppliers our engagement focuses on ensuring that the service or advice is fit for purpose and meets the intended scope. This typically involves up front interaction in scoping the work, coupled with close monitoring of progress throughout the duration of the services.</p> <p>The group ensures that it adheres to supplier payment terms.</p>	<p>Adherence to timescales</p> <p>Level of overruns</p> <p>Quality of service</p>
ENVIRONMENT	<p>Changes to the environment, and specifically climate change and global warming, affects the way in which we operate our businesses at Chesnara and, through investments, the returns made by our customers and our shareholders.</p>	<p>Our operations’ impact is broadly split into energy use from our offices and emissions from business travel and commuting. The impact made by our investment choices or those of our customers, are more wide-ranging and will be a key focus of our attention in 2021.</p>	<p>Chesnara’s aim is to take reasonable steps to minimise the impact that our day-to-day operations have on the environment, as documented on pages 60-65.</p> <p>Climate change is recognised as a risk and is monitored/ reported as part of the risk management function.</p> <p>For policyholders who choose where they invest, we provide access to a range of ethical and environmentally sustainable funds and have made progress both in what is offered and improvements in our customers’ abilities to gain information to make an informed decision, more of which can be found in our corporate and social responsibility statement on pages 60 to 65.</p> <p>For our own investments we have made progress in 2020 at promoting sustainability and ESG considerations in our investment management decisions and have plans to develop this further in 2021 in line with our commitments to UNPRI and UNSDG.</p>	<p>CO₂ emissions</p> <p>Energy usage</p>

SECTION 172 • SIGNIFICANT DECISIONS

The principal process that the board uses to make shorter and longer-term decisions is the group business planning process. Key decisions also arise outside of the business planning process depending on how the business develops during the year and the challenges and opportunities that it faces; the emergence of the global COVID-19 pandemic is one such example. The table below lists the key decisions made by the board during the 2020 and how the directors have considered the factors required by Section 172 in making these decisions.

SIGNIFICANT DECISION DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

RESPONSE TO COVID-19 PANDEMIC

- **Overview:** During 2020 COVID-19 emerged as a global pandemic. The group and board had to respond appropriately to the economic, operational and staff impact of COVID-19.
- **Key considerations and decision:** The board's role was to oversee the group's response to COVID-19 as a global pandemic. The board's focus fits into three key areas:
 - *Financial impact:* The board's role was to closely monitor the impact of the investment market volatility on the group from a solvency perspective. The board was also involved in the decision making process regarding divisional dividend remittances, and assessed that, from a liquidity perspective, it was acceptable to defer payment of the year end 2019 dividends from subsidiaries to later in 2020 than usual to enable further monitoring of the COVID-19 situation.
 - *Operational impact:* From an operational perspective the group and its subsidiaries have been required to move to a largely remote-working environment. The initial response involved the invoking of Crisis Management Teams across the group. The Group Executive Committee met regularly at the start of the pandemic and provided weekly updates to the board in order to enable it to oversee and challenge the group's response. In particular, the initial focus was on ensuring that we continue to treat customers fairly. In light of the initial uncertainty surrounding COVID-19, the board decided that it would be appropriate to defer the issue of the 2019 results and Annual Report & Accounts from 31 March to 15 April. This enabled more thorough and considered dialogue between the group and its auditors in order to ensure appropriate disclosures were made in the 2019 accounts regarding its impact.
 - *Staff impact:* Staff health and wellbeing from continued remote working has been a primary concern of management and the board. The board has been overseeing the potential inefficiency from prolonged remote working and a lack of available childcare for families of employees, and permitted flexibility in the timing of certain planned activities over the course of 2020 to accommodate this. As part of the transition to a remote working environment the board supported the decision to invest modest amounts to support staff in setting themselves up to work from home.

Overall the group and board's response to COVID-19 has been multi-faceted, seeking to consider the impact on various stakeholder groups. No decisions arising from the COVID-19 situation have been deemed to have been made by the board that fundamentally affect the long-term outlook for the group.
- **Stakeholder impact:**
 - *Investors:* Investors are interested in how the group has responded to, and been affected by, the pandemic in the context of how it has affected the group's financial position and outlook.
 - *Regulators:* Conduct regulators across the group are interested in ensuring that the group continues to meet the needs and expectations of its customers. Prudential regulators paid close attention to the financial impact of COVID-19 on the group.
 - *Staff:* Staff across the group are affected by the decisions of management and the board, as the group has transitioned to a largely remote working environment over the course of the year. Employees were paid in full throughout without the company taking advantage of government support schemes such as furlough.
 - *Customers:* Customers are a key stakeholder in the group's response to COVID-19 and any associated board decisions. In particular they are keen to ensure that their policies remain safe and secure and customers also expect to continue be treated fairly.

APPLICATION OF CAPITAL MANAGEMENT AND DIVIDEND POLICIES

- **Overview:** Every year the board is required to consider what level of dividends are appropriate for shareholders, whilst also ensuring that it continues to adhere to its own capital management policy. Dividend proposals are subject to board approval, with proposed final dividends being included in a resolution voted for at the Annual General Meeting.
- **Key considerations and decision:** The Directors Report on page 104 provides information on the key considerations made by the board when approving dividends. The aim is to satisfy investor expectations by delivering an attractive yield, with steady growth where possible. That said, this yield cannot and will not be delivered at the expense of financial security, be it through solvency or liquidity. The board's capital management policy does not permit a dividend to be paid such that, after the payment of that dividend, the group solvency ratio falls below 110%. In approving a dividend the board is presented with a paper by management which considers the various aspects of the dividend decision, including cash generation, solvency, the group's acquisition strategy and investor expectations. The dividend decisions made by the board in the year gave full consideration to the impact of COVID-19 on the group, including the potential for further investment market disruption. During 2020 the board approved the year end 2019 final dividend, amounting to 13.87p per share, and the interim 2020 dividend of 7.65p per share.
- **Primary beneficiary:** Dividend decisions are made primarily for the benefit of our shareholders.
- **Other stakeholder considerations:**
 - *Banks:* Our bankers are considered in terms of the impact of distributions on our liquidity and solvency position.
 - *Regulators and customers:* These stakeholders are considered in the context of ensuring that the solvency position of the group post dividend remains robust.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

SECTION 172 • SIGNIFICANT DECISIONS (CONTINUED)

SIGNIFICANT DECISION DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

ACQUISITIONS IN THE YEAR

- **Overview:** The board is required to approve any acquisitions that the group enters into. In addition to this, the board reviews and approves any material acquisition offers.
- **Key considerations and decision:** During December 2020 the board approved entry into an agreement with Brand New Day Houdstermaatschappij N.V. in the Netherlands to acquire c9,000 policies, the vast majority of which are term life products. The acquisition, which is likely to complete during the first half of 2021 will be delivered through the group's Dutch subsidiary, Waard Leven N.V. Whilst the transaction is not particularly large in the context of some historical transactions, it furthers the group's acquisition and consolidation strategy in the Netherlands.
- **Primary beneficiary:** The transaction is expected to deliver a small EcV¹ gain on completion, which will accrue to the benefit of the shareholders.
- **Other stakeholder considerations:**
 - *Regulators:* This transaction required approval by the Dutch regulator, De Nederlandsche Bank (DNB), who needs to ensure that the policies being transferred will be prudently managed, and that the transaction itself does not cause any prudential or conduct issues for Waard Leven.
 - *Customers:* The customers of the policies being transferred will be interested in ensuring that their policies continue to be administered in line with expectations, and that they continue to be prudently managed.

REVISED INVESTMENT MIX AND VOLATILITY ADJUSTMENT APPLICATION IN THE UK

- **Overview:** During the year the board approved the decision for Countrywide Assured to apply for the Volatility Adjustment in conjunction with a proposal to refine the mix of investments that are used to back certain non-linked liabilities.
- **Key considerations and decision:** The business plan for the UK division included an initiative to further develop the strategy for assets backing certain non-linked liabilities, with a view to optimising the risk/reward relationship and achieving higher returns than the current portfolio. By design this introduces a little more spread risk into the portfolio. At the point of implementing the new portfolio, the UK division intends to apply the Volatility Adjustment. This is a solvency calculation method, which requires PRA approval, and will help reduce the artificial volatility in the balance sheet caused by movements in the value of assets when bond spreads change that could otherwise encourage pro-cyclical behaviour. The board considered the business case for the intended asset portfolio and associated application for the Volatility Adjustment and approved an application to the PRA in December 2020. This followed a pre-application process that took place with the PRA earlier in the year. We plan to implement this change to our investment mix at the same time as applying the Volatility Adjustment following approval from the PRA.
- **Primary beneficiaries:** The main stakeholder group to benefit from this initiative will be the shareholder, with higher asset returns enabling stronger emergence of surplus, and the Volatility Adjustment resulting in less volatile surplus emergence.
- **Other stakeholder considerations:**
 - *Regulators and customers:* As part of this process it was important that the board considered other stakeholders, primarily the PRA in its role as our prudential supervisor and customers in their interests in ensuring their policies are held with a financially secure organisation. The board concluded that the refined investment approach, coupled with the application of the Volatility Adjustment would have no material impact on the PRA's supervision of the UK business or any customer detriment.

SCILDON'S INVESTMENT IN A NEW POLICY ADMINISTRATION SYSTEM

- **Overview:** As noted in the 2019 group annual report and accounts, the group continues to invest in its IT infrastructure across the group. This includes replacing the current policyholder administration system in Scildon and work has continued on this during 2020.
- **Key considerations and decision:** The board continued to consider the pros and cons of this IT development at key milestones and project stage gates, including the associated risks, the financial impact and viable alternatives. Based on this assessment, the board decided to continue to progress with the implementation.
- **Primary beneficiary:** There are three primary beneficiaries:
 - *Shareholders:* The ongoing investment in IT is designed to provide value enhancements to the business and hence to our shareholders. The target IT infrastructure is designed to be more robust and more efficient to run.
 - *Customers and brokers:* Of equal importance is the benefit to customers and the interactions with brokers. The new system will support a more digitised service, increasing speed, optionality and efficiency to the brokers and end customer.
- **Other stakeholder considerations:**
 - *Employees:* The staff impact was appropriately considered by the board in making this decision, both in terms of the delivery of the programme and the target operating model.
 - *Suppliers:* Having reliable suppliers to support the implementation and, where relevant, the ongoing maintenance of the new system is an important consideration when making this decision.

SIGNIFICANT DECISION DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

APPROVAL OF
HIGH LEVEL ESG
STRATEGY

- **Overview:** In 2020, the board reviewed progress made across the group on our sustainability and ESG credentials and also reviewed upcoming regulatory requirements and guidance likely to arise from the Task-force on Climate Financial Disclosure (TCFD) and Sustainable Financial Disclosure Regulation (SFDR).
- **Key considerations and decision:** The review highlighted progress made across the group but also that more was required to fully embed sustainability and ESG considerations into our operating model, the investment offering to our customers and our own investment decisions. The board approved work to formulate a Group-wide ESG strategy to capture our intentions and progression of further work to embed our commitments to UNPRI and UNSDG.
- **Primary beneficiaries:** The primary beneficiaries of this decision are:
 - *Shareholders:* As it improves the sustainability of investment returns.
 - *Regulators:* Regulatory guidance and legal requirements will be a key development for us to take account of in the coming years.
 - *Employees:* Many of the aspects of ESG directly impact the role and working conditions of our current and future staff.
 - *Customers:* Developing our ESG product offerings directly impacts our new business generation for those looking for ESG investment opportunities and improves the sustainability of investment returns for those where we are responsible for investment decisions.
- **Other stakeholder considerations:**
 - *Suppliers and outsourcers:* As we roll out our ESG Policy in 2021 we will engage with our suppliers and outsourcers to ensure alignment with their service offering.

BUSINESS REVIEW UK

The UK division principally consists of the insurance company Countrywide Assured plc. The company manages c240,000 policies and is in run-off. Countrywide Assured follows an outsourcer-based operating model, with functions such as customer services, investment management and accounting and actuarial services being outsourced. A central governance team is responsible for managing all outsourced operations.

BACKGROUND INFORMATION

01

CAPITAL & VALUE MANAGEMENT

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

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

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

CUSTOMER OUTCOMES

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

GOVERNANCE

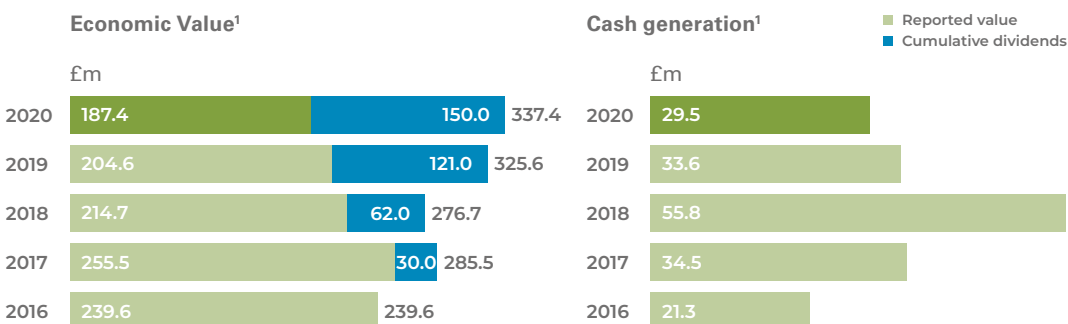
Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic plans.

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.

INITIATIVES & PROGRESS IN 2020

- The division has completed its fund management rationalisation programme during the year, which has involved consolidating the vast majority of unit-linked fund management with one investment management company. This programme's purpose was to deliver a combination of cost efficiencies, whilst also continuing to provide customers with strong fund performance.
 - The division has been investigating revising its investment approach for assets backing some of its non-linked policies, and in conjunction has been assessing the benefits of applying for the Volatility Adjustment (VA) when calculating its solvency position. An application to the PRA was made during December 2020 to apply the VA. We plan to implement this change to our investment mix at the same time as applying the Volatility Adjustment following approval from the PRA.
 - The Economic Value¹ of the division, excluding the impact of dividend distributions, has increased over the course of the year, despite the investment market volatility arising from COVID-19.
-
- A key focus during the year has been ensuring that we continue to meet the needs of our customers during the ongoing COVID-19 pandemic. This has resulted in a need for a large proportion of the organisation, and its key outsource partners, to work from home. Despite the necessary changes, all important business services have continued to operate effectively, having adapted our processes accordingly.
 - During the year we have implemented changes that enable customers to contact us in new ways.
 - The multi-year customer strategy implementation program was successfully completed, with any revised processes having been transferred into business as usual operations.
 - The division's operational resilience programme has continued. This is a multi-year programme which was set up to ensure that we comply with expectations of our regulators and customers. Whilst the regulators' requirements are still at a consultation stage, we recognise the business and customer benefits of ensuring resilience in our business services.
-
- The division has continued to deliver on its business as usual governance responsibilities despite the COVID-19 situation. The organisation has transitioned to a predominantly working from home environment, both in terms of our outsourcers and the oversight governance team itself. This process was successfully implemented with no material issues.
 - Throughout the year, especially at the start of the pandemic, the business implemented enhanced monitoring of key measures, such as claims and customer service, ensuring performance levels were maintained despite the impact of the pandemic.
 - The IFRS 17 programme has continued to progress in line with plans. We have been working with Willis Towers Watson as the group's provider of the contractual service margin (CSM) tool.

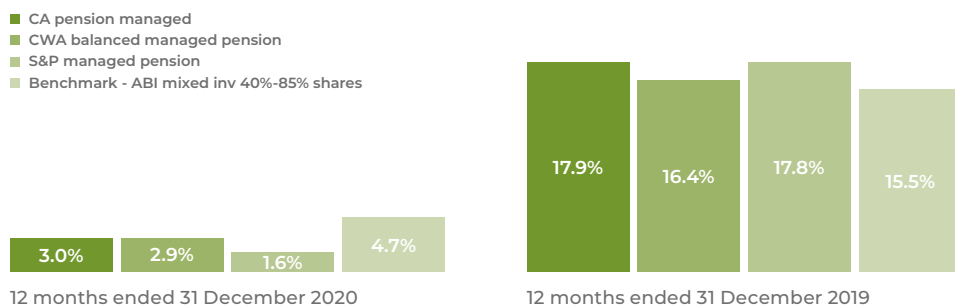
KPIs



FUTURE PRIORITIES

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

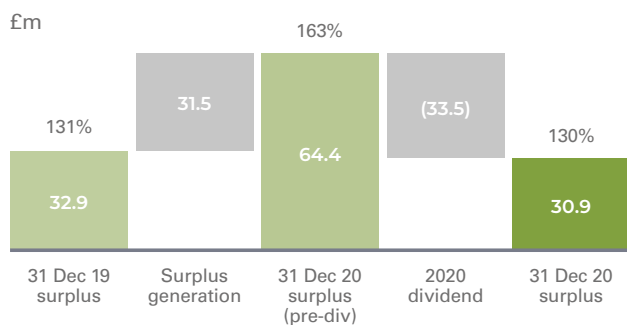
Policyholder fund performance



- Continue to deliver the division’s operational resilience programme, focusing primarily on business services affecting our customers. This will include reviewing and responding to any new rules that are introduced by the regulators.
- Key business as usual activities include:
 - Continuing to complete product reviews which are designed to support our ongoing assessment of providing fair outcomes to our customers. Deliver any resultant remediation activity as required.
 - Continuing to work at getting back in touch with customers who have not provided us with their most recent contact details.

During a very volatile year, our three main managed funds under-performed the reported ABI sector benchmark, due to the portfolio asset positioning being higher in equities during the earlier stages of the year, which saw significant equity falls driven by COVID-19. Whilst in the second half of the year the funds outperformed the sector benchmark, this did not quite result in the overall full year position exceeding sector index.

SOLVENCY RATIO: 163%



Surplus generated in the year increases solvency ratio from 131% to 163%. After the dividend, due to be paid in 2021, the ratio is 130%.

- From an IFRS 17 perspective, 2021 is a year that will see some of the operational changes that are required being tested and implemented.

1 Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

BUSINESS REVIEW SWEDEN

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

BACKGROUND INFORMATION

01

CAPITAL & VALUE MANAGEMENT

Movestic creates value predominantly by generating growth in the 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.

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.

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.

MAXIMISE VALUE FROM EXISTING BUSINESS

03

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

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

INITIATIVES & PROGRESS IN 2020

- COVID-19 resulted in significant volatility in financial markets during the year, though Swedish equities recovered well delivering 10.8% growth in 2020.
- The division has completed the liquidation of Modernac as part of its corporate restructuring initiatives. This has released £1m of surplus capital.
- Policyholder transfers continues to be a feature of the business due to the competitive Swedish market. High transfer activity has resulted in an adverse transfer ratio, with slightly negative net client cash flows. That said, Movestic has strengthened its transfer out assumptions in light of this dynamic, resulting in an increase in reserves of £18.7m, which includes short-term cover for temporary COVID-19 related pressures. The company has also increased its focus on business retention activity.
- New industry-wide regulations have been introduced in order to make it easier for customers to transfer their pension funds. As part of this, further rules are expected during 2021 that limit the amount that can be charged when transferring policies, with an adverse EcV¹ impact of £3.1m.
- Despite turbulent financial markets FuM increased by 1.8% over the year.
- Continuation of dividend policy with a proposed record payment of £10.2m.
- As part of streamlining its fund management proposition the division closed its Luxembourg based operation and set-up 5 new funds in Sweden.

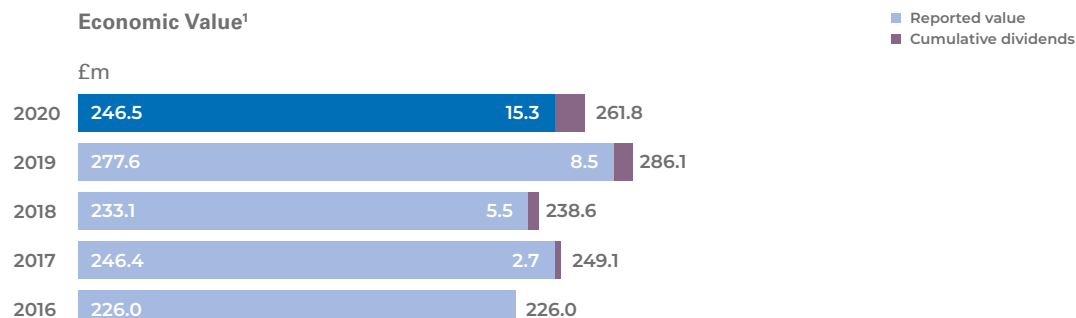
- Policyholder average investment return of 2.7% in the year (2019:18.9%), despite COVID-19 the Swedish equity index rose 10.8%, however other equities and non-equity investments were less positive resulting in lower total investment returns.
- Broker and customer servicing have been a key focus during the pandemic. The division has adjusted its processes accordingly in order to ensure that such servicing continues to an acceptable level.
- Development of customer and broker offerings remained a focus with new transparent and personalised unit-linked pension and savings solutions as well as insurance products, delivering enhanced digital service and functionality.
- The division received a rating from UNPRI (UN initiative for responsible investment) that is better than, or in accordance with its peers, while the sustainable customer fund offerings have remained a focus.

- Dealing with the impact of COVID-19 has been a key management focus in 2020.
- The company has ensured that it is operating in line with local government guidelines, which essentially recommend that employees should work from home unless they cannot.
- In setting up these arrangements, management has focused on ensuring that the IT infrastructure, both in terms of employee usability and security resilience, can accommodate the revised working practices.
- Movestic has also focused on staff well-being throughout the lockdown given its significant change for many staff members.
- The division's digitisation programme has progressed well and was completed during the fourth quarter. The business now has a more robust platform and the ongoing enhancement to this, and our customer experience, continues as part of our core mission.
- The division has continued its strategic focus on strengthening relations with new and existing brokers and partners, building direct distribution capacity.
- IFRS 17 continues to progress with Willis Towers Watson selected as provider of the contractual service margin (CSM) tool and implementation initiated.

- Movestic reported commercial new business profit¹ of £1.6m (2019: £7.0m). The decrease compared with 2019 is largely due to reduced sales volumes and increased transfer activity with strengthened transfer out assumptions, driven by COVID-19 dynamics and the effects of price pressure on the Swedish market.
- Sales volumes were affected by lower activity across the market during 2020, due to the pandemic, particularly during the second half of the year, as we sign-posted in our Half Year Report. As the Swedish market also experienced continued price pressure, the division developed its offering to increase competitiveness and build customer loyalty for the future.

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2020 EXCHANGE RATES)

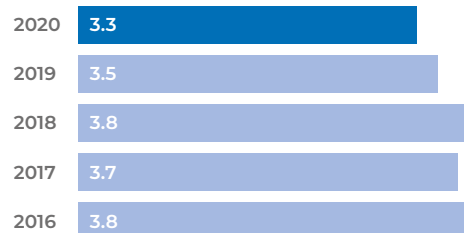
Economic Value¹



FUTURE PRIORITIES

- Continue the journey of digitalising and automating processes, with a view to improving both efficiency and control.
- Continue to develop more digitalised and individualised customer propositions and experience.
- Strengthen distribution capacity with the direct business area, as a complement to the broker channel.
- Provide a predictable and sustainable dividend to Chesnara.
- Increased focus on retention.

Broker assessment rating

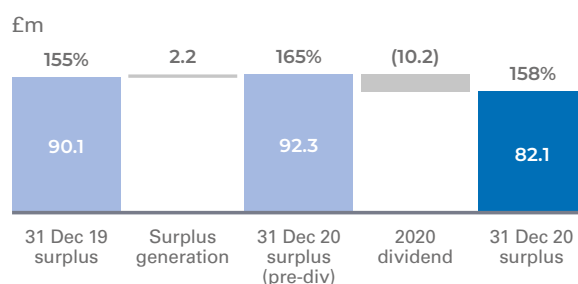


Policyholder average investment return: 2.7%

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

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

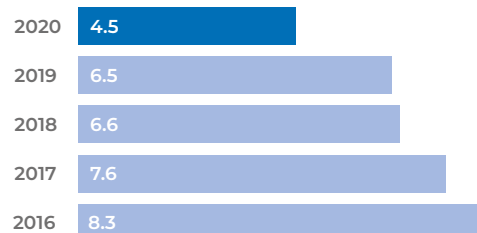
SOLVENCY RATIO 165%



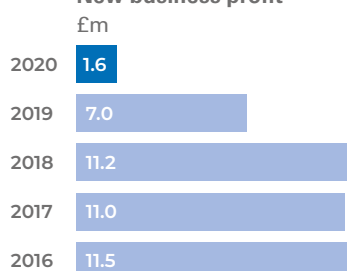
Solvency remains strong. After the dividend, due to paid in 2021, the ratio is 158%.

- The COVID-19 situation will continue to be monitored closely, with returning to the office options under continuous review.
- A focus on the application decisions and operational impact of the IFRS 17 programme, including implementation of the contractual service margin (CSM) tool.

Occupational pension market share %



New business profit¹



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

New business figures from 2018 onwards represent commercial new business, as detailed on page 211. Values prior to this are retained at that which they were previously reported.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

BUSINESS REVIEW NETHERLANDS

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

BACKGROUND INFORMATION

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.

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 2020

- Waard completed the acquisition of a portfolio of term life and savings products from Argenta Bank and has migrated the policies onto our systems. Towards the end of the year, a further portfolio acquisition was agreed (subject to regulatory approval), further strengthening Waard's position as an acquirer of small portfolios that are not core to vendors.
- Despite the market turmoil caused by the COVID-19 pandemic, both businesses continue to have strong solvency positions, inclusive of the use of the Volatility Adjustment. Scildon remains strong at 178%, above the internal capital management policy of 175%. Waard continued to maintain significant solvency levels, the ratio ending the year at 438%.
- Scildon has continued to optimise its risk-based return through de-risking its asset portfolio and investing into mortgage funds with c£170m held as at 31 December 2020.

- A key focus during the year has been ensuring that we continue to meet the needs of our customers during the ongoing COVID-19 pandemic. This has resulted in a need for a large proportion of the organisation to work remotely. Our processes have been adapted accordingly and we have continued to effectively operate all key business services.
- Scildon continues work on the migration and digitalisation of its policy administration system. Work has focussed on development of the pension proposition with key portals going live in 2021, positioning the business well to take advantage of expected growth in the defined contribution market. The project will then move to the term product migration through 2021 and into 2022, delivering expected efficiencies and strengthening the business's market and operating position. The expected costs and benefits are included within the 2020 year end position.

- We have engaged with the regulator throughout 2020 and the business implemented enhanced monitoring of key measures, such as claims and customer service, ensuring performance levels were maintained despite the impact of the pandemic.
- The division has continued to deliver on its business as usual governance responsibilities despite the COVID-19 situation. The organisation successfully and rapidly transitioned to a predominantly remote working environment.
- The IFRS 17 programme has continued to progress in line with plans. We began working with Willis Towers Watson as the group's provider of the contractual service margin (CSM) tool.

- Despite a tough and uncertain market, we continue to see increasing new business profits, with £8.8m earned in the year on our commercially realistic metric. As noted previously, we will face headwinds to maintain this progress, but we have a solid base to take advantage.
- Underpinning this, Scildon policy count continues to increase, now with in excess of 200,000 policies. Also, the term market share for Scildon term lifestyle product for the month of December 2020 has risen to 16.3%, although the market size has decreased, partly as a result of COVID-19.
- We have established a white labelling relationship with Dazure (a distribution partner) as a route to market to enable us to service more of the market.

01

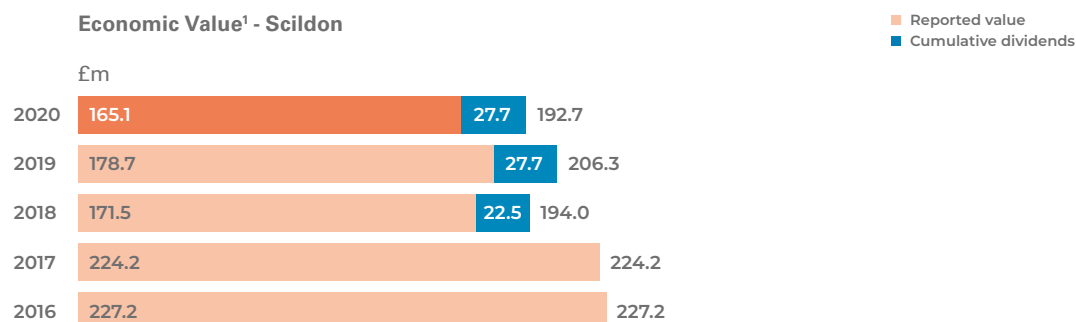
MAXIMISE VALUE FROM EXISTING BUSINESS

03

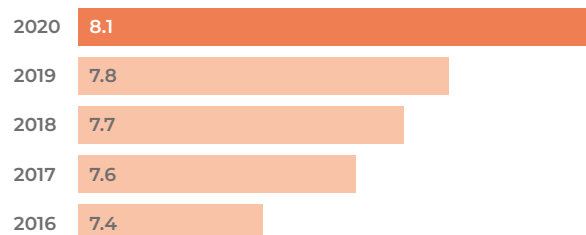
ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2020 EXCHANGE RATES)

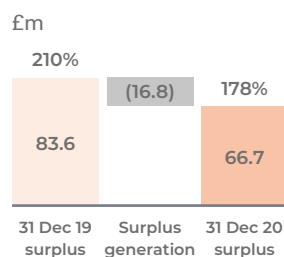
Economic Value¹ - Scildon



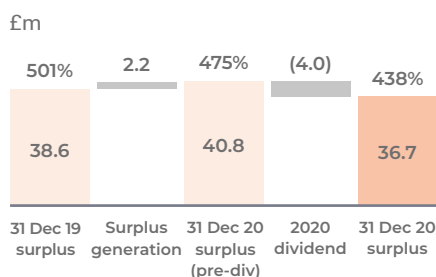
Client satisfaction rating



SOLVENCY RATIO SCILDON: 178%

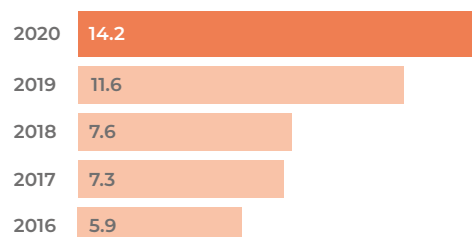


SOLVENCY RATIO WAARD: 438%

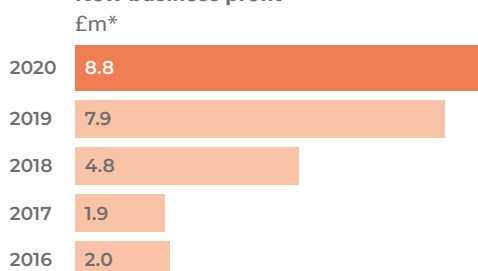


Solvency is robust in both businesses, with post-dividend solvency ratios of 178% and 438% for Scildon and Waard respectively. The Scildon reduction includes the impact of an increase in lapse capital which reverses out at group level.

Term assurance market share %



New business profit¹



¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

FUTURE PRIORITIES

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

- Regular engagement with its customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue with the migration and digitalisation of the Scildon IT platform.

- During 2021 we plan to implement changes that mean Scildon will directly benefit from the lapse capital reversal currently at group.
- From an IFRS 17 perspective, 2021 is a year that will see some of the required operational changes being tested and implemented.

- Continue to deliver product innovation and cost management actions to ensure we meet our full potential in terms of new business value.
- Consider alternative routes to market that do not compromise our existing broker relationships, such as further product white labelling.

*New business figures from 2018 onwards represent commercial new business, as detailed on p211. Values prior to this are retained at that which they were previously reported.





BUSINESS REVIEW • ACQUIRE LIFE & PENSIONS BUSINESS

Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the cash generation potential of the group.

How we deliver our acquisition strategy

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

HOW WE ASSESS DEALS

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

RISKS

- There is the risk that if a lack of suitable acquisition opportunities come to market at a realistic valuation, the investment case for Chesnara diminishes over time.
- There is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the group.

WHAT WE CAN DO ABOUT THIS

- Operating in three territories increases our options thereby reducing the risk that no further value adding deals are done.
- A broader target market also increases the potential for deals that meet our strategic objectives.
- Flexibility over the timing of subsequent divisional dividend flows provide an element of management control over the sterling value of cash inflows.
- Each acquisition is supported by a financial deal assessment model which includes high quality financial analysis. This is reviewed and challenged by management and the board, mitigating the risk of a bad deal being pursued.

INITIATIVES AND PROGRESS IN 2020

During 2020 the group completed one transaction:

Argenta transaction

On 1 September 2020, Chesnara announced the completion of an acquisition of a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V. The transaction was both earnings and EcV accretive on completion. Chesnara estimates that the acquired portfolio will have a positive cumulative cash generation profile over its remaining life.

The transaction involved the transfer of a portfolio of in excess of 40,000 term and savings policies, for a consideration of €29.2m (approximately £25m), paid in cash. The consideration represents a discount of 17% to the acquired portfolio's Solvency II Own Funds, calculated on a Chesnara-consistent basis, and delivered c£9m of incremental value¹. The acquired portfolio had IFRS gross assets of c.£368m (at 31 December 2020 exchange rates) and contributed growth of over 40% to the Waard Group policy count.

A further small portfolio acquisition, with approximately 9,000 policies has been agreed before the year end. This will complete upon regulatory approval in 2021.

ACQUISITION OUTLOOK

- Despite the COVID-19 restrictions, we have continued to see a healthy flow of acquisition activity in the year. We have also continued to see the continuation of, what we perceive to be, high seller's valuations and prices paid for potential targets.
- In light of this, it is worth reiterating that Chesnara continues to measure potential targets against its stringent acquisition assessment model which takes into account; (a) the price compared to the EcV; (b) the cash generation capability; (c) the strategic fit; and (d) the risks within the target. We are committed to maintaining our discipline when assessing potential acquisitions.
- The environment in which European life insurance companies operate continues to become more challenging. The long-term economic implications resulting from COVID-19, in particular the further reduction in both short and long-term interest rates is likely to increase the challenges of businesses who own non-core back-books. We believe this will potentially drive further consolidation as institutions seek to remove operational complexity, refocus on core business lines and potentially release capital or generate funds from capital intensive life and pension businesses.
- Historically we have had strong support from shareholders and lending institutions to progress our acquisition strategy. We also believe that our operating model has the flexibility to accommodate a wide range of potential target books.
- Our good network of contacts in the adviser community, who understand the Chesnara acquisition model, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

CAPITAL MANAGEMENT • SOLVENCY II

Subject to ensuring other constraints are managed, surplus capital is a useful proxy measure for liquid resources available to fund items such as dividends, acquisitions or business investment. As such, Chesnara defines cash generation as the movement in surplus, above management buffers, during the period.

What is solvency and capital surplus?

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

CHESNARA GROUP OWN FUNDS



	Group solvency ratio	Group solvency surplus
31 Dec 2020	156%	£204.0m
31 Dec 2019	155%	£210.8m

CHESNARA GROUP SCR



WHAT ARE OWN FUNDS?

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

The Own Funds valuation is deemed to represent a commercially meaningful figure with the exception of:

Contract boundaries

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

Risk margin

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

Restricted with profit surpluses

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

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

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

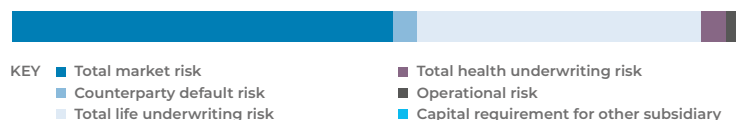
How do own funds change?

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

WHAT IS CAPITAL REQUIREMENT?

The Solvency Capital Requirement can be calculated using a 'standard formula' or 'internal model'. Chesnara adopts the 'standard formula'.

The standard formula requires capital to be held against a range of risk categories. The chart below shows the categories and their relative weighting for Chesnara:



There are three levels of capital requirement:

Minimum dividend paying requirement/risk appetite requirement

The board sets a minimum solvency level above the SCR which means a more prudent level is applied when making dividend decisions.

Solvency capital requirement

Amount of capital required to withstand a 1 in 200 event. The SCR acts as an intervention point for supervisory action including cancellation or the deferral of distributions to investors.

Minimum capital requirement

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

How does the SCR change?

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

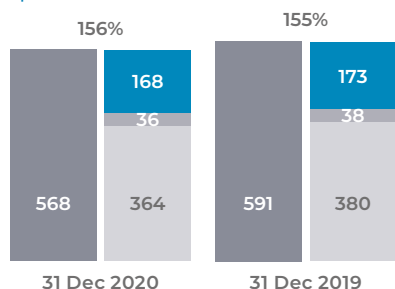
¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

CAPITAL MANAGEMENT • SOLVENCY II

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

SOLVENCY POSITION

Chesnara group £m

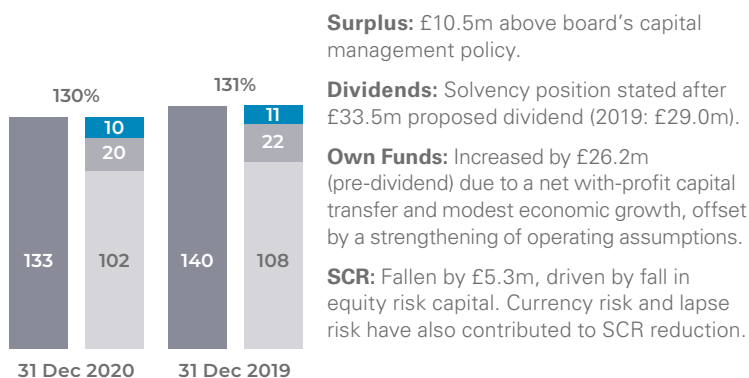


Surplus: The group has £167.6m of surplus over and above the internal capital management policy, compared to £172.8m at the end of 2019. The group solvency ratio has increased from 155% to 156%. Solvency surplus has fallen as a result of own funds falling slightly more than the capital requirements, after the proposed dividend is taken into account.

Dividends: The closing solvency position is stated after deducting the £21.4m proposed dividend (31 December 2019: £20.8m), and reflects the payment of an interim dividend of £11.5m.

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 2019 figures have been restated using 31 December 2020 exchange rates in order to aid comparison at a divisional level.

UK £m



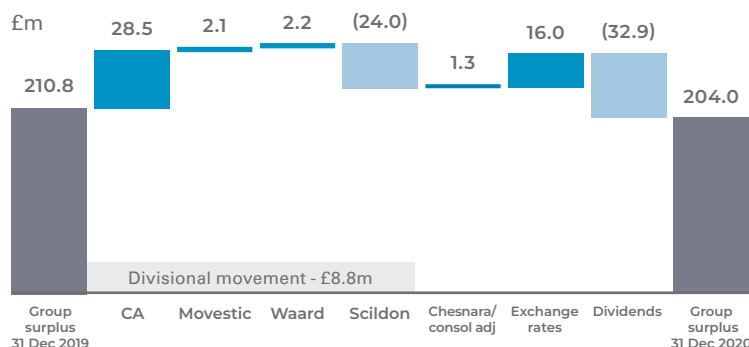
Surplus: £10.5m above board's capital management policy.

Dividends: Solvency position stated after £33.5m proposed dividend (2019: £29.0m).

Own Funds: Increased by £26.2m (pre-dividend) due to a net with-profit capital transfer and modest economic growth, offset by a strengthening of operating assumptions.

SCR: Fallen by £5.3m, driven by fall in equity risk capital. Currency risk and lapse risk have also contributed to SCR reduction.

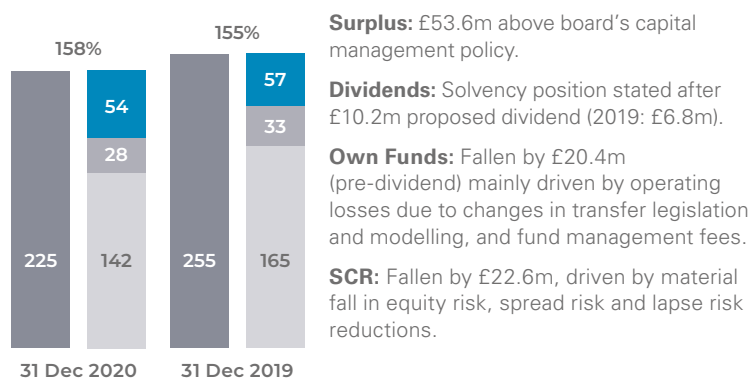
SOLVENCY SURPLUS MOVEMENT* *pre intragroup dividends



Own Funds: Own Funds have risen by £9.7m (pre-dividends). Drivers of growth include a UK with-profit net transfer of £9.2m and completion of the Argenta acquisition. These factors were partly offset by the impact of the fall in yields and operating strains.

SCR: The SCR has fallen by £16.4m, mainly due to a material reduction in equity risk, currency and lapse risk; partially offset by an increase in expense and catastrophe risk.

SWEDEN £m



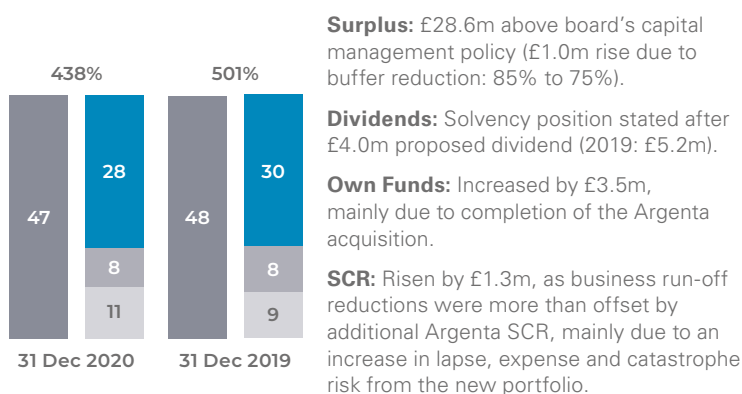
Surplus: £53.6m above board's capital management policy.

Dividends: Solvency position stated after £10.2m proposed dividend (2019: £6.8m).

Own Funds: Fallen by £20.4m (pre-dividend) mainly driven by operating losses due to changes in transfer legislation and modelling, and fund management fees.

SCR: Fallen by £22.6m, driven by material fall in equity risk, spread risk and lapse risk reductions.

NETHERLANDS – WAARD £m



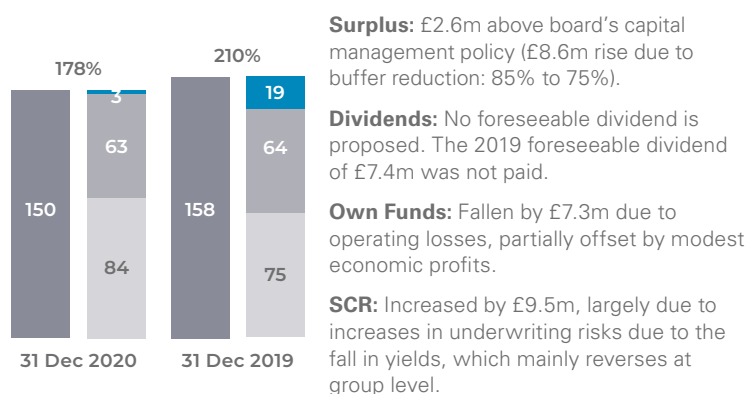
Surplus: £28.6m above board's capital management policy (£1.0m rise due to buffer reduction: 85% to 75%).

Dividends: Solvency position stated after £4.0m proposed dividend (2019: £5.2m).

Own Funds: Increased by £3.5m, mainly due to completion of the Argenta acquisition.

SCR: Risen by £1.3m, as business run-off reductions were more than offset by additional Argenta SCR, mainly due to an increase in lapse, expense and catastrophe risk from the new portfolio.

NETHERLANDS – SCILDON £m



Surplus: £2.6m above board's capital management policy (£8.6m rise due to buffer reduction: 85% to 75%).

Dividends: No foreseeable dividend is proposed. The 2019 foreseeable dividend of £7.4m was not paid.

Own Funds: Fallen by £7.3m due to operating losses, partially offset by modest economic profits.

SCR: Increased by £9.5m, largely due to increases in underwriting risks due to the fall in yields, which mainly reverses at group level.

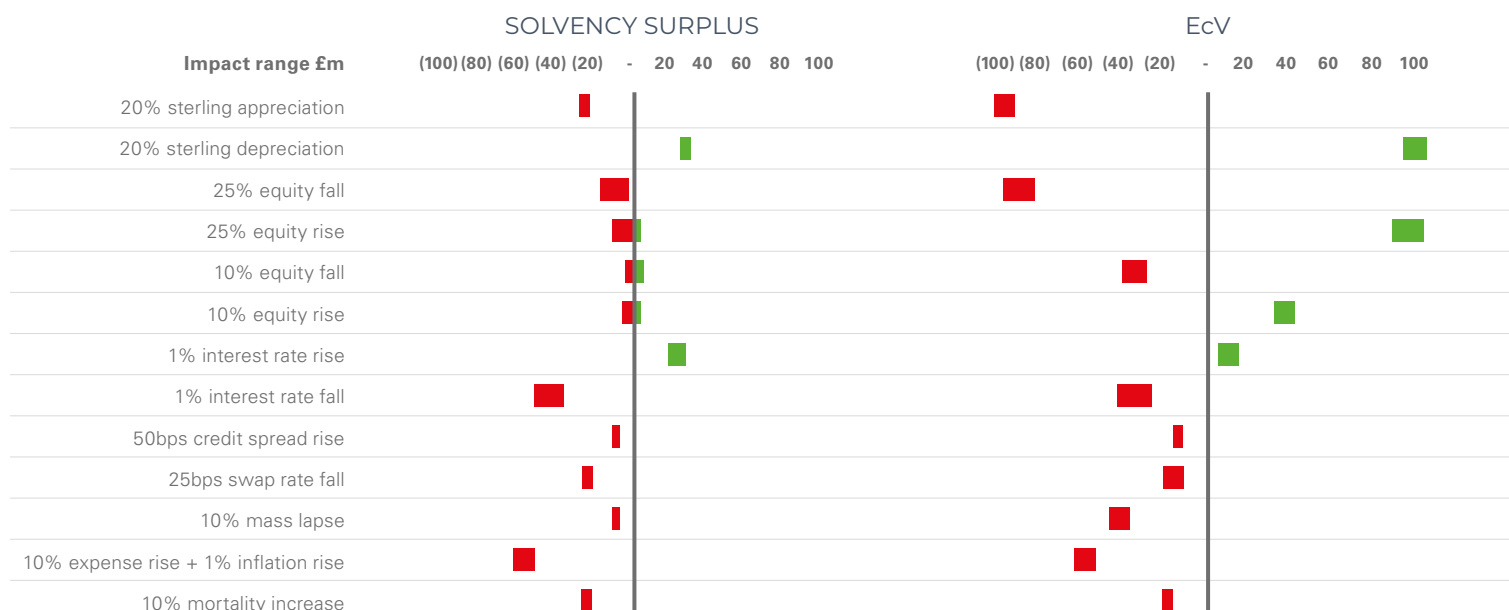
KEY ■ Own Funds (Post Div) ■ SCR ■ Buffer ■ Surplus

CAPITAL MANAGEMENT • SENSITIVITIES

The group's solvency position can be affected by a number of factors over time. As a consequence, the group's EcV¹ and cash generation¹, 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 and longer-term impact of certain sensitivities that the group is exposed to, covering solvency surplus and Economic Value. As can be seen, EcV tends to take the 'full force' of adverse conditions whereas solvency is often protected in the short term and, to a certain extent, the longer term due to compensating impacts on required capital. Whilst cash generation has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation.

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



INSIGHT*

20% sterling appreciation

A material sterling appreciation reduces the value of surplus in our overseas divisions and hence has an immediate impact on group solvency surplus and EcV. It also reduces the value of overseas investments in CA.

Equity sensitivities

The equity rise sensitivities cause both Own Funds and SCR to rise, as the value of the funds exposed to risk is higher. The increase in SCR can be larger than Own Funds, resulting in an immediate reduction in surplus, depending on the starting point of the symmetric adjustment. Conversely, in an equity fall, Own Funds and SCR both fall, to the extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not fully symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£21m to the SCR, 25% equity rise: +£30m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business, much of which is invested in equities.

Interest rate sensitivities

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

50bps credit spread rise

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

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

25bps swap rate fall

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

10% mass lapse

This sensitivity has a small impact on surplus as the reduction in Own Funds is largely offset by the SCR fall. However, with fewer policies on the books there is less potential for future profits. The division most affected is Movestic; the loss in future fee income following mass lapse hits Own Funds by more than the SCR reduction.

10% expense rise + 1% inflation rise

The expense sensitivity hits the solvency position immediately as the increase in future expenses and inflation is capitalised into the balance sheet.

10% mortality increase

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

*BASIS OF PREPARATION ON REPORTING

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

FINANCIAL REVIEW

The key performance indicators are a reflection of how the business has performed in delivering its three strategic objectives. These two pages provide a 'snapshot' of our key financial measures and some insight into what is driving the results for 2020. Further analysis can be found on pages 46 to 50.



IFRS PRE-TAX PROFIT **£24.6M**

2019: £96.1m

What is it?

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

Why is it important?

The IFRS results form the core of reporting and hence retain prominence as a key financial performance metric. There is however a general acceptance that the IFRS results in isolation do not recognise the wider financial performance of a typical life and pensions business, hence the use of supplementary alternative performance measures (pages 211 to 212) to enhance understanding of financial performance.

Risks

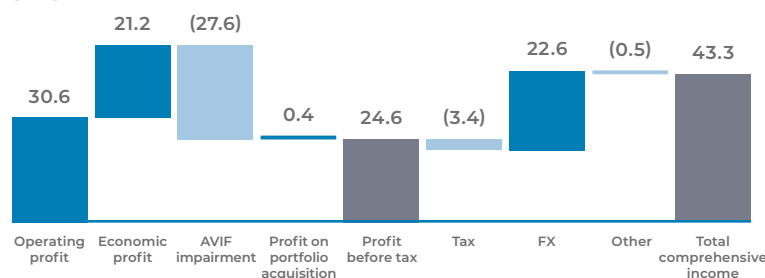
The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties as set out on pages 55 to 59. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), and foreign currency fluctuations can affect total comprehensive income. The IFRS results of Scildon are potentially relatively volatile, in part, due to the different approach used by the division for valuing assets and liabilities, as permitted under IFRS 4.

TOTAL COMPREHENSIVE INCOME **£43.3M**

2019: £60.6m

Further detail on p50

Highlights £m



- Solid profits were delivered in each of the operating divisions, despite the challenging year and impact of COVID-19 on investment markets.
- Operating profits, excluding AVIF impairment¹ were down on last year's £46.2m, in part due to a strengthening of reserves (c£10m) in Scildon.
- Economic earnings, excluding AVIF impairment¹ were also more muted than in 2019 (£49.1m) and reflect the pandemic-related low equity growth environment compared with the previous year.
- The AVIF impairment charge has arisen from reassessing the future profits from Scildon, which has been hit in part by falling yields in the year.
- Total comprehensive income includes foreign exchange gains on translation of the Dutch and Swedish divisional results, owing to sterling depreciation against the euro and Swedish krona.



GROUP CASH GENERATION¹ **£27.7M**

2019: £36.7m

What is it?

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

Why is it important?

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

Risks

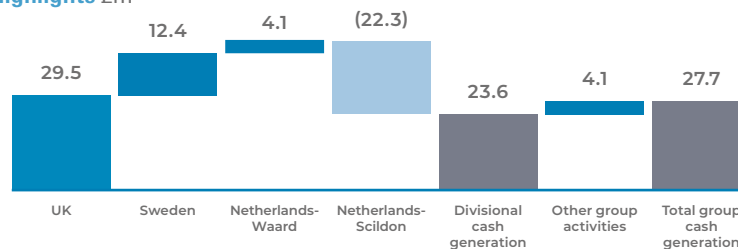
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 55 to 59. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar drivers, and therefore factors such as yields on fixed interest securities and equity and property performance contribute significantly to the level of cash generation within the group.

DIVISIONAL CASH GENERATION¹ **£23.6M**

2019: £50.8m

Further detail on p46

Highlights £m



Divisional cash generation

- Cash generation in the UK is the largest component of the divisional result.
- The UK contribution was delivered through solid value growth, while a reduction in capital requirements, in excess of the reduction in Own Funds, underpinned the Swedish result. Cash returns in Waard benefit from the completion of the Argenta policy portfolio acquisition.
- Scildon reported cash utilisation of £22.3m following a reduction in Own Funds and an increase in capital requirements. Modest economic positives were insufficient to offset operational losses, which were themselves partially due to reducing yields. The rise in SCR included a strain from reinvesting low risk cash into mortgages (mortgage balance £170m at 31 December 2020) and falling yields caused a lapse SCR increase that reverses at group.
- The 2020 result includes the benefit of a net £9.2m capital transfer from restricted with-profit funds in the UK (2019: £5.1m net increase in restriction).

Group cash generation

- Total group cash generation includes the impact of other group activities, primarily the impact of group expenses on own funds and a reduction in capital requirements upon consolidation of divisions and as consequence of a management action to reduce SCR.

ECONOMIC VALUE (EcV)¹ £636.8M

2019: £670.0m

Further detail on p49

What is it?

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

Why is it important?

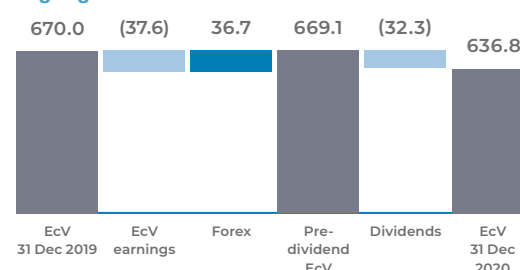
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value.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

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

Risks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example, a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group within a range of £90m-£100m, based on the composition of the group's EcV at 31 December 2020.

Highlights £m



- Prior to any dividend payment impact, the total Economic Value remains largely unchanged from the prior year.
- The closing position includes an EcV earnings loss of £37.6m, heavily impacted by the pandemic's impact on both business conditions and the economic environment, with operating losses in Scildon and Movestic and modest investment market returns compared to prior years.
- The change in EcV over the year includes the impact of the payment of the final 2019 and interim 2020 dividends.
- Foreign exchange gains arose on translation of the Dutch and Swedish divisional results, representing the weakening of sterling against both the euro and Swedish krona.

EcV EARNINGS¹ £(37.6)M

2019: £104.0m

Further detail on p48

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.

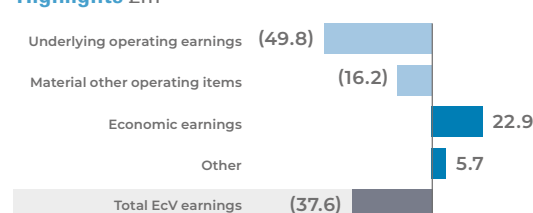
Why is it important?

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 55 to 59. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EcV affect our long-term view of the future cash flows arising from our books of business.

Highlights £m



- An EcV loss of £37.6m was incurred in 2020.
- The underlying operating earnings¹ loss in the year is largely driven by losses in Scildon and Movestic. Movestic's are a function of fund rebate pressures across the industry, whilst Scildon's are largely driven by the impact of the current low yield environment. CA and Waard delivered positive operating earnings.
- Material other operating items largely relates to Movestic, and reflects changes in transfer out assumptions. Off-setting this is a £7.2m gain on completion of a portfolio acquisition in the Waard Group.
- Economic earnings were more modest than in 2019, owing to muted equity market returns, falling bond yields and widening bond spreads, largely due to the effect of COVID-19.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

FINANCIAL REVIEW • CASH GENERATION

The UK and Swedish businesses delivered solid cash contributions, supporting a total cash generation of £27.7m in 2020. Cash is generated from increases in the group's solvency surplus, which is represented by the excess of own funds held over management's internal capital needs. These are based on regulatory capital requirements, with the inclusion of additional 'management buffers'



GROUP CASH GENERATION **£27.7M**

2019: £36.7m

DIVISIONAL CASH GENERATION **£23.6M**

2019: £50.8m

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

Implications of our cash definition:

Positives

- Creates a strong and transparent alignment to a regulated framework.
- Positive cash results can be approximated to increased dividend potential.
- Cash is a factor of both value and capital and hence management are focused on capital efficiency in addition to value growth and indeed the interplay between the two.

Challenges and limitations

- In certain circumstances the cash reported may not be immediately distributable by a division to group or from group to shareholders.
- Brings the technical complexities of the SII framework into the cash results e.g. symmetric adjustment, with-profit fund restrictions, model changes etc, and hence the headline results do not always reflect the underlying commercial or operational performance.

2020 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated/ (utilised)	2019 £m Cash generated/ (utilised)
UK	23.2	6.3	–	29.5	33.6
Sweden	(19.3)	25.6	6.0	12.4	(6.2)
Netherlands – Waard Group	3.5	(1.3)	1.9	4.1	0.8
Netherlands – Scildon	(14.6)	(8.9)	1.2	(22.3)	22.6
Divisional cash generation/(utilisation)	(7.1)	21.8	9.0	23.6	50.8
Other group activities	(18.0)	17.0	5.1	4.1	(14.1)
Group cash generation/(utilisation)	(25.1)	38.7	14.1	27.7	36.7

GROUP

- Group cash generation of £27.7m reflects a challenging year operationally and significantly lower economic returns than the prior year.
- Cash utilisation in Scildon is the largest component of the year on year reduction.
- Further analysis of the key drivers of cash generation across the group is provided below and on the following page.



UK

- The division continued to deliver sound value growth, supported by a smaller reduction in capital requirements, resulting in solid cash generation that supports the Chesnara dividend. The result includes the benefit of a £20.0m capital transfer from the with-profit funds, off-set by a further restricted surplus build up of £10.8m.



SWEDEN

- The division has reported positive cash generation compared to cash utilisation during 2019. Detailed analysis is provided on the following page, with the movement year on year including exchange rate impacts (2020: +£6.0m; 2019: -£4.4m) coupled with equity-market driven impacts, including the symmetric adjustment (2020: £+11.7m; 2019: +£6.0m). The equity-market driven cash generation in the current year is in part due to customers moving out of equity exposures due to volatility during the year, which reduces the level of capital Movestic is required to hold.



NETHERLANDS – WAARD

- Waard has again reported growth in Own Funds, outweighing an increase in the capital requirement, resulting in yet another year with positive cash generation contributing to the overall group result. Much of the growth is due to the Argenta policy portfolio acquisition, while the result also benefits from foreign exchange gains due to sterling's depreciation against the euro.



NETHERLANDS – SCILDON

- The Scildon cash generation was disappointing, moving from positive in 2019 to cash utilisation during the current year. The result does however include a £6.0m loss as a direct consequence of yield reductions, coupled with the reinvestment from cash to higher returning mortgage investments, which also had a negative impact of c£6m. This change of investments was a continuation of a wider programme to improve capital efficiency, which resulted in £24.1m of cash generation during 2019.

FINANCIAL REVIEW • CASH GENERATION – ENHANCED ANALYSIS

The format of the analysis draws out components of the cash generation results relating to technical complexities, modelling issues or exceptional corporate activity (e.g. acquisitions). The results excluding such items are deemed to better reflect the underlying commercial outcome (commercial cash generation). This commercial result is then analysed to show the key drivers of that result. In particular, the analysis draws out the extent by which cash generation is due to external economic conditions. The analysis also highlights the impacts of management actions and exceptional items. There are a number of approximations in the analysis, and as such each individual line item should only be used as a guide to the factors that have influenced cash generation in the year.



COMMERCIAL CASH £27.7M

2019: £75.3m

ECONOMIC CASH £24.7M

2019: £37.5m

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	GROUP ADJ	TOTAL
Base cash generation	29.5	12.4	4.1	(22.3)	4.1	27.7
Symmetric adjustment	0.5	0.8	–	(0.1)	–	1.2
With-profits restrictions	(9.2)	–	–	–	–	(9.2)
Acquisition activity	–	–	(1.4)	–	1.0	(0.4)
Lapse SCR reversal	–	–	–	15.4	(15.4)	-
Model changes	(2.1)	–	–	10.5	–	8.4
Commercial cash generation	18.7	13.1	2.7	3.5	(10.3)	27.7
Analysed as:						
Economic cash generation	1.1	23.6	3.6	(2.7)	(0.9)	24.7
<i>Equities</i>	3.5	12.5	–	(0.8)	–	15.2
<i>Spreads</i>	(0.6)	(1.5)	1.4	3.6	0.1	3.1
<i>Forex</i>	–	6.0	1.9	1.2	5.1	14.1
<i>Yields</i>	(5.8)	(2.1)	(0.1)	(6.0)	(2.4)	(16.4)
<i>Other economics</i>	3.9	8.7	0.5	(0.7)	(3.7)	8.7
Core operating cash generation	7.9	2.0	(2.5)	18.8	(18.1)	8.0
New business strain	–	–	–	(13.0)	–	(13.0)
Material other operating items	3.0	(12.5)	–	(2.2)	(10.1)	(21.8)
Management actions & other exceptional	6.7	–	1.6	2.5	18.8	29.7
<i>Strategic asset allocation implementation</i>	a	6.7	–	–	–	6.7
<i>Buffer reduction</i>	b	–	–	1.6	8.4	10.0
<i>Scildon cash to mortgages</i>	c	–	–	(5.9)	–	(5.9)
<i>Currency SCR methodology</i>	d	–	–	–	18.8	18.8

At a total group level commercial cash generation is the same as base case generation. At a divisional level there are however some significant differences. The underlying commercial result for Scildon is significantly better than the base result when adjustments are made to give credit for components that reverse on consolidation and one-off model enhancement impacts. Conversely whilst the commercial cash generation for the UK remains significant, it is lower than the base result which includes the benefit of transfers from previously built up surpluses in the with-profit funds.

Impacts from economic conditions: At a total level the commercial cash result includes £24.7m of economic benefits with notable losses from reducing yields being more than offset by foreign exchange and equity market related gains. Despite volatility, equity markets in Sweden actually increased by 10% over the year and this together with the impact of fund reallocations from equity to fixed interest investments, has contributed to a total economic cash gain of £23.6m. Scildon is more exposed to the impact of reducing yields. Yield related losses were greater than spread and foreign exchange gains, resulting in a small net economic loss.

Core operating cash generation: In total the divisions have delivered a core operating cash gain of £26.1m. The closed book operations in the UK and the Netherlands benefit from the impact of book run-off resulting in £5.3m of core operating cash generation. There is also a book run-off benefit in Scildon but this is broadly offset by new business strain, drawn out as a separate item. The central group cash item of £(18.1)m is the total value of numerous items including uncovered central expenses incurred, changes in central provisions for future expenses, interest payments, an increases in counterparty capital and capital requirement consolidation adjustments.

New business strain: As an open operation selling relatively capital-intensive term contracts, the Scildon result is impacted by new business strain and this has been drawn out from the core result. The strain in Movestic is less material so not drawn out as a separate item.

Material other operating items: This includes operating items that were individually material and have therefore been separately analysed to aid the understanding of the operating cash generation in the year. The Movestic loss includes the impact of regulatory changes on transfer rates plus the temporary impact due to both COVID-19 conditions and competitor pricing. In Scildon we have experienced cash utilisation as a result of adopting revised standard mortality tables which suggest higher mortality than our specific portfolio experiences. Finally, the group figure relates to IFRS 17 expense reserves. This is mainly due to a policy to centralise the programme and hence there are corresponding releases in the UK and Scildon results of £3.0m and £3.4m respectively.

Management actions: Management actions have had a notable positive impact during the year:

- The UK implemented a change in its asset mix backing its with profit policies, which benefitted the level of risk capital required to be held.
- During the year we have delivered our pre-agreed flight path of reducing our capital management buffers in our Dutch businesses.
- We have switched a significant proportion of Dutch assets from BBB corporate investments to mortgage based investments. This was implemented in two stages. Stage 1 involved the switch from BBB to cash which created £24.1m of cash generation and this was completed in 2019 and was hence recognised in the 2019 results. The second stage involved moving from cash to mortgage-based investments which resulted in cash utilisation of £5.9m in 2020. Therefore, despite the end to end process creating a large capital efficiency gain, the 2020 result includes a notable negative impact.
- As part of the group's capital management programme we have reassessed the modelling of our currency risk capital requirement resulting in a large reduction.

FINANCIAL REVIEW • EcV EARNINGS

EcV loss in the year is driven by some large operating losses reflecting difficult trading conditions in Sweden and a challenging low yield environment affecting Scildon, offset by modest economic profits over the course of the year.

 ECV EARNINGS £(37.6)M
2019: £104.0m

Analysis of the EcV result by earnings source:

	2020 £m	2019 £m	Note
Expected movement in period	0.3	(0.4)	
New business	3.7	7.8	
Operating experience variances	(22.0)	(6.8)	
Operating assumption changes	(35.8)	3.8	
Other operating variances	3.9	(0.3)	
Total EcV underlying operating earnings¹	(49.8)	4.1	2
Material other operating items	(16.2)	1.5	3
Total EcV operating earnings¹	(66.1)	5.6	
Economic experience variances	45.7	143.1	1
Economic assumption changes	(22.8)	(22.0)	1
Total EcV economic earnings¹	22.9	121.1	1
Other non-operating variances	(2.8)	(5.2)	
Risk margin movement	4.7	(7.0)	
Tax	3.7	(10.5)	
EcV earnings	(37.6)	104.0	

Analysis of the EcV result by business segment:

	2020 £m	2019 £m	Note
UK	11.8	48.9	4
Sweden	(22.9)	43.8	5
Netherlands	(8.5)	16.7	6
Group and group adjustments	(18.0)	(5.3)	7
EcV earnings	(37.6)	104.0	

Notes

1. Economic conditions: The EcV result is sensitive to investment market conditions, as reflected by the change in economic earnings year on year. Key movements in investment market conditions during the year are as follows:

- FTSE All World index increased by 24% (year ended 31 December 2019: increased by 24%);
- Swedish OMX all share index increased by 13% (year ended 31 December 2019: increased by 30%);
- The Netherlands AEX all share index increased by 4% (year ended 31 December 2019: increased by 20%); and
- 10-year UK gilt yields have decreased from 0.84% to 0.24%.

The consequence of the above is that economic earnings in 2020 are much more muted compared to 2019, with modest equity market related gains being off-set by downward pressure arising from falling yields.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

2. Underlying operating earnings: The loss of £49.8m is largely made up of losses in Scildon and Movestic, coupled with some group expense strain (see Note 7) being reported. The competitive environment in Sweden has continued over the course of the year, with fund rebate pressure being the main driver of experience losses. Turning to Scildon, there has been positive lapse experience in the year, but in the current low yield economic environment this results in EcV losses due to guarantees within certain policies biting. In addition Scildon has also reported some mortality losses largely due to applying the most recently published mortality tables. The UK business and the Waard Group have reported positive operating results.

3. Material other operating items: This includes operating items that are individually material and have therefore been analysed separately. This largely relates to Movestic, whereby assumption strengthening has been made in the year, amounting to £21.8m. This is mainly down to: the general competitive environment and amount of churn in the market; changes to transfer regulations and associated charges; and a general move from customers to more traditional products with guarantees as a result of COVID-19 related market volatility concerns. Also included in this category is a £7.2m gain on the completion of Waard's acquisition of the Argenta portfolio during the year.

4. UK: The UK reported value growth of £11.8m in 2020, with economic earnings being the largest component of the result, despite the COVID-19 impact on investment markets early in the year. Economic gains were primarily the positive impact of modest equity market growth, noting that our policyholder funds are invested in a combination of UK and global equities, although this this was partially offset by the negative impact of falling yields. Operational earnings included gains arising from positive lapse experience (resulting in future fee income higher than assumed at the start of the year) and favourable mortality experience, offset by a strengthening of future expense assumptions.

5. Sweden: Movestic recorded a large loss (£22.9m) over the year. As described in Note 3 the majority of this was as a result of assumption changes in relation to dynamics around policy transfers. New business profits of £1.0m were reported, representing a reduction compared to last year's reported profits of £4.3m. Volumes have been hit by COVID-19 and we believe these will return as Swedish society starts to open back up. Operating losses were also recorded in relation to fund management fees, which have come under pressure over the course of the year. Economic earnings of £9.2m were reported, substantially lower than 2019 (£55.3m), largely as a result of the significant equity market growth in 2019 not being repeated during 2020.

6. Netherlands: The Dutch businesses posted a loss of £8.5m for 2020. Waard delivered solid profits of £4.9m while Scildon incurred a loss of £13.4m. New business performance in Scildon of £2.7m (2019: £3.5m) was largely in line with the prior year. As referred to Note 2, Scildon has reported operating losses amounting to £23.0m, largely as a result of incurring guarantee related costs as a result of better than expected policy retention, and also the impact of adjusting mortality assumptions to an updated mortality table. Economic gains were modest in Scildon (£5.3m).

Waard has reported positive EcV earnings of £5.3m. The majority of this arose from the Argenta portfolio acquisition, offset by small economic losses.

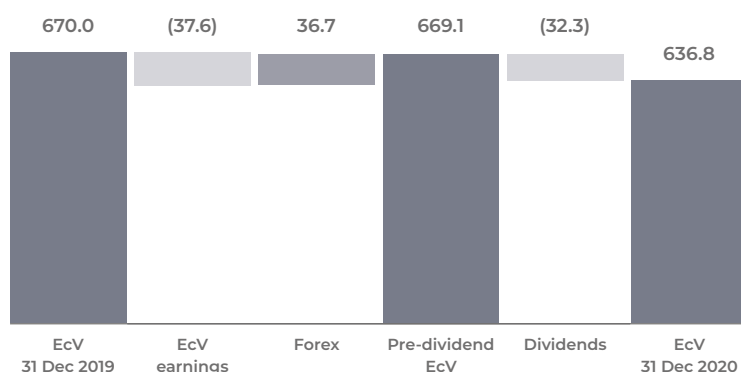
7. Group: This component includes various group-related costs, and includes: non-maintenance related costs (such as acquisition costs); the costs of the group's IFRS 17 programme (the budget of which was increased during the year); and some economic-related costs such as a foreign exchange loss on our euro debt, the negative impact of reduced interest rates and interest on our bank debt.

FINANCIAL REVIEW • EcV

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

 ECONOMIC VALUE (EcV) **636.8M**
2019: £670.0m

Value movement: 1 Jan 2020 to 31 Dec 2020 £m

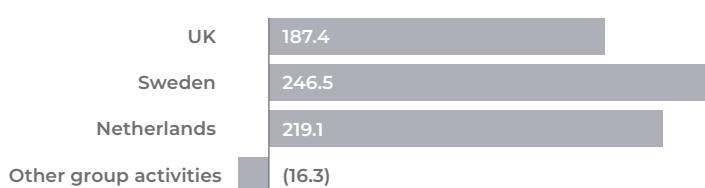


EcV earnings: A loss of £37.6m has been reported in 2020. The impact of the COVID-19 pandemic felt in all divisions, with operating losses and more modest investment markets returns in the year. Further detail can be found on page 48.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £32.3m were paid during the period, being the final dividend from 2019 and the 2020 interim dividend.

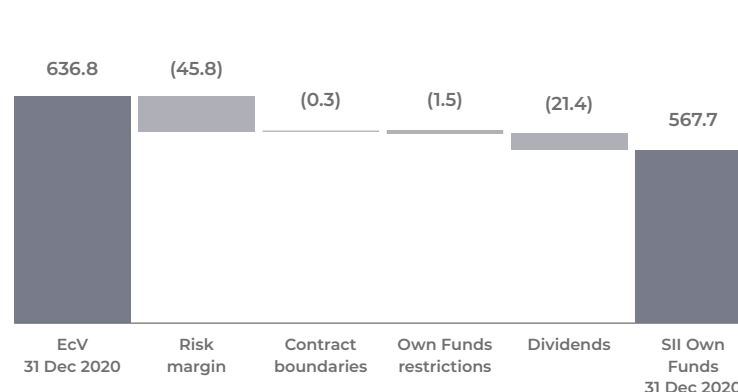
Foreign exchange: The EcV of the group benefitted from a foreign exchange gain in the period, a consequence of the sterling depreciation against the euro and Swedish krona.

EcV by segment at 31 Dec 2020 £m



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

EcV to Solvency II £m



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

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

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

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

Dividends: The proposed final dividend of £21.4m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

FINANCIAL REVIEW • IFRS

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



IFRS PRE-TAX PROFIT 24.6M

2019: £96.1m

Executive summary

Stable core: At the heart of surplus, and hence cash generation, are the core CA (excluding the S&P book) and Waard Group segments. The requirements of these books are to provide a predictable and stable platform for the financial model and dividend strategy. As closed books, the key is to sustain this income source as effectively as possible.

Variable element: Included within the CA segment is the S&P book. This can bring an element of short-term earnings volatility to the group, with the results being particularly sensitive to investment market movements due to product guarantees. The IFRS results of Scildon are potentially relatively

	2020 £m	2019 £m	Note
CA	35.7	47.9	1
Movestic	12.9	13.2	2
Waard Group	4.1	4.1	3
Scildon	14.6	41.6	4
Chesnara	(9.4)	(6.4)	5
Consolidation adjustments	(6.1)	(5.1)	6
Profit before tax, AVIF impairment and profit on acquisition	51.8	95.3	
AVIF impairment	(27.6)	–	7
Post completion gain on portfolio acquisition	0.4	0.8	3
Profit before tax	24.6	96.1	
Tax	(3.4)	(17.0)	
Profit after tax	21.2	79.1	
Foreign exchange	22.6	(18.7)	8
Other comprehensive income	(0.5)	0.2	
Total comprehensive income	43.3	60.6	
Operating profit, excluding AVIF impairment ¹	30.6	46.2	9
Economic profit, excluding AVIF impairment ¹	21.2	49.1	10
Profit before tax, AVIF impairment and profit on acquisition	51.8	95.3	
AVIF impairment	(27.6)	–	7
Post completion gain on portfolio acquisition	0.4	0.8	3
Profit before tax	24.6	96.1	
Tax	(3.4)	(17.0)	
Profit after tax	21.2	79.1	
Foreign exchange	22.6	(18.7)	8
Other comprehensive income	(0.5)	0.2	
Total comprehensive income	43.3	60.6	

Notes.

- The CA segment has posted a strong result, albeit down on the prior year, which saw strong investment related returns late in 2019. In addition to positive economic returns, the current year result also benefited from positive operational impacts arising from mortality assumption changes, expense modelling impacts and favourable policyholder tax deductions.
- Movestic continues to contribute positively to the overall group IFRS result, with profits broadly in line with the prior year. Positive investment returns, strong claims development and reduced operational expenses produced a favourable result year to date.
- The Waard Group result reflects weaker investment performance due to investment market volatility. It has also incurred slightly higher than expected acquisition related expenditure, which includes costs in relation to the purchase of a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V., which completed on 31 August 2020.

IFRS TOTAL COMPREHENSIVE INCOME £43.3M

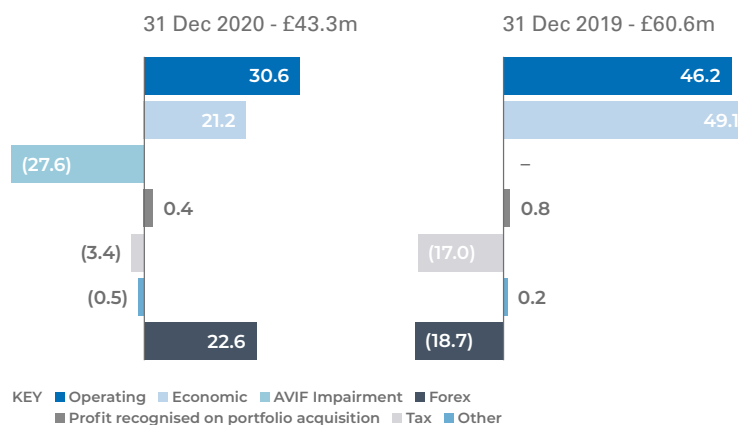
2019: £60.6m

volatile although this is, in part, due to reserving methodology rather than 'real world' value movements.

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

IFRS results

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



4. Scildon has delivered a relatively strong IFRS result, despite the need for a strengthening of reserves of circa £10m in the year arising from the liability adequacy test biting. Positive investment value growth has arisen from favourable spread and interest rate movements, coupled with a positive insurance result due to favourable mortality experience.

5. The Chesnara result largely represents holding company expenses. The current year loss is higher than last year largely due to 2020 including larger one-off items such as project related expenditure and a foreign exchange loss in respect of the euro denominated loan that it holds.

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

7. During the year a write down of the Scildon AVIF intangible asset was performed amounting to £26.6m (£11.6m of this was recognised in the first half of the year). The impairment was as a result of a reduction in the assessed value of the future cash flows of policies that were in force at the point of acquisition. The AVIF held in respect of the Protection Life book within CA was also impaired by £1.0m, following a year end assessment. The impairments are driven by a combination of economic and operating factors, with the exact allocation between the two being impracticable to determine. As a result this has been reported outside of both operating and economic profits.

8. Sterling weakened against both the euro and Swedish krona in the period, having a material impact on the 2020 result, creating a sizeable exchange gain at the end of the year.

9. The operating profit, excluding AVIF impairment, includes the negative impact of the liability adequacy test biting in Scildon, amounting to £10.0m, which is driven by a combination of economic and operating assumption changes. In the absence of this operating profits have remained broadly in line year on year, demonstrating the stability of the core business.

10. Economic profit, excluding AVIF impairment, represents the components of the earnings that are directly driven by movements in economic variables. Despite being lower than last year, economic profits have held up well in what has been a turbulent year for global investment markets, which have largely recovered from the steep falls seen at the start of the COVID-19 pandemic.

IFRS net assets remained relatively stable during the year, whilst cash generated from operating activities increased period on period, as positive investment returns outweighed corresponding movements in insurance and investment contract liabilities.

FINANCIAL MANAGEMENT

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

The following diagram illustrates the aims, approach and outcomes from the financial management framework:

OBJECTIVES

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

Maintain solvency targets

Meet the dividend expectations of shareholders

Optimise the gearing ratio to ensure an efficient capital base

Ensure there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors

Maintain the group as a going concern

HOW WE DELIVER TO OUR OBJECTIVES

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

1. Monitor and control risk and solvency

2. Longer-term projections

3. Responsible investment management

4. Management actions

OUTCOMES

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

1. Solvency	2. Shareholder returns	3. Capital structure	4. Liquidity and policyholder returns	5. Maintain the group as a going concern
Group solvency ratio: 156%	2018-2020 TSR (14.07)% 2020 dividend yield 7.5% Based on average 2020 share price and full year 2020 dividend of 21.94p	Gearing ¹ ratio of 7.4% This does not include the financial reinsurance within the Swedish business.	Policyholders' reasonable expectations maintained. Asset liability matching framework operated effectively in the year. Sufficient liquidity in the Chesnara holding company.	Group remains a going concern (see page 52)

Further detail on capital structure

The group is funded by a combination of share capital, retained earnings and debt finance. The debt gearing (excluding financial reinsurance in Sweden) was 7.4% at 31 December 2020 (11.0% at 31 December 2019). The level of debt that the board is prepared to take on is driven by the group's 'Debt and leverage policy' which incorporates the board's risk appetite in this area. Over time, the level of gearing within the group will change, and is a function of the funding requirements for future acquisitions and the repayment of existing debt.

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

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

1. Maintain the group as a going concern

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

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV and IFRS positions. In particular these projections assess the cash generation of the life insurance divisions and how these flow 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 43 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of COVID-19 on the group as Chesnara's most material ongoing exposure to COVID-19 is any associated future investment market impacts. Underpinning the projections process outlined above are a number of assumptions. The key ones include:

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

Due to the group's strong capital position and the group's business model, although the Covid-19 outbreak caused significant global economic disruption, the group and the company remain well capitalised and has sufficient liquidity. No significant strengthening of mortality assumptions has been required as a result of Covid-19 at this stage. As such we can continue to remain confident that the group will continue to be in existence in the foreseeable future. The information set out on pages 41 to 42 indicates a strong Solvency II position as at 31 December 2020 as measured at both the individual regulated life company levels and at the group level. As well as being well-capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due and does not rely on the renewal or extension of bank facilities to continue trading. The group's subsidiaries rely on cash flows from the maturity or sale of fixed interest securities which match certain obligations to policyholders, which brings with it the risk of bond default. In order to manage this risk, we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low.

Whilst there was some short-term operational disruption from dealing with the restricted operating environment in light of COVID-19, our assessment has shown that both our internal functions and those operated by our key outsourcers and suppliers adapted to these restrictions and do not cause any issues as to our going concern.

2. Assessment of viability

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

As reported in the going concern section, the group has remained well capitalised throughout the COVID-19 pandemic, and any operational disruption in moving to a largely remote working model in the short term, was minimal. In light of this, should the COVID-19 situation be with us in society over the whole viability period, we do not believe that this factor would cause any concern as to our overall viability.

3. Viability statement

Based on the results of the analysis above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

4. Assessment of prospects

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

The business plans include underlying operational deliverables, an assessment of the business model and the financial consequences of following those plans. As part of this process we also consider the principal risks and uncertainties that the group faces (see pages 55 to 59) and how these might affect our prospects.

An assessment of our prospects has been shown below, updated for our consideration of the impact of COVID-19. This has been structured around our three strategic objectives:

Value from in-force book: The group has c930,000 policies in force at 31 December 2020. These are generally long-term policies, and the associated cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. From a COVID-19 perspective, whilst equity markets have somewhat recovered from the initial falls at the start of the pandemic, sustained depressed market values do adversely impact fee income streams and therefore if markets fall again then profitability prospects reduce. Similarly further reductions in yields would adversely impact our prospects. Temporary market volatility is however a natural feature of investment markets and our financial model is well positioned to withstand difficult conditions without creating any permanent harm to the longer-term profitability prospects.

Acquisition strategy: The outlook and prospects of continuing to deliver against this strategic objective is covered on page 40. We see no reason to expect that COVID-19 will have a long term impact on the availability of acquisition opportunities. Despite a competitive landscape, where deals have completed over the past year, the acquiring companies have still tended to report value gains. Indeed we completed a small Dutch acquisition which has resulted in a €7.2m EcV gain. Waard are building a useful market position as a company who are able and willing to acquire books that are sub-scale for the vendors business model. Whilst we maintain our ambition to complete larger deals, the prospects from a steady flow of well priced smaller acquisitions should not be underestimated. The financial position of the group continues to support financing deals through the use of our own resources or by raising debt, however in the short-term equity funding would likely be less attractive.

Value from new business: Chesnara is in a fortunate position in that its prospects do not fundamentally rely on the ability to sustain new business volumes. New business levels have held up well in Scildon despite overall market size reductions during the year. An increase in market share stands us in a good position to take advantage should market volumes increase post COVID-19 as we would expect them to do. Movestic's new business results have been more adversely impacted by COVID-19 primarily due to an overall reduction in wider market activity. That said, we were still able to post a new business profit and our market share would mean a notable recovery in future profits when the wider market volume recovers.

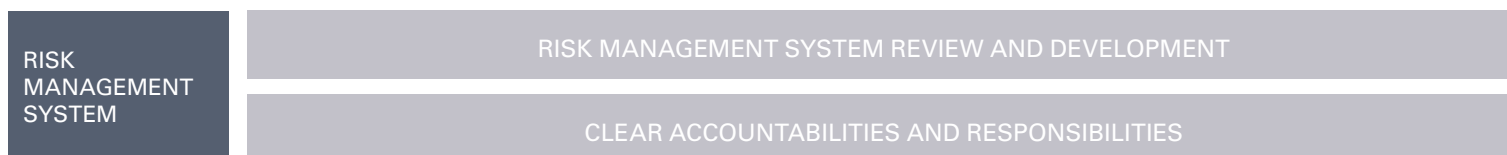
Our business fundamentals such as assets under management, policy volumes, new business market shares and expenses have all proven resilient to the impact of the pandemic. This, together with the positive assessment of our core strategic objectives and a line of sight to positive management actions over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

RISK MANAGEMENT

Managing risk is a key part of our business model. We achieve this by understanding the current and emerging risks to the business, mitigating them where appropriate and ensuring they are appropriately monitored and managed.

How we manage risk

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



Chesnara adopts the ‘three lines of defence’ model adjusted as appropriate across the group taking into account size, nature and complexity, with a single set of risk and governance principles applied consistently across the business.

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

Group and divisional risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the group of certain adverse events occurring separately or in combination. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in ‘Principal risks and uncertainties’ (pages 55 to 59). The outcome of this testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.



RISK MANAGEMENT • ROLE OF THE BOARD

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

Risk and Control Policies

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

Strategy and Risk Appetite

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

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

Risk identification

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk Management System Effectiveness

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

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

INVESTMENT AND LIQUIDITY RISK	PR1
REGULATORY CHANGE RISK (INCLUDING BREXIT)	PR2
ACQUISITION RISK	PR3
DEMOGRAPHIC EXPERIENCE RISK	PR4
EXPENSE RISK	PR5
OPERATIONAL RISK	PR6
IT / DATA SECURITY & CYBER RISK	PR7

COVID-19

During 2020 the COVID-19 pandemic had a global impact on demographic, social and economic factors.

Recognising that, as we move into 2021, there is potential risk of related operational disruption and economic volatility, the information in the following pages has been updated to reflect the ongoing COVID-19 pandemic.

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES

The following tables outline the principal risks and uncertainties of the group and the controls in place to mitigate or manage their impact. It has been drawn together following regular assessment, performed by the Audit & Risk Committee, of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The impacts are not quantified in the tables. However, by virtue of the risks being defined as principal, the impacts are potentially significant. Those risks with potential for a material financial impact are covered within the sensitivities (page 43).

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	<p>Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders.</p> <p>Chesnara and each of its subsidiaries have obligations to make future payments, which are not always known with certainty in terms of timing or amounts, prior to the payment date. This includes primarily the payment of policyholder claims, reinsurance premiums, debt repayments and dividends. The uncertainty of timing and amounts to be paid gives rise to potential liquidity risk, should the funds not be available to make payment.</p> <p>Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.</p> <p>Worldwide developments in Environmental, Social, and Governance (ESG) responsibilities and reporting have the potential to influence market risk in particular, for example the risks arising from transition to a carbon neutral industry, with corresponding changes in consumer preferences and behaviour.</p>
KEY CONTROLS	<ul style="list-style-type: none"> – Regular monitoring of exposures and performance; – Asset liability matching; – Maintaining a well-diversified asset portfolio; – Holding a significant amount of surplus in highly liquid 'Tier 1' assets such as cash and gilts; – Utilising a range of investment funds and managers to avoid significant concentrations of risk; – Having an established investment governance framework to provide review and oversight of external fund managers; – Regular liquidity forecasts; – Considering the cost/benefit of hedging when appropriate; – Actively optimising the risk / return trade-off between yield on fixed interest assets compared with the associated balance sheet volatility and potential for defaults or downgrades; and – Giving due regular consideration (and discussing appropriate strategies with fund managers) to longer term global changes that may affect investment markets, such as climate changes.
RECENT CHANGES / OUTLOOK	<p>Influenced mainly by the COVID-19 pandemic, sustained low interest rates combined with increasingly volatile credit spreads provides an additional challenge in terms of achieving a suitable return on fixed interest investments relative to risk. It has also increased the perceived risk of downgrades or defaults on lower grade credit assets.</p> <p>Chesnara has ESG as a regular agenda item on the appropriate committee agendas across the group including the board, with a group-wide ESG strategy and underlying principles established in 2020 to provide top down guidance and consistency where appropriate.</p>

REGULATORY CHANGE RISK (INCLUDING BREXIT)

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	<p>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 is the constraining of efficient and fluid use of capital within the group, or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>Regulatory developments continue to drive a high level of change activity across the group, with items such as operational resilience, climate change and IFRS17 being particularly high profile. Such regulatory initiatives carry the risk of expense overruns should it not be possible to adhere to them in a manner that is proportionate to the nature and scale of Chesnara's businesses. The group is therefore exposed to the risk of:</p> <ul style="list-style-type: none"> – incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards; – erosion in value arising from pressure or enforcement to reduce future policy charges; – erosion in value arising from pressure or enforcement to financially compensate for past practice; and – regulatory fines or censure in the event that it is considered to have breached standards or fails to deliver changes to the required regulatory standards on a timely basis.

REGULATORY CHANGE RISK (INCLUDING BREXIT) (CONTINUED)

PR2

KEY CONTROLS

Chesnara seeks to limit any potential impacts of regulatory change on the business by:

- Having processes in place for monitoring changes, to enable timely actions to be taken, as appropriate;
- Maintaining strong open relationships with all regulators, and proactively discussing their initiatives to encourage a proportional approach
- Being a member of the ABI and equivalent overseas organisations and utilising other means of joint industry representation;
- Performing internal reviews of compliance with regulations; and
- Utilising external specialist advice and assurance, when appropriate.

Regulatory risk is monitored and scenario tests are performed to understand the potential impacts of adverse political, regulatory or legal changes, along with consideration of actions that may be taken to minimise the impact, should they arise.

RECENT CHANGES / OUTLOOK

The jurisdictions which Chesnara operates in are currently subject to significant change arising from political, regulatory and legal change. These may either be localised or may apply more widely, following from EU-based regulation and law, or the potential unwinding of this following the UK's decision to leave the EU.

Chesnara has not been directly impacted by the effects of the end of the Brexit transition period given its existing group Structure, though the main unknown is regarding group Regulatory Supervision. The group has considered any restructuring which could be required to align to changes in the requirements of cross border regulatory supervision. In extremis, Chesnara could consider the re-domiciling of subsidiaries or legal restructure of the business, should this result in a more commercially acceptable business model in a changed operating environment. In addition, there are a number of potential secondary impacts such as economic implications, and the effect of any regulatory divergence as the PRA progresses SII-equivalent regulation for the UK businesses.

Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II Review, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.

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.

KEY CONTROLS

Chesnara's financial strength, strong relationships and reputation as a 'safe hands acquirer' via regular contact with regulators, banks and target companies enables the company to adopt a patient and risk-based approach to assessing acquisition opportunities. Operating in multi-territories provides some diversification against the risk of changing market circumstances in one of the territories. Consideration of additional territories within Western-Europe remains on the agenda, if the circumstances of entry meet Chesnara's stated criteria.

Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:

- Applying a structured board approved risk-based Acquisition Policy including CRO involvement in the due diligence process and deal refinement processes;
- Having a management team with significant and proven experience in mergers and acquisitions; and
- Adopting a cautious risk appetite and pricing approach.

RECENT CHANGES / OUTLOOK

Chesnara has completed a portfolio acquisition in the Netherlands during 2020 and has agreed to complete another during the first half of 2021, also in the Netherlands, whilst maintaining the established disciplines within the Acquisition Policy.

DEMOGRAPHIC EXPERIENCE RISK

PR4

DESCRIPTION	Risk of adverse demographic experience compared with assumptions.
RISK APPETITE	The group accepts this risk but restricts its exposure, to the extent possible, through the use of reinsurance and other controls. Early warning trigger monitoring is in place to track any increase or decrease in the risk exposure beyond a set level, with action taken to address any impact as necessary.
POTENTIAL IMPACT	<p>In the event that demographic experience (rates of mortality, morbidity, persistency etc.) varies from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the group.</p> <p>The effect of recognising any changes in future demographic assumptions at a point in time would be to crystallise any expected future gain or loss on the balance sheet.</p> <p>If mortality or morbidity experience is higher than that assumed in pricing contracts (i.e. more death and sickness claims are made than expected), this will typically result in less profit accruing to the group.</p> <p>If persistency is significantly lower than that assumed in product pricing and subsequent reserving, this will typically lead to reduced group profitability in the medium to long-term, as a result of a reduction in future income arising from charges on those products. The effects of this could be more severe in the case of a one-off event resulting in multiple withdrawals over a short period of time (a 'Mass Lapse' event).</p>

KEY CONTROLS

Chesnara performs close monitoring of persistency levels across all groups of business to support best estimate assumptions and identify trends. There is also partial risk diversification in that the group has a portfolio of annuity contracts where the benefits cease on death.

Chesnara seeks to limit the impacts of adverse demographic experience by:

- Aiming to deliver good customer service and fair customer outcomes;
- Having effective underwriting techniques and reinsurance programmes, including the application of 'Mass Lapse reinsurance', where appropriate;
- Carrying out regular investigations, and industry analysis, to support best estimate assumptions and identify trends;
- Active investment management to ensure competitive policyholder investment funds; and
- Maintaining good relationships with brokers, which is independently measured via yearly external surveys that considers brokers attitude towards different insurers.

RECENT CHANGES / OUTLOOK

New legislation introduced at the start of 2020, and enhanced at the start of 2021, made it easier for customers to transfer insurance policies in Sweden. Even before the legislation passed, this resulted in higher transfer activity in the market, particularly driven by brokers. Movestic adjusted its future transfer assumptions to reflect an expectation of increased transfers out.

COVID-19 increased the number of deaths arising in 2020 and this will continue into 2021 and potential beyond. The effect of this is expected to be more pronounced in older lives rather than in the typical ages of the assured lives in the Chesnara books. Chesnara does not expect a material impact on its mortality experience in the long-term, and has not revised any 2020-year end valuation assumptions to reflect any material increase in mortality costs. Any negative impacts regarding term claims would be partially offset by an opposite impact on annuities.

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	<p>The group is exposed to expenses being higher than expected as a result of one-off increases in the underlying cost of performing key functions, or through higher inflation of variable expenses.</p> <p>A key underlying source of potential increases in regular expense is the additional regulatory expectations on the sector.</p> <p>For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.</p> <p>For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similarly, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.</p>

EXPENSE RISK (CONTINUED)

PR5

KEY CONTROLS

For all subsidiaries, the group maintains a regime of budgetary control

- Movestic and Scildon assume growth through new business such that the general unit cost trend is positive;
- The Waard Group pursues a low cost-base strategy using a designated service company. The cost base is supported by service income from third party customers;
- Countrywide Assured pursues a strategy of outsourcing functions with charging structures such that the policy administration cost is more aligned to the book's run off profile; and
- With an increased current level of operational and strategic change within the business, a policy of strict project budget accounting discipline is being upheld by the group for all material projects.

RECENT CHANGES / OUTLOOK

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

Completion of two recent portfolio acquisitions within the Waard Group provides support towards ongoing fixed costs.

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

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.

KEY CONTROLS

The group perceives operational risk as an inherent part of the day-to-day running of the business and understands that it can't be completely eliminated. However, the company's objective is to always control or mitigate operational risks, and to minimise the exposure when it's possible to do so in a convenient and cost effective way.

Chesnara seeks to reduce the impact and likelihood of operational risk by:

- Monitoring of key performance indicators and comprehensive management information flows;
- Effective governance of outsourced service providers including a regular financial assessment. Under the terms of the contractual arrangements the group may impose penalties and/or exercise step-in rights in the event of specified adverse circumstances;
- Regular testing of business continuity plans;
- Regular staff training and development;
- Employee performance management frameworks;
- Promoting the sharing of knowledge and expertise; and
- Complementing internal expertise with established relationships with external specialist partners.

RECENT CHANGES / OUTLOOK

All parts of the business continue to strengthen aspects of operational resilience as part of their annual business plans, and have documented robust plans for operational resilience covering:

- Alternate physical working locations;
- Data back-ups (with suitable network isolation);
- Alternate systems/applications;
- Crisis Management Team Terms of Reference; and
- Crisis communication strategies.

In response to COVID-19, Chesnara, its subsidiaries and outsourced service providers have all adapted to remote working conditions, utilising communication technology as required and implementation of additional controls. There is potential for COVID-19 to influence the operating environment on a long term basis and drive changes in competitor, regulator or counterparty (e.g. broker) behaviours.

Scildon is part way through an IT transformation project in order to deliver improved functionality and operational efficiencies. With the scale of the transformation, this potentially increases Scildon's operational risk during and immediately after delivery of the project. It also has potential to result in project cost overruns, should the delivery take longer than planned. Suitable controls are in place to monitor and manage these risks, as appropriate.

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

KEY CONTROLS

- Chesnara seeks to limit the exposure and potential impacts from IT/ data security failures or cyber-crime by:
- Embedding the Information Security Policy in all key operations and development processes;
 - Seeking ongoing specialist external advice, modifications to IT infrastructure and updates as appropriate;
 - Delivering regular staff training and attestation to the information security policy;
 - Regular employee phishing tests and awareness sessions;
 - Ensuring the board encompasses directors with information technology and security knowledge;
 - Conducting penetration and vulnerability testing, including third party service providers;
 - Executive committee and board level responsibility for the risk, included dedicated IT security committees with exec membership;
 - Having established Chesnara and supplier business continuity plans which are regularly monitored and tested;
 - Ensuring Chesnara's outsourced IT service provider maintains relevant information security standard accreditation (ISO27001); and
 - Monitoring network and system security including; firewall protection, antivirus and software updates. In addition, a designated steering group provides oversight of the IT estate and information security environment including:
 - Changes and developments to the IT estate;
 - Performance and security monitoring;
 - Oversight of information security incident management;
 - Information security awareness and training;
 - Development of business continuity plans and testing; and
 - Overseeing compliance with the Information Security Policy.

RECENT CHANGES / OUTLOOK

Chesnara continues to invest in the incremental strengthening of its operational resilience and has introduced additional automated controls to protect our data and infrastructure with regular monitoring to detect and prevent counter cyber-attacks.

No reports of material data breaches.

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

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.

KEY CONTROLS

- Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:
- Monitoring quarterly new business profit performance;
 - Investing in brand and marketing;
 - Maintaining good relationships with brokers;
 - Offering attractive products that suit customer needs;
 - Monitoring market position and competitor pricing, adjusting as appropriate;
 - Maintaining appropriate customer service levels and experience; and
 - Monitoring market and pricing movements.

RECENT CHANGE / OUTLOOK

COVID-19 caused some volatility in new business volumes across markets as well as in individual business' volumes during 2020 as a result of restrictions on face to face sales meetings and customer demand.

Competition has increased in the Swedish market resulting in lower transfers in and higher transfers out. This activity has been further enabled to a degree by new legislation in Sweden.

There is potential for the economic impacts of COVID-19, such as lower interest rates, to adversely affect new business profitability too and this is being closely monitored.

CORPORATE & SOCIAL RESPONSIBILITY

Our goal is to ensure we continue to manage the business responsibly and for the long-term benefit of all stakeholders, including our customers, shareholders, employees, regulators, outsourcers and local communities.

During 2020 a key initiative, led by the board, was further progression of our corporate and social responsibility credentials through development of a more detailed and measurable Environmental, Social and Governance (ESG) strategy. This strategy sought to build upon action already taken in previous years and also lay the foundations for further progress to be made in future years as ESG considerations and reporting requirements develop.

PROGRESSION OF OUR ESG STRATEGY

2020 saw us make further progress in building on our sustainability and ESG activities for:

- Our own operations in the UK, Sweden and the Netherlands;
- Our product offerings for new business in Sweden and the Netherlands;
- Our client chosen investments; and
- Our own investment decisions.

In Sweden, Movestic became a signatory of the UN's Principles of Responsible Investment (UNPRI) and in the UK we completed our fund rationalisation programme during 2020 by moving all of our UK fund management to Schroder Investment Management Ltd with a key part of this decision being their commitment to UNPRI and sustainability/ESG investment management and reporting. Development of our ESG strategy is being based on the UN's Sustainable Development Goals (UNSDG) and we have chosen to focus on five of the seventeen goals initially:

3 GOOD HEALTH AND WELL-BEING



5 GENDER EQUALITY



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



13 CLIMATE ACTION



In 2015, world leaders agreed to 17 Global Goals (officially known as the Sustainable Development Goals or SDGs). These goals have the power to create a better world by 2030, by ending poverty, fighting inequality and addressing the urgency of climate change. Guided by the goals, it is now up to all of us, governments, businesses, civil society and general public to work together and build a better future for everyone.



THE GLOBAL GOALS

Find out more at globalgoals.org

Our opening assessment is that the above 5 Global Goals are the most appropriate initial focus areas for Chesnara.

We continued to make progress in 2020 in minimising ESG risks and negative impacts from our own operations and also initiated a project to embed our sustainability/ESG aspirations within our investment management, which will progress further through 2021.

A key driver of change throughout the coming year will be on-going regulatory initiatives, at the forefront of which is the FCA's Policy Statement on climate-related disclosure and the Sustainable Finance Disclosure Regulation (SFDR), implemented in March 2021, which aims to improve the quantity and quality of information about sustainable investments, promoting responsible and sustainable investment activity.

FAIR TREATMENT FOR OUR WORKFORCE

Equal opportunities

We need to ensure that, in a competitive market, we continue to attract, promote and retain the best candidates. Our approach is to be open, entrepreneurial and inclusive in how we operate. Chesnara is committed to a policy of equal opportunity in employment and it will continue to select, recruit, train and promote the best candidates based on suitability for the role and treat all employees and applicants fairly regardless of race, age, gender, marital status, ethnic origin, religious beliefs, sexual orientation or disability. Chesnara will ensure that no employee suffers harassment or intimidation.

The table below shows the gender split of employees of the Chesnara group split across different categories (as at the year-end):

	2020		2019	
	Male	Female	Male	Female
Directors of Chesnara plc	5	2	5	2
Senior management of the group	7	2	6	2
Heads of business units & group functions	14	10	18	7
Employees of the group	148	152	141	149
Total ^{Note 1}	174	166	170	160
Gender split %	51.2%	48.8%	51.5%	48.5%

Note 1. The number of staff reported in the table above is based on the number of employees employed at the year-end. This differs to the employee Note, which is calculated based on average FTE's during the course of the year.

The Hampton-Alexander report recommends a board diversity target of 33% for FTSE 350 companies. Gender diversity forms an important part of the board appointment process. Our board diversity ratio for 2020 was c71% male and c29% female. Chesnara are committed to diversity: our group Audit and Risk Committee and group Remuneration Committee both have female chairs and Movestic is headed up by a female CEO (also senior independent director). Chesnara plc board appointments in 2020 were Luke Savage, as the new Chair (appointed in 2019 with effective date in early 2020), and Eamonn Flanagan. Peter Mason stepped down, as did David Brand (though he remained on the CA board).

Senior management includes employees other than group directors who have the responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company. Chesnara have only three members of staff who meet the Companies Act definition of senior management. We therefore provide additional information in keeping with the spirit of the company's focus on diversity. We have provided additional disclosures to cover the employees within the group. We have given an analysis of diversity, which shows 'Heads of business units and group functions' separately from the remainder of employees within the group.

Training and development

We continue to invest in the development of our employees through individual and group training and development plans.

Fair pay

In 2020 our UK operations became an accredited Living Wage Foundation Employer and took appropriate steps to ensure that all of our directly employed staff and service contractors either met the Real Living Wage pay level or we have an agreed plan in place for them so to do. The Real Living Wage, as set by the Living Wage Foundation, is higher than the Government's National Living Wage, and is based on a calculation of the cost of living and what employees and their families need to live.

Details of our staff pay and benefits, and in relation to executive pay, are set out in Section C as part of our Remuneration Report.

All UK employees, subject to minimum service requirement, also have access to our SAYE scheme, improving employee engagement with company performance and directly linking a proportion of employee benefits to our performance.

Disabled employees

Chesnara will provide employment for disabled persons wherever the requirements of the business allow and if applications for employment are received from suitable applicants. If existing employees become disabled, every reasonable effort will be made to achieve continuity of employment. The company will make reasonable adjustments to give the disabled person as much access to any services and ability to be employed, trained, or promoted as a non-disabled person.

Health, safety and welfare at work

Chesnara places great importance on the health, safety and welfare of its employees. Relevant policies, standards and procedures are reviewed on a regular basis to ensure that any hazards or material risks are removed or reduced to minimise or, where possible, exclude the possibility of accident or injury to employees or visitors. The policies, standards and procedures are communicated to employees through contracts of employment, the staff handbook and employee briefings and all employees have a duty to exercise responsibility and do everything possible to prevent injury to themselves and others.

Our business units each ensure that the health and welfare of our staff is supported by employment contract provisions and these include access to health insurance for all employees and encouragement and support for flexible working. Our Swedish operation has a stated sick leave target of <2% and such metrics are also closely monitored across the group to highlight any issues and so that corrective actions can be taken as appropriate.

FAIR TREATMENT FOR OUR WORKFORCE (CONTINUED)

Whistleblowing

Across the group we have in place whistleblowing policies, which comply with local regulatory requirements. In the UK the Audit & Risk Committee Chairman is appointed as Whistleblowing Champion, whose responsibilities meet the requirements of the Senior Insurance Managers Regime. Similar arrangements are in operation within our overseas divisions. In 2020 a review of our group wide Whistleblowing policies and their effectiveness was conducted and reported to the board. As a result, the board is satisfied that it has established reasonable assurance that both the Whistleblowing policies and related control systems have operated effectively.

During the year, revisions to Whistleblowing policies were progressed in the UK, Sweden and the Netherlands (Waard) and these were communicated to all workforce members, whilst for Netherlands (Scildon) a review was completed in late 2019 and no change in local regulations occurred in 2020 to require an update. Registers have been maintained to check that the new policies have been read and understood and 100% of workforce members have complied. A review was also conducted as to whether the policies remain appropriate under COVID and it was determined that they do, without any revisions required.

Each business unit ensures that the current Whistleblowing policy is available to all staff.

Employee engagement

In 2019 the board appointed Veronica Oak as our designated Workforce Engagement NED. Despite the obvious complications arising during 2020 as a result of COVID-19, Veronica has embedded her role during the year and has formally reported to the board on issues/matters arising, covering both engagement with staff and also an assessment of our culture across our UK, Swedish and Dutch business units and how this fits in with corporate objectives. This reporting highlighted a strong adoption of Chesnara's core values across the group and a multi-channel approach to ensuring effective employee engagement through such mechanisms as: regular use of Employee Forums; monthly team or whole company briefings for staff and senior management, often also involving one or more of the Group Executives; departmental meetings; and use of employee surveys to highlight issues and drive change.

Going forward, Veronica will be meeting formally with the UK's CEO and members of the Employee Forum and with the CEO's and Heads of HR in Sweden and the Netherlands, in addition to the ad hoc lines of communication that have been established in 2020.

In the UK, the Employee Forum has continued to operate for our UK workforce, meeting remotely monthly. This Forum comprises staff members who represent each functional area, rotated from time to time, who consult with their colleagues and bring any matters of concern or interest to the Forum.

During 2020, a key focus has been how to ensure staff are supported in home working. A survey in June on the effectiveness of the Employee Forum and work/support measures taken, which had an 82% response rate, led to improvements being progressed, including provision of IT equipment, office chairs and broadband upgrades. This survey also highlighted the importance of weekly team calls led by the UK CEO and also 'virtual social events' as part of maintaining social (non-work) communication between staff members. The Employee Forum has also launched a Mind Mental Health at Work programme to raise awareness of mental health issues in the workplace and help identify, support and respond to employee issues.

Our operations in Sweden and the Netherlands make similar use of Employee Forums, staff surveys, formal and informal employee engagement both at the individual, team and whole company level. In the Netherlands (Scildon) this is formalised through the operation of a Works Council.

We are also conscious that through our outsourcing arrangements we indirectly utilise the services of a much larger workforce and we seek to ensure that our suppliers are similarly adopting appropriate arrangements for communication and engagement with their own workforce as part of the way in which we manage and work with our outsource suppliers.

As an acquisitive company, we are acutely aware of the need to consider the interests of the workforce that may be affected by any plans to buy a company or book of business. This is factored into our Acquisition Policy and will be reported upon to the board to assist its deliberations on any potential acquisition.

**'OUR PEOPLE ARE OUR GREATEST ASSETS.
WE RECOGNISE THAT TO BE ABLE TO MEET THE
EXPECTATIONS WE HAVE SET OURSELVES, WE
NEED TO ENSURE WE CONTINUE TO ATTRACT,
PROMOTE AND RETAIN THE BEST PEOPLE'**

RESPONSIBLE OPERATIONS & INVESTMENTS

HUMAN RIGHTS

Modern Slavery Act 2015

The Modern Slavery Act (2015) requires a commercial organisation over a certain size to publish a slavery and human trafficking statement for each financial year. This statement can be found on the Chesnara plc website and our full Modern Slavery Policy is made available to our entire workforce. Chesnara plc welcomes the act and, with its subsidiaries, is committed to the eradication of human trafficking and slavery. Slavery and human trafficking are abuses of a person's freedom and rights. We are totally opposed to such abuses in our direct operations, our indirect operations and our supply chain as a whole and we expect our partners to operate in line with our corporate values.

A review was conducted in 2020, on behalf of the board, of both our UK operation and outsourced service providers. This review was reported to the board and concluded that there had been no instances or concerns raised and that we have complied with the Modern Slavery Act (2015) through operation of our Modern Slavery Policy and assurance that its related control systems operated effectively.

Anti-Bribery and Corruption Policy

Chesnara has in place an Anti-Bribery and Corruption Policy which is reviewed annually, or more frequently by exception. Its scope includes all directors, employees and third-parties operating on its behalf and the company has a zero tolerance to all such matters. Controls operated in the period include the maintenance and review of a Gifts & Hospitality Register, the disallowance of any political contributions or inducements and careful consideration of any charitable donations. The internal financial control environment acts as a further monitoring and prevention system. All staff are required to attest that they have read and understood our Anti-Bribery and Corruption Policy and its importance is highlighted at team training sessions. The policy itself is available to all staff.

There were no instances of bribery or corruption in the period.

OUR COMMUNITIES

In the UK, our investment and continued commitment to the North West and Preston in particular creates high quality financial services roles outside of London. Also, as part of our carbon offsetting activity, we have again supported the planting of 1,500 trees in the North West of England.

All divisions support local community initiatives to the extent deemed appropriate given our financial responsibilities as a public limited company. In the UK we were delighted in 2020 to pay for a new book-keeping system and staff training at the Foxton Centre in Preston. Starting out as a youth club in 1969, the Foxton Centre now helps and improves the lives of rough sleepers and street sex workers and also runs youth community projects and facilities, all in the Preston area.

CLIMATE CHANGE

Climate change is one of the most significant and potentially irreversible risks the world faces, and because of this, its importance is paramount.

Our business, like all businesses, are directly affected by the effects of climate change and because of this, it features high on our radar with actions being taken where possible, to mitigate the group's impact on climate change.

With the publication of the FCA's Policy Statement (PS20/17) and final rule and guidance promoting climate-related financial disclosures, and specifically disclosure consistent with the recommendations of the Task-force on Climate-related Financial Disclosure (TCFD), we are already actively working with our outsourced fund management supplier, Schroders, to ensure full compliance ahead of publication of the 2021 Report and Accounts in 2022.

Climate change and related scenario testing is included in the ORSA and supporting narrative – climate change risk is included within the ORSA as an emerging risk and shows links to elements of the stress testing. It is also reported as an emerging risk within the routine risk reporting process as set out on pages 73 to 76.

'THE GROUP HAS FULLY OFFSET ITS CARBON EMISSIONS FOR 2020 AND SO IS CARBON NEUTRAL.'

RESPONSIBLE OPERATIONS & INVESTMENTS (CONTINUED)

SUSTAINABILITY & ESG ISSUES

Our own operations

Being primarily office-based financial services companies, it is the board's belief that the group's activities do not materially contribute to pollution or cause material damage to the environment. However, the group takes all practicable steps to minimise its effects on the environment and our workforce is encouraged to conserve energy, minimise waste and recycle work materials. Some examples include:

- The redesign of our Scildon offices in the Netherlands has taken full account of carbon emissions and energy usage and has been supported by a move at Scildon for all new company cars to be electric.
- Prior to the COVID lockdown in March, we continued to make progress with a reduction in COVID-19 car usage for business travel and a shift towards more travel by rail, which is significantly more efficient. This proactive approach, across the group, to not only limit the amount of travel but also give consideration to the method will be followed through as current COVID restrictions are lifted.
- In 2019 we posted more than 600 fewer Report & Accounts, down 56% on 2018. This number has reduced still further in 2021 with 450 copies being issued.

Energy consumption in the group is reported on an actual basis where the records are kept in the business (scope 2 – office use and scope 3 – business travel) and converted to emissions measures using standard conversion factors from the government website. For commuting and home-working, where detailed records are not kept, estimates have been agreed for each division regarding the average daily mileage and average proportion of home-working during 2020. These estimates have then had the standard conversion factors applied. Energy consumption data (in kWh) for the year to 1 December 2020 was as follows:

	UK	Offshore	Total
Energy Consumption (Kwh '000)	780	7,757	8,536

As a group, we know that it is currently unlikely that we will be able to operate with zero emissions, but we take steps to reduce them wherever possible, as noted above. To further mitigate our impact, we have engaged in carbon offsetting activity, and, as in 2019, fully neutralized the remaining emissions for 2020.

Greenhouse gas reporting**Methodology used to calculate emissions**

We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Defra Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The financial control method, which captures the sources that fall within our consolidated Financial Statements, has been used.

The group's carbon reporting falls under three scopes as shown in the table below. Until last year, scope 3 has excluded the impact of employee commuting under the assumption that this mileage was personal mileage and not a direct consequence of the employment within the group. From 2019 onward we have chosen to include an estimate of the commuting emissions for our staff (including contractors) and outsourcers as we feel that, even though these are personal emissions, they are indirectly linked to the group and therefore we want to recognise that impact. Furthermore, in 2020, given the increase in remote-working (and reduction in travel) due to the COVID-19 pandemic, we have included increased domestic emissions from staff working at home in order to fully recognise Chesnara's impact.

Disclosure of emissions

Global GHG emissions data for the year to 31 December 2020:

	Tonnes of CO ₂ e	
	2020	2019
Emissions from:		
Combustion of fuel and operation of facilities (scope 1)	–	–
Electricity, heat, steam and cooling purchased for own use (scope 2)	147.2	192.8
Travel (scope 3)	45.8	183.6
Remote working* (scope 3)	420.3	
Commuting (scope 3)	330.7	1042.6
Total gross emissions	944.0	1,419.0
Carbon offsetting	(944.0)	(1,419.0)
Total net emissions	–	–
Company's chosen intensity measurement = tonnes of CO ₂ e per square metre of office space occupied (excluding commuting and remote working)	0.031	0.056
Company's chosen intensity measurement = tonnes of CO ₂ e per square metre of office space occupied (including commuting)	0.152	0.212
Emissions reported above normalised to per tonne of product output		

*2020 includes an estimate of the carbon emissions that arise from the increased working from home for all staff and outsourcers across the whole group.

The overall measure for tonnes of CO₂e per square metre of office space (excluding commuting) has reduced when compared to the prior year, this is mainly due to lower emissions with the reduction in travel due to the pandemic, and also to lower conversion rates (Defra 2020 v 2019). With the commuting mileage included, the intensity measurement increases from 0.031 to 0.152.

There are 11 (2019:14) company-leased vehicles in total across the group which are used primarily for commuting and not business-related activities.

- **Scope 1** – there are no emissions that fall under the category of scope 1 for the group, which is activities controlled by the organisation that release emissions into the atmosphere such as from combustion on owned controlled boilers and furnaces.
- **Scope 2** – the emissions that fall within this category are related to the energy usage for the group's offices. This excludes the usage of the outsourcers as they do not work exclusively for the group and therefore we have not been able to estimate the impact. The Defra conversion factors are used to calculate the carbon emissions based on the kWh of gas and electricity used during the course of 2020. We believe this is a prudent approach in estimating the emissions for the overseas divisions as data suggests that Sweden and the Netherlands generate their energy in a more efficient manner than the UK.

- **Scope 3** – comprises of the emissions incurred through direct business travel and commuting, alongside an estimate of the remote-working emissions incurred by our staff and our outsourcers. The Defra conversion factors are used to calculate the carbon emissions based on the miles travelled dependent on the travel method (air, rail and car).

Basis of preparation – inherent within the calculations in the table above are a number of assumptions that we believe provide a comfortable level of prudence, particularly in the commuting estimates and the estimation of emissions from the overseas offices. However, this is partly offset by other minor areas such as being unable to estimate the mileage impact from employees using taxis in the course of business travel.

Carbon offsetting

emissions, we recognise that it is unlikely that we will be able to fully mitigate them through normal activities. To ensure we minimise our impact on the environment, the group has decided to become carbon neutral by fully offsetting our remaining emissions. To do this, the group has invested in a tree buddying scheme. Through the scheme, we have offset the emissions we have produced during 2020 by:

- Paying for the planting of trees in the north west of England; and
- For every tree planted in the UK, a tonne of carbon will also be saved via a project to minimise deforestation in Brazil.

More information can be found at www.carbonfootprint.com

Energy Saving Opportunity Scheme Regulations 2014

The company has committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2014 (ESOS). As part of the ESOS, in December 2019 the company submitted and was externally assessed for the energy usage, in the UK, for the 2019 year. Energy usage examined was in relation to any energy consumed by the company, lighting, heating, fuel to name a few. ESOS operates on a four year compliance phase with the next reporting / compliance date being December 2023.

Investments

We invest responsibly, with ESG considerations having an increasingly important role in our investment process, whether that be product offerings and client led investment decisions or our own asset management.

Products/client chosen investment

- We offer investment alternatives with a pure focus on green investments aimed at solving climate issues.
- We offer funds focusing on companies that invest in improved health.
- We provide services to enable our customers to make conscious and active choices.

Own investment

We have strengthened further our Investment Committee focus on ESG and it is a regular agenda item at our Investment Committee meetings. In the UK, through our fund management supplier Schroders, we ensure that:

- Our fund managers are being actively engaged with to understand and gain sufficient governance understanding of their approach to the wider ESG subject, including climate change approach to their investment approach and risk assessment.
- We maintain an ongoing dialogue with our fund manager to ensure that, for the fund companies whose funds we have in our offering, we are able to influence them in their sustainability work.
- We take responsibility for having a long-term sustainable business mode focused on long-term profitability, not short-term maximisation.

SECURITY FOR OUR CUSTOMERS

Our offering

Understanding our customer's point of view is one way of making sure we provide a service that makes sense. We do this by paying attention to customer calls and letters, and by regularly asking for feedback. We share our learning with our staff, and in particular, our call centre teams, which motivates and inspires them to give our customers the help they need as efficiently as possible. For those occasions where we don't get it right first time, we aim to address any concerns or complaints painlessly and promptly. Our ambition is to not only consistently achieve the industry service standards, but also to exceed them.

We seek to be honest and fair in our relationships with our customers and provide the standards of products and services that have been agreed.

Reuniting customers with lost policies

We understand that it is easy for customers to lose touch with their policies through acquisitions and name changes, so we actively follow these up wherever possible. This is particularly a primary focus for our UK division, Countrywide Assured.

Digitalisation

We constantly strive to enhance our digital offering to customers to ensure we stay in line with customer expectations and the manner in which customers want to communicate with us. This underpins a number of our key objectives for the group over the coming years in our business plans. That said, these initiatives do not seek to replace existing methods, as we understand how vitally important they are, but instead, we want to broaden our offering.

Customer/supplier engagement

During 2019 the board completed a review of our customer/supplier engagement across all areas of our group, which set out a robust level of engagement and a plan for future development. In 2020 this plan was progressed further and the board has not identified that any additional actions are required at this stage. The board remains vigilant to ensure the importance of such engagement remains high on agendas.

The Strategic Report was approved by the board on 29 March 2021 and signed on its behalf by:



Luke Savage
Chairman



John Deane
Chief Executive Officer

Windmills in Kinderdijk, Netherlands



SECTION C: CORPORATE GOVERNANCE

- 
- 68 — Board profile and Board of Directors
- 70 — Governance overview from the Chairman
- 72 — Corporate Governance Report
- 76 — Nomination & Governance Committee Report
- 78 — Directors' Remuneration Report
- 98 — Audit & Risk Committee Report
- 104 — Directors' Report
- 107 — Directors' Responsibilities Statement

BOARD PROFILE AND BOARD OF DIRECTORS

One key role for the Chesnara board of directors is to provide leadership and maintain the highest possible standards of corporate governance.

The skills, knowledge and experience of our board members ensure we continue to deliver against our strategic objectives. We continue to disclose a board competency profile, as summarised on the right. This summary is based on the core competencies that have been identified as being key to the board discharging its responsibilities and shows the collective score based on the current board make-up.

To provide further insight into the skills, knowledge and experience of each board member, the biographies below show the specific areas of specialism each member provides, with each letter correlating to the competency matrix on the right. Where a board member has a competency in blue this indicates a primary specialism. A light grey colour indicates that this competency is a secondary specialism for that board member.

THE BOARD

LUKE SAVAGE

CHAIRMAN (from 14 February 2020 replaced Peter Mason who stepped down as Chairman effective 13 February 2020)

Non-executive Chairman of the board, Luke is responsible for the leadership of the board, setting the agenda and ensuring the board's effectiveness in all aspects of its role.

Appointment to the board: Appointed to the board and as Chairman in February 2020.

Committee membership: Nomination & Governance (Chairman) and a member of the Remuneration Committee (from February 2020). Attends the Audit & Risk Committee by invitation.

Current directorships/business interests:

- Chesnara Holdings BV (from 01 May 2020)
- Numis Corporation plc, Chairman of the Audit & Risk Committee
- DWF Group plc, Chairman of the Audit Committee
- Liverpool Victoria Financial Services Limited, Chairman of the Audit Committee
- Queen Mary University, Chairman of the Finance and Investment Committee

Skills and experience: A B C D E F G H I J L

JANE DALE

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT & RISK COMMITTEE

Appointment to the board: Appointed to the Chesnara plc board in May 2016 and as Chairman of the Audit & Risk Committee in December 2016. Appointed as the board's Senior Independent Non-Executive Director in October 2018.

Committee membership: Audit & Risk (as Chairman from December 2016) and Nomination & Governance.

Current directorships/business interests:

- Countrywide Assured plc, Chairman of the Audit & Risk Committee
- Covea Insurance plc, Chairman of the Audit Committee
- Covea Life Limited, Chairman of the Audit Committee
- Wealthtime Limited, Chairman of the Audit & Risk Committee
- Amber Financial Investments Limited, Chairman
- Global Risk Partners Limited, Chairman of the Governance & Audit Committee and Chairman of the Remuneration Committee

Skills and experience: A B C D E F G H I J K

JOHN DEANE

GROUP CHIEF EXECUTIVE

Appointment to the board: Appointed to the board in December 2014 and as Chief Executive in January 2015.

Career, skills and experience: John is a qualified Actuary and has over 35 years' experience in the life assurance industry. John joined Century Life, a closed book acquisition company in 1993. As CEO, he oversaw the creation of the outsourcing company Adepta in 2000. He joined Old Mutual plc in 2003 becoming their Corporate Development Director later that year. In 2007 he joined the board of Royal London with responsibility for its open businesses in the UK, Ireland and Isle of Man.

Skills and experience: A B C D E F G H I J K L

BOARD KNOWLEDGE, SKILLS AND EXPERIENCE SUMMARY

KEY	KNOWLEDGE/SKILL/EXPERIENCE	SUMMARY
A	Chesnara company knowledge	● ● ● ● ● ● ●
B	Industry knowledge – UK	● ● ● ● ● ● ●
C	Industry knowledge – Sweden/Netherlands	● ● ● ● ● ● ●
D	Governance – actuarial	● ● ● ● ● ● ●
E	Governance – financial	● ● ● ● ● ● ●
F	Audit and risk management	● ● ● ● ● ● ●
G	Investment management	● ● ● ● ● ● ●
H	M & A and business development	● ● ● ● ● ● ●
I	Commercial management	● ● ● ● ● ● ●
J	Operational change management	● ● ● ● ● ● ●
K	Customer operational / management	● ● ● ● ● ● ●
L	Information technology	● ● ● ● ● ● ●

Annual assessment confirms that our board continues to hold significant experience in the insurance sector and also have a range of specialisms which ensure all aspects of our competency profile are well covered.

In the above diagram a blue symbol represents the number of individuals with a primary specialism in that area, with a grey symbol reflecting a secondary area of expertise. Where board members are not deemed to have a level of specialism regarding a specific competency they clearly contribute constructively to those matters through their general level of board and business experience.

VERONICA OAK

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE

Appointment to the board: Appointed to the Chesnara plc board in January 2013.

Committee membership: Nomination & Governance, Audit & Risk and Remuneration (as Chairman from May 2013).

Current directorships/business interests:

- Countrywide Assured plc, NED
- Sanlam Investment Holdings Limited, NED

Skills and experience: A B H I J K

EAMONN FLANAGAN

NON-EXECUTIVE DIRECTOR

Appointment to the board: Appointed to the Chesnara plc board in July 2020.

Committee membership: Nomination & Governance, Audit & Risk and Remuneration.

Current directorships/business interests:

- Countrywide Assured plc, NED
- AJ Bell, Chair of the Audit Committee and Disclosure Committee
- Randall & Quilter Investment Holdings Ltd, NED

Skills and experience: A B C D E F G H I J K L

DAVID RIMMINGTON

GROUP FINANCE DIRECTOR

Appointment to the board: Appointed as Group Finance Director with effect from May 2013.

Career, skills and experience: David trained as a chartered accountant with KPMG, has over 20 years' experience in financial management within the life assurance and banking sectors and has delivered a number of major acquisitions and business integrations. Prior to joining Chesnara plc in 2011 as Associate Finance Director, David held a number of financial management positions within the Royal London Group including six years as Head of Group Management Reporting.

Skills and experience: A B C D E F H I J

MARK HESKETH

NON-EXECUTIVE DIRECTOR

Appointment to the board: Appointed to the Chesnara plc board in December 2018.

Committee membership: Nomination & Governance and Audit & Risk.

Current directorships/business interests:

- Countrywide Assured plc, NED
- Chesnara Holdings BV
- Stonebridge International Insurance Limited, NED
- Bethany Christian Trust, Treasurer and NED
- Powza Limited, NED
- Zurich Finance (UK), NED

Skills and experience: A B C D E F G H I J

GOVERNANCE OVERVIEW FROM THE CHAIRMAN



‘The practical application of good governance is the foundation of how we operate’.

Dear Shareholder,

On behalf of the board, I am very pleased to present our Corporate Governance Report for the year ended 31 December 2020.

The board is accountable to our shareholders and wider stakeholders for generating and delivering sustainable value through good management of the group’s business. The board plays a critical role in ensuring that the tone for the group’s culture and values is set from the top.

I firmly believe that a robust, and effective, governance framework is essential to support management in delivering the company’s strategy, as well as being fundamental to the effective management of the business and its sustainability in both the short and the long-term.

This section of the Annual Report & Accounts sets out our governance policies and practices, and includes details of how the company has materially, during 2020, applied the UK Corporate Governance Code 2018 (the Code).

The board is cognisant of the corporate governance reforms and proposed changes in legislation that are intended to encourage responsible corporate behaviour. The board is also mindful of the company's wider purpose, responsibilities and decision-making processes to a broader stakeholder group. In delivering sustainable performance, the board is aware of the need to consider and engage with the interests of its employees, customers and suppliers. In 2020, the board continued to engage with its shareholders to promote effective governance through open and constructive two-way dialogue, and we place great value on this engagement.

Significant progress has been made by managers and employees during the year. We remain mindful of the strong relationship between ethics and governance and the role the board plays in demonstrating these. The group's Governance Map, which sets out the governance approach and framework, continues to be developed and embedded across all divisions of the business.

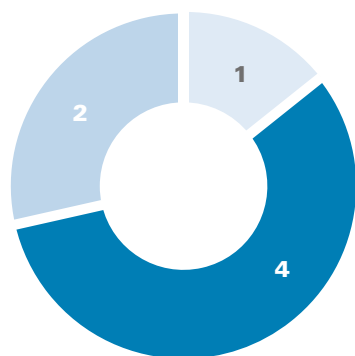
This report demonstrates how the board and its committees have fulfilled their governance responsibilities.



Luke Savage
Chairman

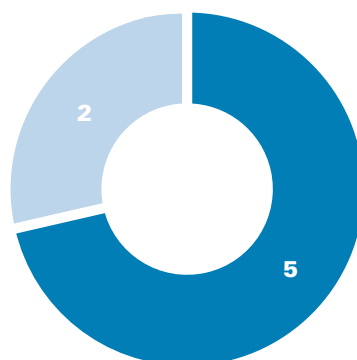
29 March 2021

Current balance of executive and non-executive directors



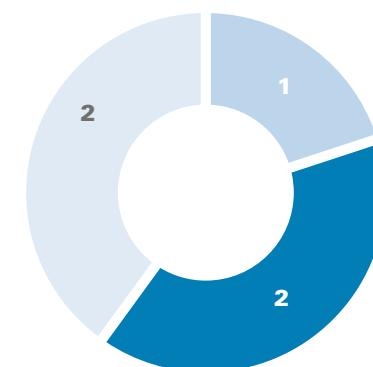
■ Chairman
■ Non-executive
■ Executive

Current gender diversity of the board



■ Male
■ Female

Board tenure of NEDs



■ 0-2 years
■ 2-6 years
■ Over 6 years

CORPORATE GOVERNANCE REPORT

It is essential to have a well designed and effective governance framework to ensure that stakeholders' investments are safeguarded.

Compliance with the Code

The company has complied throughout the year with all of the relevant provisions of the Code aside Provision 40/41 regarding engaging with the workforce on executive pay, for reasons of COVID-19, and Provision 23 on diversity; both noted in the respective sections that follow. The UK Corporate Governance Code is available at www.frc.org.uk

The board

At 31 December 2020, the board comprised of a Non-Executive Chairman, four other non-executive directors and two executive directors.

Biographical details of current directors are given on pages 68 and 69 and a board profile, which assesses the core competencies required to meet the group's strategic objectives, is provided on page 69. The board, which plans to meet at least eight times during the year, has a schedule that it reviews annually of matters reserved for its consideration and approval. These matters include:

- setting corporate strategy;
- approving the annual budget and medium-term projections;
- reviewing operational and financial performance;
- approving acquisitions, investments and capital expenditure;
- reviewing the group's system of financial and business controls and risk management and setting risk appetite parameters;
- approving appointments to the board and to its Committees;
- appointment of the Company Secretary; and
- approval of policies relating to directors' remuneration.

In addition:

- i) with the exception of Mr Savage, the directors of the company during the year were also directors of Countrywide Assured plc;
- ii) three directors of the company, being Messrs Deane and Hesketh (throughout the year) and Savage, (from 01 May 2020), were also directors of Chesnara Holdings BV;
- iii) two directors of the company, being Messrs Deane and Rimmington, were also directors of Movestic Livförsäkring AB; and
- iv) David Brand was a director of the company until 30 June 2020 and of Movestic Livförsäkring AB and Countrywide Assured plc for the full year.

Under local legislation or regulation for all divisions of the group, the directors have responsibility for maintenance and projections of solvency and for assessment of capital requirements, based on risk assessments, and for establishing the level of long-term business provisions, including the adoption of appropriate assumptions. The Prudential Regulation Authority is the group supervisor and maintains oversight of all divisions of the group through the college of supervisors.

The responsibilities that the board has delegated to the respective executive management teams of the UK, Dutch and Swedish businesses include: the implementation of the strategies and policies of the group as determined by the board; monitoring of operational and financial results against plans and budget; prioritising the allocation of capital, technical and human resources and developing and managing risk management systems.

The roles of the Chairman and Group Chief Executive

The division of responsibilities between the Chairman of the board and the Group Chief Executive is clearly defined and has been approved by the board. The Chairman leads the board in the determination of its strategy and in the achievement of its objectives and is responsible for organising the business of the board and supplying timely information, ensuring its effectiveness, encouraging challenge from non-executive directors and setting its agenda. The Chairman has no day-to-day involvement in the management of the group. The Group Chief Executive has direct charge of the group on a day-to-day basis and is accountable to the board for the strategic, financial and operational performance of the group.

Senior Independent Director

Jane Dale, who has been a non-executive board member since May 2016, was appointed as the senior independent director in October 2018. The senior independent director supports the Chairman in both the delivery of the board's objectives and in ensuring that the view of all shareholders and stakeholders are conveyed to the board. Jane Dale is available to meet shareholders on request and to ensure that the board is aware of shareholder concerns not resolved through the existing mechanisms for shareholder communication. The senior independent director also meets with the non-executive directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance and provides feedback to the Chairman and the board on the outputs of that appraisal. In early 2020, Jane also concluded the search for the new Chairman.

Directors and directors' independence

During 2020 a review was conducted to assess the independence of the board as a whole when set against a matrix of key measures set out in the Code. The table below shows the results of that review when set against the Code Provisions 11, 12 and 17 and Principle G.

Code consideration	Questions	
Provisions-11 & 12	1. Are at least half the board, excluding the chair, NEDs whom the board considers to be independent?	Y
	2. Has the board appointed one of the independent NEDs to be the senior independent director (SID) to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders?	Y
Principle-G	3. Does the board include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making?	Y
	4. Is there a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business?	Y
Provision-17	5. Has the board established a Nomination Committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession?	Y
	6. Are a majority of members of the Nomination Committee independent NEDs?	Y
	7. Is the Nomination Committee chaired by an individual other than the chair of the board when it is dealing with the appointment of their successor?	Y

The following statement, together with the Directors' Remuneration Report on pages 78 to 97, the Nomination & Governance Committee Report on pages 76 to 77, and the Audit & Risk Committee Report on pages 98 to 103 describes how the principles set out in the UK Corporate Governance Code 2018 (the Code) have been applied by the company and details the company's compliance with the Code's provisions for the year ended 31 December 2020.

The review went further and, based on Code Provision 10, assessed each NED against a list of ten Yes/No questions, where, for each, a 'No' is determined to be a positive assessment of independence.

The table below shows the results of that review:

Questions: Has the non-executive director?	LS	JD	EF	MH	VO
1. Been an employee of the company or group within the last five years?	N	N	N	N	N
2a. Had within the last three years, a material business relationship with the company: - Directly?	N	N	N	N	N
2b. Had within the last three years, a material business relationship with the company: As a partner, shareholder, director or senior employee of a body that has such a relationship with the company?	N	N	N	N	N
3. Received additional remuneration from the company apart from a director's fee?	N	N	N	N	N
4. Participated in the company's share option or performance-related pay scheme?	N	N	N	N	N
5. A member of the company's pension scheme?	N	N	N	N	N
6. Close family ties with any of the company's advisers, directors or senior employees?	N	N	N	N	N
7. Held cross-directorships or had significant links with other directors through involvement in other companies or bodies?	N	N	N	N	N
8. Represented a significant shareholder?	N	N	N	N	N
9. Served on the board for more than nine years from the date of their first appointment?	N	N	N	N	N

As a result of this review the board considers that all non-executive directors were independent during the year under review.

The board has no familial relationship with any other member of the board or senior management team.

Other than their fees, and reimbursement of taxable expenses, which are disclosed on page 81, the non-executive directors received no remuneration from the company during the year. The directors are given access to independent professional advice, at the company's expense, when the directors deem it necessary, in order for them to carry out their responsibilities. No independent professional advice of this nature was utilised in the year.

The board is satisfied that the overall balance of the board continues to provide significant independence of mind and judgement and further considers that, taking the board as a whole, the independent directors are of sufficient calibre, knowledge and number that they are able to challenge the executive directors and their views carry significant weight in the company's decision making.

Professional development

The directors were advised, on their appointment, of their legal and other duties and obligations as directors of a listed company. This has been supplemented by the adoption and circulation to each director, of their responsibilities and duties as contained within the group's Governance & Responsibilities Map, which covers all aspects of the specific operation of corporate governance standards and of policies and procedures within the group. Throughout their period in office, the directors have, through the conduct of business at scheduled board meetings and executive team training, been updated on the group's business and on the competitive and regulatory environment in which it operates. During the year, specific specialist areas of training have also been provided to the board including directors' duties, the regulatory framework for UK listed companies, operational resilience, Section 172 statements, FRC hot-topics and audit market reform. Members of the CA plc board, who served during the period under review, have considerable knowledge and experience of the UK-based businesses of the group. Similarly, Messrs Savage, Deane, Hesketh and Rimmington, through their membership of the divisional boards, between them displayed considerable knowledge and experience of the Swedish and/or Dutch based businesses of the group.

Information

Regular reports and information are circulated to the directors in a timely manner in preparation for board and committee meetings.

As stated above, the company's directors are also variously members of the boards of subsidiaries within the UK, Dutch and Swedish divisions. These boards hold scheduled meetings, at least quarterly, which are serviced by regular reports and information, which cover all of the key areas relevant to the direction and operation of those subsidiary entities, including business development, key projects, financial performance and position, actuarial assumptions setting and results analysis, compliance, investments, information technology and security, operations, customer care and communication, internal audit, all aspects of the risk function and own risk and solvency assessment.

All divisional entities monitor risk management procedures, including the identification, measurement and control of risk through the auspices of a Risk Committee. These committees are accountable to and report to their boards on a quarterly basis.

Annual reports are produced which cover an assessment of the capital requirements of the life assurance subsidiaries, their financial condition and a review of risk management and internal control systems.

Also, the divisions are required to submit a quarterly risk report and an annual report on risk management and internal control systems. In addition to these structured processes, the papers are supplemented by information which the directors require from time to time in connection with major events and developments, where critical views and judgements are required of board members outside the normal reporting cycle.

'THE BOARD DIRECTORS RECEIVE REGULAR UPDATES AS WELL AS SPECIFIC SPECIALIST AND REGULATORY TRAINING'

Board effectiveness and performance evaluation

As part of the annual performance, an internal effectiveness evaluation of the board and each of its committees was undertaken in the year. This was through an anonymous questionnaire and individual meetings with each director to obtain their views on what was working well and what could be improved.

The discussions were wide-ranging, covering how well the board operates, the process of decision making, the balance between the focus on risk, fair customer outcomes and running the business, the culture and dynamics of the board ensuring its composition and that of its committees are aligned. In addition, using similar methods to those described above, the non-executive directors, led by Jane Dale as senior independent director, contributed to a formal performance evaluation of the Chairman.

The outcome of the reviews of the board and its committees indicated that they continue to be effective and that each of the directors demonstrates commitment to his or her role, along with sufficient time to meet the required time commitment to the company. They were presented back to each committee and formally approved on that basis before each then confirmed to the board that it continued to operate effectively and irrespective the transfer to remote working due to COVID-19 in that regard.

Directors' conflicts of interest

The board has a policy and effective procedures in place for managing and, where appropriate, approving conflicts or potential conflicts of interest. This is a recurring agenda item at all board meetings, giving directors the opportunity to raise any conflicts of interest they may have or to update the board on any changes to previously lodged interests. A director may be required to leave a board meeting whilst such matters are discussed.

The Company Secretary holds a register of interest, and a log of all potential conflicts raised is maintained and updated. The board is empowered to authorise potential conflicts and agree what measures, if any, are required to mitigate or manage them. No new material conflicts of interest are noted in 2020.

Whenever a director takes on additional external responsibilities, the Chairman considers any potential conflicts that may arise and whether or not the director continues to have sufficient time to fulfil his or her duties taking into account the policy on executive directors' external appointments.

Customer/third party conflicts of interest

The board has a policy in place to manage customer and third-party conflicts of interest. This policy sets out how the company and its regulated subsidiaries manage conflicts of interest fairly, both between the relevant company and its customers, between groups of customers and between customers, suppliers and shareholders.

No material conflicts of interest are noted in 2020.

Employee engagement

With the onset of COVID-19 restrictions from March 2020, we took early action to ensure that our employees not only remained safe but also maintained productivity and focus.

The board has a standard agenda item at each of its meetings to cover culture and stakeholder engagement, including workforce engagement. This has helped highlight workforce and other stakeholder matters as part of board discussion and decision-making.

A full description of our employee engagement and well-being is provided in our Corporate and Social Responsibility section on pages 60 to 65.

Customer/supplier engagement

Following the board's review in 2019 of our customer/supplier engagement across all areas of our group, the board do not feel that any additional actions are required at this stage. The board remains vigilant to ensure the importance of such engagement remains high on agendas.

Company Secretary

Alastair Lonie is the Company Secretary and is responsible for advising the board, through the Chairman, on all governance matters. The directors have access to the advice and services of the Company Secretary.

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided on pages 78 to 79.

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided on pages 98 to 103.

Nomination & Governance Committee

Full details of the composition and work of the Nomination & Governance Committee are provided on pages 76 to 77.

The attendance record of each of the directors at scheduled board and committee meetings for the period under review is:

	Scheduled board ¹	Nomination & Governance Committee	Remuneration Committee	Audit & Risk Committee
Luke Savage ² - Non-Executive Chairman	11 (11)	3 (3)	3 (3)	n/a
Peter Mason ³	1 (1)	1 (1)	1 (1)	n/a
John Deane - Executive director	12 (12)	n/a	n/a	n/a
Veronica Oak ⁶ - Non-executive director	11 (12)	3 (3)	4 (4)	8 (9)
David Brand ⁴ - Non-executive director	5 (5)	1 (1)	2 (2)	4 (4)
David Rimmington - Executive director	12 (12)	n/a	n/a	n/a
Jane Dale - Non-executive director	12 (12)	3 (3)	n/a	9 (9)
Mark Hesketh ⁶ - Non-executive director	10 (12)	2 (3)	n/a	8 (9)
Eamonn Flanagan ⁵	7 (7)	2 (2)	2 (2)	5 (5)

The figures in brackets indicate the maximum number of scheduled meetings in the period during which the individual was a board or committee member.

Notes.

1: The number of scheduled board meetings includes 2 meetings that were called at short notice to discuss ad hoc/subject specific matters.

2. Luke Savage was appointed to the board effective 14 February 2020.
3. Peter Mason resigned from the board effective 13 February 2020.
4. David Brand resigned from the board effective 30 June 2020.
5. Eamonn Flanagan was appointed to the board effective 1 July 2020.
6. Absence was due to illness or family bereavement.

Relations with shareholders

The Group Chief Executive and the Group Finance Director meet with institutional shareholders and are available for additional meetings when required. Should they consider it appropriate, institutional shareholders are able to meet with the Chairman, the senior independent director and any other director. The Chairman is responsible for ensuring that appropriate channels of communication are established between the Group Chief Executive and the Group Finance Director with shareholders and, with support from the senior independent director as appropriate, is responsible for ensuring that the views of shareholders are known to the board. This includes twice yearly feedback prepared by the company's brokers on meetings the executive directors have held with institutional shareholders. The company has a programme of meetings with its larger shareholders, which provides an opportunity to discuss, on the basis of publicly available information, the progress of the business. This programme continued during 2020 with enhanced use made of audio and video facilities due to the COVID-19 restrictions.

Annual and interim reports are published and those reports, together with a wide range of information of interest to existing and potential shareholders, are made available on the company's website, www.chesnara.co.uk

In normal circumstances all shareholders are encouraged to attend the Annual General Meeting (AGM) at which the results are explained and opportunity is provided to ask questions on each proposed resolution. For our 2020 AGM this was not possible due to the COVID-19 restrictions. Instead the AGM was conducted in Preston as a closed meeting to all but the Group Chief Executive who had been asked to chair it and in his capacity as a shareholder, as well as the Group Company Secretary in both his capacity as an officer of the company and shareholder in it. Shareholders were encouraged to vote electronically in advance on the resolutions to be passed and to submit their questions in advance if they had any.

At our AGM on 26 May 2020 all resolutions were passed, with votes for ranging from 100% to 94.49% (votes against ranging from 0% to 5.51%).

Our next AGM is on 18 May 2021 and details of the resolutions to be proposed can be found in the notice of the meeting on pages 205 to 206. The meeting

will be closed to shareholders on account of COVID-19 restrictions anticipated to be prevailing at that time and shareholders are therefore encouraged to submit in advance any questions that they may have in order that the Chairmen of the board committees can answer them.

Internal control

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. In establishing the system of internal control, the directors have regard to the significance of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. It is, therefore, designed to manage rather than eliminate the risks, which might prevent the company meeting its objectives and, accordingly, only provides reasonable, but not absolute, assurance against the risk of material misstatement or loss.

In accordance with the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the board confirms that there is an on-going process for identifying, evaluating and managing the significant risks faced by the group. This process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts. The process is regularly reviewed by the board and accords with the guidance.

In accordance with the regulatory requirements of the PRA, local regulators and SII, the relevant business divisions have maintained and enhanced their risk and responsibility regime. This ensures that the identification, assessment and control of risk are firmly embedded within the organisation and that there are procedures for monitoring and update of the same. The Audit & Risk Committee regularly reviews and reports quarterly on risks to the board.

The group also maintains a principal risk register, which ensures identification, assessment and control of the significant risks subsisting within the company, CA, Waard Group, Movestic and Scildon. The principal risks and uncertainties of the group can be found on pages 55 to 59.

The maintenance of the principal risk registers is the responsibility of senior management, who report on them quarterly to the respective divisional Audit & Risk Committees and to each Chesnara Audit & Risk Committee meeting. The divisions maintain a risk and responsibility regime, which ensures that:

CORPORATE GOVERNANCE REPORT

(CONTINUED)

- the boards and Group Chief Executive have responsibility for ensuring that the organisation and management of the operation are characterised by sound internal control, which is responsive to internal and external risks and to changes in them;
- the boards have responsibility for the satisfactory management and control of risks through the specification of internal procedures; and
- there is an explicit risk function, which is supported by compliance and internal audit functions.

As an integral part of this regime a detailed risk register is maintained, which identifies, monitors and assesses risk by appropriate classification of risk.

As at 31 December 2020, all Chesnara directors, apart from Luke Savage, were also members of the CA plc board and the company thereby has effective oversight of the maintenance and effectiveness of controls subsisting within CA plc. Regarding the Waard Group, Scildon and Movestic, such oversight is exercised by way of the membership of Chesnara directors on their boards, together with quarterly reporting to the Chesnara plc Audit & Risk Committee.

In addition, the Chesnara board confirms that it has undertaken a formal annual review of the effectiveness of the system of internal control for the year ended 31 December 2020, and that it has taken account of material developments between that date and the date of approval of the Annual Report & Accounts. The board confirms that these reviews took account of reports by the Internal Audit and Compliance functions on the operation of controls, internal financial controls, and management assurance on the maintenance of controls and reports from the external auditor on matters identified in the course of statutory audit work. Conclusions of the Audit & Risk Committee annual review of effectiveness of the group's risk management and internal control systems is reported in more detail in the Audit & Risk Committee Report as set out on pages 98 to 103. The board is not aware of any significant deficiencies in the effectiveness of the group's systems of internal control and risk management for the year under review. There has been no change of status to this up to the date of approval of this report.

Financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The group has comprehensive planning, budgeting, forecasting and reporting processes in place. A summary of the group's financial results supported by commentary and performance measures are provided to the board before each board meeting.

In relation to the preparation of the group financial statements, the controls in place include:

- the finance governance team review new developments in reporting requirements and standards to ensure that these are reflected in group accounting policies; and
- the finance governance team develop the group's financial control processes and procedures which are implemented across the group.

The reporting process is supported by transactional and consolidation finance systems. Reviews of the applications of controls for external reporting purposes are carried out by senior finance management. The results of these reviews are considered by the board as part of its monitoring of the performance of controls around financial reporting. The Audit & Risk Committee reviews the application of financial reporting standards and any significant accounting judgements made by management.

Going Concern and Viability Statement

The Directors' Statement on going concern is included in the Directors' Report on page 106 and the Long-Term Viability Statement is set out on page 52.

NOMINATION & GOVERNANCE COMMITTEE REPORT

Nomination & Governance Committee

During the period under review, the Committee comprised Luke Savage, who also served as Chairman of the Committee, Veronica Oak, Jane Dale, Mark Hesketh and Eamonn Flanagan (from July 2020). Peter Mason, as Chairman, and David Brand, as Committee member, attended the first meeting of the year prior to their departure from the board in February and June respectively. The Chairman did not chair or attend when the Committee was considering matters relating to his position, in which circumstance the Committee was chaired by an independent non-executive director, usually the senior independent director. No individual participated in discussion or decision-making when the matter under consideration related to him or her.

The Committee Chairman reports material findings and recommendations at the next board meeting.

The terms of reference for the Committee can be found on the company website, www.chesnara.co.uk

The role of the Nomination & Governance Committee is to:

- keep under review the balance, structure, size and composition of the board and its committees, ensuring that they remain appropriate;
- assess the independence of each NED and any circumstances that are likely to impair, or could impair, their independence;
- be responsible for overseeing the board's succession planning requirements including the identification and assessment of potential board candidates and making recommendations to the board for its approval;
- scrutinise and hold to account the performance of the executive directors against agreed performance objectives and advise the Remuneration Committee of their assessments;
- keep under review the leadership needs of, and succession planning for, the group in relation to both its executive directors and other senior management;
- identify and nominate, for the approval of the board, candidates to fill board vacancies as and when they arise;
- manage the search process for new directors, recommending appointments to the board; and
- evaluate the balance of skills, knowledge, experience and diversity of the board.

This includes consideration of recommendations made by the Group Chief Executive for changes to the executive membership of the board.

During the period, the Committee met three times and attendance at those meetings is shown on page 75. By invitation, the GCEO attends the Nomination & Governance Committee, but was not present when matters relating to his own performance were discussed.

The composition of the board

The Committee has continued to focus on succession planning, with a view to identifying the best composition for the board and its Committees for the next phase of development for the business. The review also identified areas where the board should evolve to meet any expected future business and strategic direction of the group.

During 2020 the Committee managed the process that led to the appointment to the board of me as chairman in February 2020, as previously reported in our 2019 Report & Accounts, and also that of Eamonn Flanagan in July 2020. Eamonn has extensive operational experience in financial services in roles with Royal Insurance and Charterhouse/ING Barings. He also brings executive and markets experience from Shore Capital Markets where he was a Director and co-founder, as well as Non-executive experience from AJ Bell, Randall & Quilter and previously at JLT. Eamonn is a Fellow of the Institute of Actuaries.

The main focus of the Nomination & Governance Committee considers the mix of skills and experience that the board requires to be effective and with focus on talent development and succession planning across the group.

The development of talent below board level is extremely important and an area of focus for the board. The company continues to both build an internal leadership pipeline for senior roles and ensure that it remains up to date with external talent.

Board appointment process

The Committee adopts a formal and transparent procedure for the appointment of new directors to the board.

The board's typical process may include the use of independent external recruitment consultants for appointing directors. The company will provide a brief of the candidate desired, along with a role profile, to the recruitment consultant. As part of the appointment process, these external recruitment consultants would be asked to provide candidates from a diverse range of backgrounds. Candidates who are deemed suitable, based on merit and against objective criteria, are submitted to the Committee as a potential candidate. The Committee will review a short list of suitable candidates against the criteria and put forward for interview by the board and the executive management team suitably qualified candidates. Any candidate deemed suitable for appointment will, if necessary, first have to go through the fit and proper process as outlined in the Senior Managers & Certification Regime (SMCR).

The board process set out above was followed and led in early 2020 to the appointment of Luke Savage as Chairman. The board engaged the services of Odgers Berndtson as independent external recruitment consultants for the Chairman role but utilised directors' own knowledge of appropriate candidates for the appointment of Eamonn Flanagan given the impact of COVID-19 and Eamonn's clear fit for the role. No directors have any link with Odgers Berndtson and they were not used for any other work in 2020.

Diversity

The Committee is mindful of the corporate governance developments in the areas of diversity and gender balance, including the changes to the Disclosure and Transparency Rules. This will be kept under review during 2021.

The board recognises the benefits of having diversity across all areas of the group – please see the equal opportunities section on page 61 for further detail. When considering the make-up of the board, the benefits of diversity are appropriately reviewed and balanced where possible and appropriate, including in terms of difference in skills, sector experience, gender, race, disability, age, nationality and other contributions that individuals may make. In identifying suitable candidates, the Committee will seek candidates from a range of backgrounds, with the final decision being based on merit against the role criteria set. Through its board Diversity Policy, the board maintains its practice of embracing diversity and has therefore chosen, at this time, not to set any measurable gender-based targets. The board currently comprises five men and two women (28.5%). In consideration of the longer term, the board has discussed increasing its range of knowledge and experience from outside financial services whilst balancing this with the requirements of the financial services group. It appreciates that it may not be considered to be fully compliant with the code by not setting other explicit diversity targets. The business operates to principles for other roles and is mindful that it has a small workforce and needs to take associated staff turnover expectations into account.

Review of effectiveness

The board and its committees undertook annual effectiveness reviews and the respective Chairmen discussed the findings in each forum. Other standard processes were also undertaken, including Fit & Proper assessments, Board Diversity Policy review, NED succession planning and the review of the effectiveness of the Chairman. The evaluations did not identify any immediate changes needed to board composition.

Any areas where increased focus and/or action was considered to be of potential value has either been taken in 2020 or will be taken into account as appropriate during 2021.

Succession planning

Succession planning is an important element of good governance, ensuring that Chesnara is fully prepared for planned or sudden departures from key positions throughout the group. The Committee, in the year, has reviewed the succession plans for the board, the Group Executive Committee and senior executives across the group.

Non-executive director engagement

It is important to the board that non-executive directors are provided with training and development both within the business and at a group level. The board believes that on-going training is essential to maintaining an effective and knowledgeable board. The company secretary supports the Chairman in ensuring that all new directors receive a tailored and comprehensive induction programme on joining the board. Continuing education and development opportunities are made available to all board members throughout the year. In 2020, a number of development initiatives have continued, these included one-to-one sessions with key members of the senior management team and training sessions given by external providers.

Directors standing for re-election

In accordance with the Code, all directors will offer themselves for re-election, and in the case of Eamonn Flanagan for election, at the company's AGM on 18 May 2021. Following the annual board effectiveness reviews of individual directors, as applicable and subject to re-election/election, the Chairman considers that each director:

- continues to operate as an effective member of the board;
- has the necessary skills, knowledge and experience to enable them to discharge their duties and contribute to the continued effectiveness of the board; and
- has sufficient time available to fulfil their duties.

The board, on the advice of the Committee, recommends the re-election/election of each director so proposed at the 2021 AGM. The full 2021 AGM Notice can be found on page 205.



Luke Savage
Chairman of the Nomination & Governance Committee

29 March 2021

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT



Dear Shareholder,

I am pleased to present the 2020 Directors' Remuneration Report, for which we seek your support at our forthcoming Annual General Meeting, in May 2021.

2020 – A year of solid delivery

Chesnara has a very clear focus, to recap:

1. Maximise value from existing business;
2. Acquire life and pension businesses that meet the investment criteria of the company; and
3. Enhance value through profitable new business.

This clear strategic focus is underpinned by the culture, values and risk environment of the group, which looks to deliver solid investment returns and value for money for our customers. From a remuneration perspective we seek to achieve strong alignment between the interests of shareholders and executive directors and continue to operate two executive incentive schemes: the Short-Term Incentive Scheme (STI) and Long-Term Incentive Scheme (LTI).

Despite the COVID-19 pandemic having made 2020 a challenging year, we have seen significant delivery on our key metrics:

1. Cash generation¹ of £27.7m contributing to the funding requirements of the dividend.
2. Movestic has delivered modest new business profits¹ of £1.6m, which is reflective of the challenging market. Movestic has provided to Chesnara a SEK76.0m (£6.5m) dividend payment.
3. Scildon has delivered increased new business profits of £8.8m. This has been delivered through cost saving initiatives and product innovation.

Executive performance in 2020

In light of the performance of the executive team in 2020 relative to the financial targets and strategic objectives set, the Remuneration Committee is satisfied that the reward outcomes are appropriate and that our remuneration policy worked as intended without need for the Committee to use its discretionary powers to make adjustments.

Our assessment of the performance outcomes in 2020 under the STI can be found on page 82.

The awards made in April 2018 under the 2014 LTI are due to vest in April 2021 and apply to John Deane (GCEO) and David Rimmington (GFD). The targets and performance outcome can be found in the table on page 84. As in 2020, disclosure of the Economic Value¹ outcome now enables comparison with opening values.

Changes to the directors' salary

In line with our Remuneration Policy, it is our normal practice to award executive directors, and indeed all employees, an annual salary increase broadly in line with inflation, however, against the current economic background no inflationary rise has been awarded to staff or executives.

UK employees received an average salary increase of 2% in 2020 but in 2021 there has been no general increase, with individual awards only being made as a result of staff progression. The salaries of John Deane and David Rimmington were increased by 2% in 2020 and 0% in 2021. The executive directors' remuneration for 2021 can be found on page 97.

The board made no increase to the base fee and Committee chairmanship fees for non-executive directors in 2020 or 2021, the only change to non-executive director remuneration related to an increase in responsibility for myself arising from the introduction of the new Workforce NED role.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

Review of Incentive Scheme performance measures

As noted in my report last year, we have considered the performance targets used within the Short-Term and Long-Term Incentive Schemes to ensure that they remain effective and appropriate.

Short-Term Incentive Scheme – under this Scheme, the Committee has discretion to determine with each award the performance criteria in accordance with the Remuneration Policy. These were last changed in 2019 and this year, the Committee concluded that the metrics and weightings remain appropriate – see full details on page 89.

The Long-Term Incentive Scheme aims to align executive and shareholder interests via two equally weighted metrics: (1) Total Shareholder Return (TSR); and (2) Economic Value (EcV) – the latter being a measure of shareholder value, again the Committee has concluded that these remain appropriate.

Directors' Remuneration Policy (the Policy)

We reviewed the composition of the executive's remuneration and our Policy and our revised Policy was approved by shareholders at our AGM in May 2020. We are confident that the current arrangements remain appropriate and are giving rise to outcomes that we hope investors will agree are aligned to the objectives we set ourselves and their interests. In summary, remuneration for our executives will continue to comprise basic salary, benefits, including pension contributions on a par with all UK employees, an annual Short-Term Incentive Scheme (STI) and a Long-Term Incentive Scheme (LTI). We have continued in 2020 to monitor developments in the area of remuneration, whether that is via enhancements to accepted best practice, regulatory guidance or legal requirements, and have concluded that no further changes are necessary to our Policy at this time. The Policy approved in May 2020 can be found on pages 91 to 97 and in the Governance Reports section of the company's website: www.chesnara.co.uk

Shareholder engagement

The Directors' Remuneration Report for the year ended 31 December 2020 comprises my Annual Statement as Chairman of the Remuneration Committee and our Annual Remuneration Report, which together are subject to an advisory shareholder vote at the AGM in May 2021.

During the year under report we have responded to questions/queries raised by shareholders.

The voting outcome at the 2020 AGM in respect of the Directors' Remuneration Report for the year ended 31 December 2019 and the remuneration policy is set out on page 90 and reflects the support of both private and institutional shareholders. The Committee will continue to be mindful to the interests of shareholders and other stakeholders and I welcome shareholder feedback.

Employee engagement

The Committee did not consult directly with employees on the alignment of directors' pay with UK employees. This was because the salary increase was zero for all on account of COVID-19 considerations and pension contributions as a percentage of salary are fully aligned between the executive directors and employees. This may be considered to be in breach of provisions 40/41 of the Code in its strictest definition but two-way dialogue with the workforce was felt to be unnecessary in light of this alignment and outcome under COVID-19 economic circumstances and there not being anything on which to engage. It will engage in 2021.

I hope my annual statement, together with our Remuneration Report, provides a clear account of the operation of the Remuneration Committee during 2020 and how we have put our Remuneration Policy into practice. I'm very happy to talk to shareholders to discuss any aspect of our activities or decisions.



Veronica Oak
Chairman of the Remuneration Committee

29 March 2021

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT

This section sets out how the Remuneration Committee has implemented its Remuneration Policy for executive directors during 2020. Other than the single total figure of remuneration for each director tables on page 81, statement of directors' shareholding and share interests on pages 85 and 86, the information contained within this report has not been subject to audit.

Composition and activities of the Remuneration Committee

In accordance with its Terms of Reference, which can be viewed on the company's website, the Remuneration Committee considered matters relating to directors' remuneration at each of its meetings in 2020. Members of the Remuneration Committee during the course of the year were:

Committee members ¹	Role on the Committee	Committee member since	Attendance in 2020	Maximum possible meetings in 2020
Veronica Oak ²	Committee chairman	January 2013	4	4
Luke Savage ³	Committee member	February 2020	3	3
Eamonn Flanagan ⁴	Committee member	July 2020	2	2
Peter Mason ⁵	Committee member	March 2004	1	1
David Brand ⁶	Committee member	September 2018	2	2

Notes.

1. By invitation, the GCEO attends the Remuneration Committee, but was not present when matters relating to his own remuneration were discussed.
2. Veronica Oak joined the Committee in January 2013 and became the chairman in May 2013.
3. Luke Savage was appointed to the board effective 14 February 2020. Luke was not present when the Chairman's fees were discussed.
4. Eamonn Flanagan was appointed to the board effective 1 July 2020.
5. Peter Mason resigned from the board effective 13 February 2020.
6. David Brand resigned from the board effective 30 June 2020.

During 2020 the Committee incurred external adviser fees of £1,440, including VAT, for advice in relation to the introduction of a post-employment minimum shareholding requirement.

Highlights 2020

In 2020, the Committee met four times and dealt with the following matters:

Area of focus	Matter considered
Executive director remuneration and reward	Assessed and recommended to the board approval of the outcome of awards made in 2019 under the STI Scheme and in 2018 under the LTI Scheme having given due consideration to the risk report provided by the Audit and Risk Committee. Approved the targets and the grant of awards to executives in 2020 under the 2014 STI Scheme and the 2014 LTI Scheme and undertook a half-year evaluation. Also considered whether the share price at the time of making the LTI award required any adjustment to avoid a 'windfall' in terms of the number of shares to be awarded and concluded that no adjustment was necessary given that the share price at the time of making the award (end April) had recovered from the lows reached during March to be above that at the start of 2020.
All employee and executive remuneration	A review of remuneration trends across the group revealed that pay remains at appropriate levels and is not adversely affecting staff turnover or the ability to recruit new members of staff with the required skills and experience.
Terms of Reference	The Committee's Terms of Reference were reviewed. No material revisions were made as they were felt to continue to be appropriate for the activities of the Committee and provide adequate scope to cater for the expectations set by the Code.
Review of the remuneration policy	A revised Remuneration Policy was presented to shareholders at the AGM in May 2020, and approved by them. No further changes were felt necessary in 2020.
Committee evaluation	An evaluation of the Committee's performance by way of an internal questionnaire suggested that the Committee continued to operate well.
Annual salary review	The Committee reviewed the salaries of the executive directors and senior management and made changes in line with its Remuneration Policy and with due reference to staff salaries and economic conditions generally.
Directors' remuneration reporting	The Committee reviewed the draft Directors' Remuneration Report for the 2020 Report & Accounts and recommended its approval by the Chesnara board.
Performance against strategic objectives	The Committee reviewed the executive directors' performance against objectives set.
Directors' minimum shareholding	The Committee reviewed the value of shares held by executives relative to the minimum requirement.
Shareholder engagement	The Committee chairman responded to questions/queries raised by shareholders and engaged with major shareholders on proposed changes to Remuneration Policy in Q1 2020, ahead of the shareholder vote at our AGM in May 2020.
Chairman's fees	The Committee reviewed the level of fees payable to the Chairman.
Remuneration principles	The Committee reviewed the group remuneration principles, which guide the Remuneration Policies throughout the group.

Single total figure of remuneration for each director (audited information)

The remuneration of the executive directors for the years ended 31 December 2020 and 31 December 2019 is made up as follows:

Executive directors' remuneration as a single figure - year ended 31 December 2020

Name of director	Salary and fees £000	All taxable benefits £000	Non-taxable benefits £000	Annual bonuses £000	LTI £000	Pension ³ £000	Total for 2020 £000	Fixed £000	Variable £000
John Deane	458	28	9	244	–	43	782	538	244
David Rimmington	289	15	7	148	–	27	486	338	148
Total	747	43	16	392	–	70	1,268	876	392

Executive directors' remuneration as a single figure - year ended 31 December 2019

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	Annual bonuses £000	LTI ^{2&4} £000	Pension ³ £000	Total for 2019 £000	Fixed £000	Variable £000
John Deane	449	46	6	443	144	43	1,131	526	605
David Rimmington	283	12	5	251	76	27	654	327	327
Total	732	58	11	694	220	70	1,785	853	932

Notes.

1. Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme.
2. Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 LTI Scheme.
3. The pension component in the single figure table represents employer contributions. No directors were members of a defined benefit scheme.
4. These figures have been re-stated to reflect the actual share price at the date of vesting of 320.0 pence.

The remuneration of the non-executive directors for the years ended 31 December 2020 and 31 December 2019 is made up as follows, with the fee element being fixed and the benefits being variable in nature:

Non-executive directors' remuneration as a single figure - year ended 31 December 2019 and 2018

Name of director	Fees £000	2020 Benefits ⁵ £000	Total £000	Fees £000	2019 Benefits ⁵ £000	Total £000
Luke Savage ⁶	123	–	123	na	na	na
Peter Mason ⁷	61	–	61	123	1	124
Veronica Oak	62	–	62	61	1	62
David Brand ⁸	33	–	33	66	1	67
Eamonn Flanagan ⁹	35	–	35	na	na	na
Jane Dale	66	–	66	67	1	68
Mark Hesketh	61	–	61	61	1	62
Total	441	–	441	378	5	383

Notes.

5. Benefits shown here relate to expenses grossed up for income tax, which is settled by the company for travel to Chesnara's head office in Preston, which, for tax purposes, is deemed to be the NEDs' normal place of work.
6. Luke Savage was appointed to the board effective 14 February 2020.
7. Peter Mason resigned from the board effective 13 February 2020.
8. David Brand resigned from the board effective 30 June 2020.
9. Eamonn Flanagan was appointed to the board effective 1 July 2020 but joined Chesnara on 1 June 2020 to undertake his on-boarding process.

Salary and fees

The Remuneration Committee usually reviews basic salaries annually. Assessments are made giving full regard to external factors such as earnings inflation and industry benchmarks and to internal factors such as changes to the role by way of either structural reorganisations or enlargement of the group. In addition, basic pay levels reflect levels of experience. The single earnings figures demonstrate the application of this assessment process.

The remuneration policy for the executive directors is designed with regard to the policy for employees across the group as a whole. Our ability to meet our growth expectations and compete effectively is dependent on the skills, experience and performance of all our employees. Our employment policies, remuneration and benefit packages for employees are regularly reviewed. There are some differences in the structure of the Remuneration Policy for the executive directors and senior management team compared to other employees, reflecting their differing responsibilities, with the principal difference being the increased emphasis on performance related pay for the more senior employees within the organisation.

Employee share ownership is encouraged and facilitated through participation in the SAYE Scheme (subject to minimum service requirement), which was renewed this year.

The Committee did not consult directly with employees on the alignment of directors' pay with UK employees because the salary increase and pension contributions as a percentage of salary are fully aligned between the executive directors and employees.

Taxable benefits

The taxable benefits for executive directors relate to the provision of a car, fuel allowance and medical insurance. For non-executive directors, the taxable benefits represent the reimbursement of travelling expenses incurred in attending board meetings at the Preston head office. These amounts also include an amount to compensate for the personal tax burden incurred.

Annual bonuses

The amounts reported as annual bonuses in 2020 derive from awards made under the 2014 STI Scheme. The amounts awarded to the executive directors under this Scheme are based on performance against three core measures; cash generation¹, total EcV earnings¹ and group strategic objectives, with the latter for the first time including a specific ESG related performance objective. The table below shows the outcome of each measure, the target set and the resulting award.

	Upper threshold for minimum performance	Percentage award for minimum performance	On target performance	Percentage award for on target performance	Minimum threshold for maximum performance	Percentage award for maximum performance	Actual result	Actual percentage total award	Actual percentage award, as percentage of salary	Total award (£)
John Deane										
Cash generation ¹	£27.43m	0%	£34.29m ¹	12.0%	£43.85m	40.0%	£44.20m ¹	39.0%	39.0%	178,360
Total EcV earnings ²	£24.08m	0%	£34.40m	16.0%	£51.60m	40.0%	£(44.59)m	0.0%	0.0%	–
Group strategic objectives	75%	0%	100%	10.0%	125%	20.0%	72.0% of max	14.4%	14.4%	65,721
Total				38.0%		100.0%		53.4%	53.4%	244,081
David Rimmington										
Cash generation ¹	£27.43m	0%	£34.29m ¹	12.0%	£43.85m	40.0%	£44.20m ¹	39.0%	35.1%	101,262
Total EcV earnings ²	£24.08m	0%	£34.40m	16.0%	£51.60m	40.0%	£(44.59)m	0.0%	0.0%	–
Group strategic objectives	75%	0%	100%	10.0%	125%	20.0%	89.5% of max	17.9%	16.1%	46,477
Total				38.0%		100.0%		56.9%	51.2%	147,739

For results between the performance thresholds, a straight-line basis applies.

Notes.

1. This is stated after certain adjustments, such as consolidation adjustments. The actual results are also adjusted in the same manner.
2. The total EcV earnings before exceptional items on page 48 has been adjusted in line with the basis of the target.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

The following table details the requirements for delivery of the strategic objectives for 2020 and actual outcomes:

Objectives area	Objectives and performance	Outcome
John Deane		
Scildon organisation and IT (30%)	Phase 1 design and development delivered in line with plan, including achievement of cost savings set out for 2020. Phase 2 plans to be in place.	Organisational design completed and implemented with support of the works council. IT strategy design completed and outsourcing option selected.
Balance sheet optimisation (20%)	Ensure clarity of SII balance sheet optimisation opportunities, and risks, and associated prioritisation and delivery of agreed actions.	Currency SCR modelling review undertaken and an alternative, more accurate process implemented resulting in a significant reduction in capital requirement. Reassurance review undertaken and opportunities delivered in 2020 and identified for 2021.
Acquisitions (30%)	Lead the investigation and delivery of acquisitions within risk appetite processes.	One acquisition completed and another signed; both in the Netherlands which continues to evidence our ability to accept portfolios into Waard. Strategy and risk appetite for acquisitions having been reviewed and pricing brought into line.
People development (10%)	Ensure that people development and succession plans are progressed and monitored including COVID-19 contingency plans.	While impacted by the restrictions on travelling, the development of individuals has remained a focus with improvements in diversity and experience made. Comprehensive succession plans in place, approved by the board and which can be mobilised at short notice should the need arise.
ESG (10%)	Development of appropriate environmental/climate, people and sustainability policies and practices.	ESG policies, principles and practices, to reflect the businesses' requirements and developing regulatory aims have been progressed with further delivery of actions identified for 2021.
David Rimmington		
Statutory reporting (20%)	Ensure timely and appropriate production of IFRS Report & Accounts and group SII reports (QRTs and narratives) taking into account the impact of COVID-19.	Processes were further developed to ensure delivery to the shorter deadlines with no impact on the quality of outputs.
IFRS 17 (15%)	Planning and delivery of IFRS 17 across group and divisions.	Project has moved from planning to the development phase including the selection of key partners. Technical papers and design specification document production along with the build of a more detailed delivery plan. A comprehensive review and replan has been undertaken. An increase to the budget has been deemed necessary to ensure that delivery is to the standard and timescales required.
Business support (35%)	Constructive role on group and divisional boards and effective working relationships with teams across the group.	Delivered all objectives. Reviewed new business cash consumption and value in the context of the strategic plan. Provided support and challenge on the financial reporting of key projects across the group.
Management reporting and financial analysis (20%)	Timely, appropriate and quality MI available to support capital and balance sheet management and decision-making, taking into account the impact of COVID-19.	COVID-19 impacts have been monitored and reporting processes remain robust. Remote working continues to present some efficiency challenges but quality of outputs remained high.
ESG (10%)	Continued development of appropriate reporting in ARA and website of environmental/climate, people and sustainability policies and practices.	ESG policies and practices to reflect the businesses requirements and developing regulatory requirements have been progressed with further delivery of actions identified for 2021.

Annual bonuses (continued)

In converting performance against the measures assessed for 2020 set out in the previous tables, the directors' annual bonus awards are specified below:

Name of director	Salary on which award is based £	Maximum potential award as % age of salary	Actual award as % age of salary	Total value of award £
John Deane	457,745	100%	53.38%	244,081
David Rimmington	288,756	90%	51.21%	147,739
Total				391,820

35% of the above awards are granted as deferred share awards that will vest at the end of a three-year deferred period.

Long-Term Incentive Scheme awards

The following table sets out the amounts that are due to vest on 28 April 2021 under the 2014 LTI, for which performance conditions were satisfied during the year.

Individual	Measure	Weight	Ranges and targets			Actual outcome				
			Minimum achievement (as % of target)	Target achievement	Max achievement	Opening EcV	Closing EcV ¹	Performance achieved	% of award vesting	Value of award £
John Deane	TSR	50%	=Median	(7.02)%	18.22%			(14.07)%	0%	nil
	EcV	50%	=95.7%	£773.0m	£805.0m	£723.1m	£730.7m	94.5%	0%	nil
David Rimmington	TSR	50%	=Median	(7.02)%	18.22%			(14.07)%	0%	nil
	EcV	50%	=95.7%	£773.0m	£805.0m	£723.1m	£730.7m	94.5%	0%	nil

Note 1. The closing value for EcV¹ is based on that shown on page 49 with the addition of dividends paid out and the deduction of equity raised in the performance period which is consistent with the basis upon which the targets are set. The closing value for EcV on this basis was £730.7m.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

The table below sets out potential LTI interests that have accrued during the year, and each directors' interest in that Scheme:

Name of executive director	Name of Scheme	Date award was granted	Amount of options awarded ¹	Face value on the date of grant ²	% of award vesting for minimum performance	Length of vesting period – 3 years Date of vesting
John Deane	2014 LTI	28 April 2020	143,045	£457,744 based on share price (320.00p)	10.0%	28 April 2023 ³
	2014 LTI	28 April 2019	125,180	£448,770 based on share price (358.50p)	10.0%	28 April 2022 ³
	2014 LTI	28 April 2018	107,100	£439,110 based on share price (410.00p)	10.0%	28 April 2021
	2014 LTI	28 April 2017	111,781	£428,400 based on share price (383.25p)	12.5%	28 April 2020
	2014 LTI	28 April 2016	133,017	£415,013 based on share price (312.00p)	12.5%	28 April 2019
David Rimmington	2014 LTI	28 April 2020	81,213	£259,882 based on share price (320.00p)	10.0%	28 April 2023 ³
	2014 LTI	28 April 2019	71,070	£254,785 based on share price (358.50p)	10.0%	28 April 2022 ³
	2014 LTI	28 April 2018	60,805	£249,300 based on share price (410.00p)	10.0%	28 April 2021
	2014 LTI	28 April 2017	61,996	£237,600 based on share price (383.25p)	12.5%	28 April 2020
	2014 LTI	28 April 2016	71,259	£222,328 based on share price (312.00p)	12.5%	28 April 2019

Basis of awards and summary of performance measures and targets

2014 LTI

Share options awarded are based on the share price at close of business on date of award and a percentage of basic salary as follows: John Deane; 75% in 2015, 100% in 2016 to 2020. David Rimmington; 75% in 2014 and 2015, 90% in 2016 to 2020. Options have a nil exercise price.

Total Shareholder Return

50% of the award will vest subject to the TSR target being in a certain range, with the range being the ranking of the TSR of Chesnara against the TSR of the individual companies in the FTSE 350 Higher Yield Index. The award will be made on a sliding scale from nil if the Chesnara TSR is below the median to full if the Chesnara TSR is in the upper quartile.

EEV/EcV growth target

The LTI Scheme has transitioned to Economic Value (EcV) as an equivalent post Solvency II replacement for Embedded Value (EEV). For performance years starting before 1/1/2016 the measure is EEV. For performance years starting on or after 1/1/2016 the measure is EcV.

For awards granted prior to 2018, 50% of the award will vest subject to the EEV/EcV outcome being within a certain range of its target. The award will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 89% of target, up to a maximum pay-out if the outcome is greater than or equal to 114% of target.

For awards granted in 2018 onwards, 50% of the award will vest subject to the EcV outcome being within a certain range of its target. The award granted in 2020 will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 94.3% of target, up to a maximum pay-out if the outcome is greater than or equal to 103.0% of target.

Notes.

1. No awards are made if performance is below the minimum criteria.
2. The face value is reported as an estimate of the maximum potential value on vesting.
3. LTI awards from 2019 onwards are subject to a two-year holding period in addition to the three-year performance period.

Payments for loss of office (audited information)

No payments were made during the year for loss of office.

Statement of directors' shareholding and share interests (audited information)

The remuneration policy requires executive directors to build up a shareholding through the retention of shares to the value of their basic salary. As at 31 December 2020 this criterion has been met. When the minimum holding level has not been achieved, directors may only dispose of shares where funds are required to discharge any income tax and National Insurance liabilities arising from awards received from a Chesnara incentive plan. The Chairman and non-executive directors are encouraged to hold shares in the company but are not subject to a formal shareholding guideline.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

The table below shows, in relation to each director, the total number of share interests with and without performance conditions, the total number of share options with and without performance measures, those vested but unexercised and those exercised at 31 December 2020 or the date of resignation.

No changes took place in the interests of the directors between 31 December 2020 and 28 March 2021.

Name of director	Shares held: 1 January 2020	Shares held: 31 December 2020	Options: With performance measures	Options: Without performance measures ¹	Options: Vested but unexercised	Options: Exercised during the year	Options: Percentage of shareholding target held ²
John Deane	131,066	131,066	375,325	255,860	154,187 ³	–	246.7%
David Rimmington	72,281	72,281	213,088	111,163	50,176 ³	–	180.9%
Luke Savage ⁴	–	20,000	–	–	–	–	–
Peter Mason ⁵	25,743	25,743	–	–	–	–	–
Eamonn Flanagan ⁶	–	30,000	–	–	–	–	–
Veronica Oak	3,000	3,000	–	–	–	–	–
David Brand ⁷	5,500	5,500	–	–	–	–	–
Jane Dale	3,333	3,333	–	–	–	–	–
Mark Hesketh	5,000	5,362	–	–	–	–	–
Total	245,923	296,285	588,413	367,023	204,363	–	–

Notes.

1. The 'options without performance measures' column in the table does not include the share options that will be awarded as part of the mandatory deferral rules under the 2014 STI in respect of awards made in relation to the 2020 financial year, which equate to 35% of the cash award under this Scheme. The timetable for the administration of the Scheme means that these will be reported in the 2021 Annual Report & Accounts.

2. Calculated using the share price of 298.00p at 31 December 2020.

3. Awarded under the 2014 LTI Scheme and vested on 28 April 2020.

4. Luke Savage was appointed as Chairman in February 2020.

5. Peter Mason ceased to be a non-executive director in February 2020.

6. Eamonn Flanagan was appointed a non-executive director in July 2020.

7. David Brand ceased to be a non-executive director in June 2020.

Outstanding share options and share awards

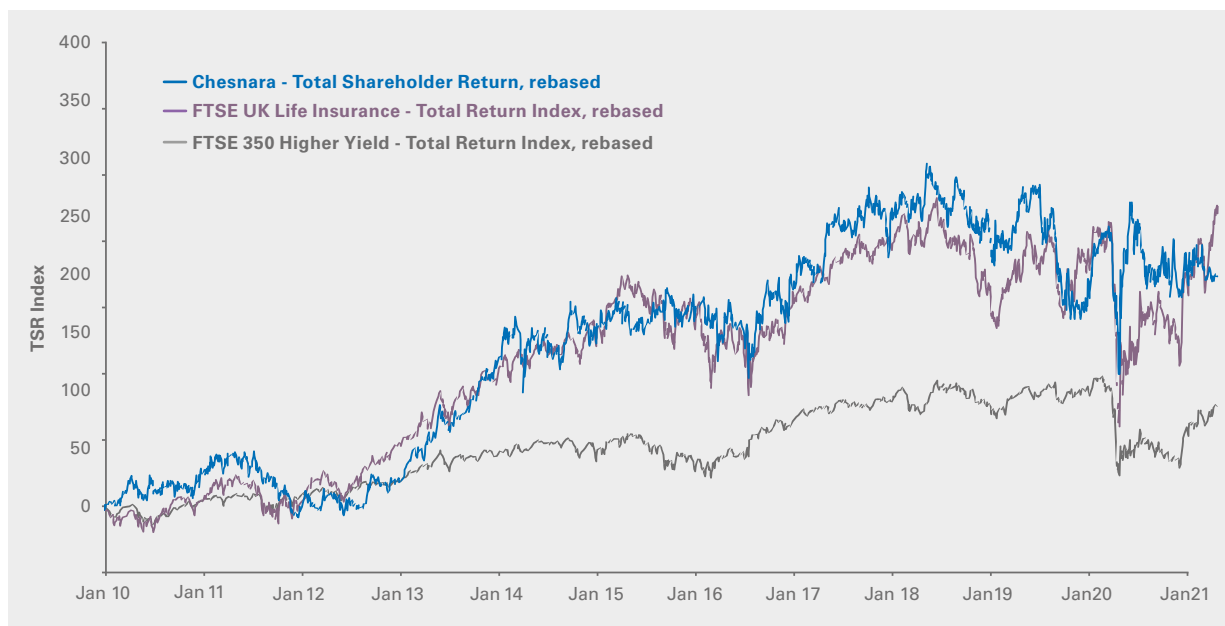
Below are details of outstanding share options and awards for current executive directors.

Name of executive director	Scheme	Grant date	Exercise price (p)	Number of shares under option at 1 January 2020	Number granted during year	Number exercised during year	Number lapsed during year	Number of shares under option and unexercised at 31 December 2020	End of performance period	Vesting date	Performance period	Date of expiry of option
JOHN DEANE	2014 LTI (2020 award)	28/04/20	Nil	–	143,045	–	–	143,045	31/12/22	28/04/23	3 years	28/04/30
	2014 LTI (2019 award)	28/04/19	Nil	125,180	–	–	–	125,180	31/12/21	28/04/22	3 years	28/04/29
	2014 LTI (2018 award)	28/04/18	Nil	107,100	–	–	–	107,100	31/12/20	28/04/21	3 years	28/04/28
	2014 LTI (2017 award)	28/04/17	Nil	111,781	–	–	(85,729)	26,052	31/12/19	28/04/20	3 years	28/04/27
	2014 LTI (2016 award)	28/04/16	Nil	90,439	–	–	–	90,439	31/12/18	28/04/19	3 years	28/04/26
	2014 STI (2020 award)	28/04/20	Nil	–	48,491	–	–	48,491	n/a	28/04/23	n/a	28/04/30
	2014 STI (2019 award)	28/04/19	Nil	13,323	–	–	–	13,323	n/a	28/04/22	n/a	28/04/29
	2014 STI (2018 award)	28/04/18	Nil	31,802	–	–	–	31,802	n/a	28/04/21	n/a	28/04/28
	2014 STI (2017 award)	28/04/17	Nil	37,696	–	–	–	37,696	n/a	28/04/20	n/a	28/04/27
Share save	24/09/19	223.40	8,057	–	–	–	8,057	n/a	01/11/22	n/a	01/05/23	
				525,378	191,536	–	(85,729)	631,185				
DAVID RIMMINGTON	2014 LTI (2020 award)	28/04/20	Nil	–	81,213	–	–	81,213	31/12/22	28/04/23	3 years	28/04/30
	2014 LTI (2019 award)	28/04/19	Nil	71,070	–	–	–	71,070	31/12/21	28/04/22	3 years	28/04/29
	2014 LTI (2018 award)	28/04/18	Nil	60,805	–	–	–	60,805	31/12/20	28/04/21	3 years	28/04/28
	2014 LTI (2017 award)	28/04/17	Nil	61,996	–	–	(47,547)	14,449	31/12/19	28/04/20	3 years	28/04/27
	2014 STI (2020 award)	28/04/20	Nil	–	27,418	–	–	27,418	n/a	28/04/23	n/a	28/04/30
	2014 STI (2019 award)	28/04/19	Nil	7,760	–	–	–	7,760	n/a	28/04/22	n/a	28/04/29
	2014 STI (2018 award)	28/04/18	Nil	17,620	–	–	–	17,620	n/a	28/04/21	n/a	28/04/28
	2014 STI (2017 award)	28/04/17	Nil	20,293	–	–	–	20,293	n/a	28/04/20	n/a	28/04/27
	2014 STI (2016 award)	28/04/16	Nil	15,434	–	–	–	15,434	n/a	28/04/19	n/a	28/04/26
	Share save	24/09/19	223.40	8,057	–	–	(8,057)	–	n/a	01/11/22	n/a	01/05/23
Share save	30/10/20	219.80	–	8,189	–	–	8,189	n/a	01/12/23	n/a	01/06/24	
				263,035	116,820	–	(55,604)	324,251				

There has been one change made to share options granted or offered and the main conditions for the exercise of these rights compared to the previous year, which is the introduction of two-year holding period, to follow the three-year performance period associated with the LTI Scheme awards. This was outlined in the Remuneration Policy, as adopted at the AGM in May 2020.

Performance graph and CEO remuneration table

The graph shows the company's performance compared with the performance of the FTSE 350 Higher Yield Index and the FTSE UK Life Insurance Index. The FTSE 350 Higher Yield Index has been selected since 2014 as a comparison because it is the index used by the company for the performance criterion for its LTI, and the FTSE UK Life Insurance Index has been selected due to Chesnara's inclusion within this Index.



The table below sets out the details for the director undertaking the role of GCEO:

Year	Individual performing GCEO role	GCEO single figure of total remuneration £000	Annual bonus pay-out against maximum	Long-term incentive vesting rates against maximum opportunity	Note
2020	John Deane	782	53.38%	–	1
2019	John Deane	1,111	98.79%	19.93%	1
2018	John Deane	965	31.08%	67.99%	1
2017	John Deane	1,142	86.96%	80.95%	1
2016	John Deane	902	98.33%	–	1
2015	John Deane	596	81.96%	–	1
2014	Graham Kettleborough	712	91.30%	34.52%	2
2013	Graham Kettleborough	702	100.00%	n/a	3
2012	Graham Kettleborough	612	65.48%	100.00%	4
2011	Graham Kettleborough	384	17.39%	n/a	5

Notes.

1. John Deane was appointed GCEO on 1 January 2015.

2. During 2014 an LTIP that was granted to the CEO in 2012 vested. The LTIP included a condition such that the sum of the LTIPs and annual bonuses awarded in that year could not exceed 100% of the CEO's salary. The annual bonus in 2012 amounted to 65.48% of salary. When the performance measurements for the 2012 LTIP were assessed, the award was required to be restricted due to the operation of the 100% combined cap, such that the 2012 LTIP paid out 34.52% of the salary at the time of award. During 2014 the annual bonus that was awarded represented 68.5% of the CEO's salary. The maximum payable was up to 75% of the CEO's salary, resulting in a 91.3% pay-out with reference to the maximum potential award.

3. During 2013 no LTIP value was earned because the annual bonus in isolation accounted for the full 100% combined bonus cap.

4. The vesting percentage in 2012 within the long-term incentive column does not relate to a formal LTIP Scheme. It relates to a discretionary supplementary scheme established in 2009 to recognise the value added to the group from the acquisition of Movestic. The amount vesting has been classified in the LTIP column due to the fact its award was subject to certain future performance criteria being achieved. That Scheme has generated the maximum potential value of £75,000 in 2012. The formal 2012 LTIP Scheme has contributed no value to the total single remuneration figure as it does not vest until performance criteria have been achieved in 2014.

5. Prior to 2012 the LTIP Schemes were in fact better characterised as deferred annual bonus schemes. As such they are classified within the annual bonus value and any value is included in the annual bonus pay-out against maximum percentage.

Percentage change in remuneration for the executive directors

The table below shows the percentage change in remuneration for the executive directors and the company's employees as a whole between the years 2020 and 2019.

Percentage change in remuneration in 2020 compared with 2019	Group Chief Executive %	Group Finance Director %	Group employees %
Salary and fees	2.00	2.00	2.00
All taxable benefits	(39.13) ¹	20.33 ¹	13.28
Annual bonuses	(44.89)	(41.01)	(38.46)

Note 1. All taxable benefits include amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme.

Rolling 5 year percentage change in remuneration for the executive and non-executive directors and group employees

The table below shows the percentage change in remuneration for the executive and non-executive directors and the company's employees as a whole between the years 2020 and 2019. In future years, this analysis will be repeated until a rolling 5 year comparison is ultimately reported.

Percentage change in remuneration in 2020 compared with 2019	Group Chief Executive %	Group Finance Director %	Peter Mason %	Luke Savage %	Veronica Oak %	David Brand %	Jane Dale %	Eamonn Flanagan %	Mark Hesketh %	Group employees %
Salary and fees	2.00	2.00	–	n/a	2.47	–	–	n/a	–	2.00
All taxable benefits	(39.13) ¹	20.33 ¹	(39.13)	n/a	(100.00)	(100.00)	(100.00)	n/a	(100.00)	13.28
Annual bonuses	(44.89)	(41.01)	(44.89)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note 1. All taxable benefits include amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme.

Comparison of total remuneration for the GCEO and UK employees

We set out here our analysis on CEO pay ratio reporting as required by The Companies (Miscellaneous Reporting) Regulations 2018. This analysis has been conducted using 'Option A' as set out in the Regulations and has consisted of:

- Determining the total FTE remuneration of all UK employees for the 2020 financial year;
- Ranking all those employees based on their total FTE remuneration from low to high; and
- Identifying the employees whose remuneration places them at the 25th, 50th (median) and 75th percentile points of this ranking.

The analysis is then presented to show the ratio of the GCEO's 2020 single total figure of remuneration to the:

- Median (i.e. 50th percentile) FTE remuneration of our UK employees;
- 25th percentile FTE remuneration of our UK employees; and
- 75th percentile FTE remuneration of our UK employees.

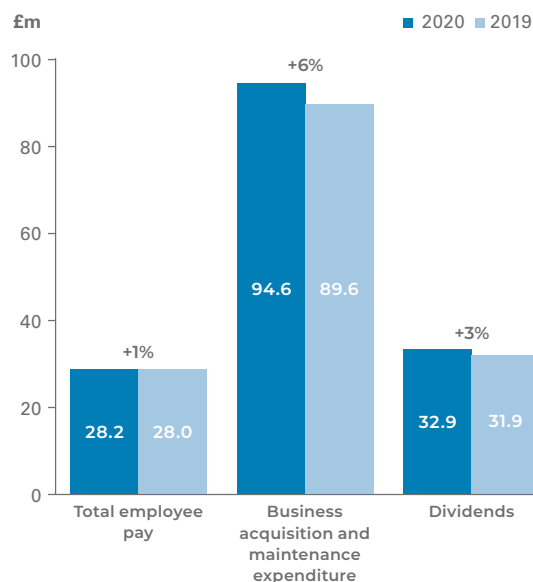
Comparison of total remuneration	25th percentile pay ratio (FTE UK employees total remuneration)	Median pay ratio (FTE UK employees total remuneration)	75th percentile pay ratio (FTE UK employees total remuneration)
2020	11.3 : 1	8.2 : 1	4.8 : 1
2019	15.7 : 1	11.8 : 1	6.6 : 1

The Remuneration Committee considers that the ratio is consistent with our remuneration policy and that no actions arise from this analysis.

Relative importance of spend on pay

The graph to the right shows the actual expenditure of the group and change between the current and previous years:

Due to Chesnara adopting a strategy of outsourcing much of its activities, the level of total employee pay is relatively low in comparison to dividends. In addition, the graph shows a comparison with the group's total acquisition and maintenance expenditure (which consists of administration expenses and costs associated with the acquisition of new business). This has been chosen as a comparator to give an indication of the employee pay relative to the overall cost base. As can be seen, the total employee pay is a relatively small component.

**Statement of Implementation of Remuneration Policy in the following financial year**

The current Policy took effect following approval at the 2020 AGM and the following states how the Policy will be implemented during 2021.

Salaries and fees

Will be set in accordance with the company's Policy.

Executive directors

No increase in salary has been applied for either John Deane (GCEO) or David Rimmington (GFD) in line with all UK staff.

Non-executive directors

No increase has been applied.

The table below sets out the anticipated payments to non-executive directors for 2021:

	Fees £000	Benefits ¹ £000	Total £000
Luke Savage	122.6	1.0	123.6
Eamonn Flanagan	60.8	1.0	61.8
Veronica Oak	62.3	1.0	63.3
Jane Dale	66.0	1.0	67.0
Mark Hesketh	60.8	1.0	61.8
Total	372.5	5.0	377.5

Note 1. Benefits shown here relate to expenses grossed up for income tax, which is settled by the company for travel to Chesnara's head office in Preston, which, for tax purposes, is deemed to be the non-executive director's normal place of work.

2021 award under the 2014 Short-Term Incentive Scheme

The Remuneration Committee proposes to grant awards to the executive directors under the 2014 Short-Term Incentive Scheme.

The table below and accompanying notes set out the performance measures, weightings and the potential outcomes for achieving minimum, on-target and maximum performance. The actual targets for each measure are deemed to be commercially sensitive and whilst they are not disclosed at this stage, they will be disclosed in 2022 together with the performance outcome relative to these targets.

Individual	Measures	Weighting	Ranges and targets			Potential outcomes in terms of % of basic salary		
			Minimum achievement (as % of target)	Target achievement (as % of target)	Maximum achievement (as % of target)	Minimum achievement	Target achievement	Maximum achievement
John Deane	Cash generation	40.0%	80.0%	100.0%	130.0%	nil	12.0%	40.0%
	EcV earnings	40.0%	70.0%	100.0%	150.0%	nil	16.0%	40.0%
	Group strategic objectives	20.0%	75.0%	100.0%	125.0%	nil	10.0%	20.0%
David Rimmington	Cash generation	40.0%	80.0%	100.0%	130.0%	nil	10.8%	36.0%
	EcV earnings	40.0%	70.0%	100.0%	150.0%	nil	14.4%	36.0%
	Group strategic objectives	20.0%	75.0%	100.0%	125.0%	nil	9.0%	18.0%

The STI will be implemented and operated by the Remuneration Committee as set out within the Policy.

Measures

Following review by the Remuneration Committee, changes were approved for 2019 onwards to remove the IFRS component used in prior years and base performance assessment on cash generation and EcV earnings metrics both with appropriate adjustments and group strategic objectives. The two financial measures are deemed to be complementary when operated together, to encourage sensible executive behaviour and better reflect an overall assessment of company financial performance. Our assessment measures continue to ensure there is a balance between aligning executive director remuneration to shareholder returns whilst also recognising measures over which the directors can exercise more immediate and direct influence. The financial measures are recognised outputs from the audited year-end Financial Statements, although it should be noted that the Remuneration Committee is, in accordance with the Policy, able to make discretionary adjustments if deemed necessary. As agreed in advance by the Remuneration Committee, the financial results for the year are adjusted to look through any impact of the symmetric adjustment and WP transfers/restrictions, be they negative or positive. Also, again as agreed in advance, the results for STI purposes exclude the impact of any acquisition activity in the year. Successful acquisitions are rewarded through separate elements of the broader STI and LTI Scheme.

The objectives assigned to each executive director are relevant to their roles and include major regulatory or business development initiatives that the Committee considers key to delivery of the company's business plan. Each individual development objective is assigned a 'significance weighting' influenced by factors such as business criticality, scale, complexity and level of executive director influence. Developments with a higher significance are weighted more heavily when establishing the overall performance target.

The latest approved Policy can be found on the company website (www.chesnara.co.uk). Whilst the Policy makes several specific references to IFRS profit as being one of the key financial metrics, it also refers to the

fact that 'targets may include, but are not limited to costs, IFRS pre-tax profit, EcV operating profit¹, cash generation¹, group strategic objectives, including consideration of Environmental, Social and Governance risks and performance, and personal performance'. As such, the proposed shift in focus in 2019 from IFRS profit and EcV operating profit to cash generation and total EcV earnings is deemed to be in accordance with our approved Policy.

The Scheme includes Change of Control provisions covering takeover, reconstruction, amalgamation or winding-up of the company and it is a precondition that the executive accepts such provisions at the time of the award.

Weightings

The Remuneration Committee has set the weightings. The financial measures that align most directly to shareholder benefit are generally assigned a higher weighting.

Targets

The cash generation and EcV earnings targets are initially based on the latest budget which is produced annually as part of the group business planning process. The group business plan is subject to rigorous Chesnara board scrutiny and approval. The Remuneration Committee can make discretionary adjustments to either the targets or to the actual results for the year if it considers this to be appropriate, in accordance with the Scheme rules.

Malus and clawback

This Scheme includes malus and clawback provisions covering material misstatement, assessment error and misconduct if this arises within two years of an award vesting and it is a precondition that the executive accepts such provisions at the time of the award.

2021 award made under the 2014 Long-Term Incentive Scheme

In 2021 the Remuneration Committee proposes to grant awards to the executive directors under the Chesnara 2014 Long-Term Incentive Scheme.

The table below and accompanying notes set out the performance measures, weightings and the potential outcomes relative to achieving minimum, on-target and maximum performance. The actual EcV target is commercially sensitive and will not be disclosed until 2024 together with the actual performance against those targets.

Individual	Share award	Measures	Weighting	Ranges and targets			Vesting rates		
				Minimum achievement (as % of target)	Target achievement	Maximum achievement (as % of target)	Minimum achievement	Target achievement	Maximum achievement
John Deane	100%	TSR	50%	=Median	Median	Upper quartile	nil	12.5%	50.0%
		EcV	50%				nil		50.0%
David Rimmington	90%	TSR	50%	=Median	Median	Upper quartile	nil	12.5%	50.0%
		EcV	50%				nil		50.0%

The 2021 award under the 2014 LTI will be implemented and operated by the Remuneration Committee as set out within the Policy.

Measures

The two performance measures for the 2021 LTI award use performance against the constituents of an index and an internal target. The external measure compares the 3-year TSR of Chesnara plc with the TSR of the companies comprising the FTSE 350 Higher Yield Index with averaging over the first and last calendar months. The internal measure assesses Economic Value growth which are set with due regard to the board approved business plan. Both measures seek to ensure an alignment between executive director reward and shareholder value, with one assessing relative performance to other investment opportunities and the other assessing absolute performance. Both measures are based on a 3-year performance period ending 31 December 2023.

The Scheme includes Change of Control provisions covering takeover, reconstruction, amalgamation or winding-up of the company and it is a precondition that the executive accepts such provisions at the time of the award.

Weightings

For the 2021 award the two measures have been assigned equal weighting.

Holding period

A two-year holding period was introduced to the LTI Scheme for awards made from 2019, to follow the three-year performance period.

The following table sets out the voting in respect of the Directors' Remuneration Report at the 2020 AGM:

Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Report	93,082,557	97.49%	2,397,183	2.51%	95,479,740	11,573

The following table sets out the voting in respect of the Directors' remuneration policy at the 2020 AGM:

Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Policy	90,213,551	94.49%	5,260,276	5.51%	95,473,827	17,487

Approval

This report was approved by the board of directors on 29 March 2021 and signed on its behalf by:



Veronica Oak
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY

The current Remuneration Policy was approved by our shareholders at the Annual General Meeting held in May 2020 and can be found on our website: www.chesnara.co.uk/corporate-responsibility/governance-reports

Remuneration Policy (Policy)

The Policy has been developed by the Remuneration Committee (Committee) to provide a clear framework for reward linked to the strategy of the company, aligned to the interests of executive directors and shareholders.

In developing its Policy and making decisions about executive director (executive) remuneration, the Committee has taken into account the terms and conditions of employment for employees throughout the company, together with the strategy, objectives and Key Performance Indicators (KPIs) for the business, and developments in the external marketplace. The company has not consulted with employees.

The Policy also sets out the principles applied in the consideration of fees for the non-executive directors.

Alignment of incentives with strategy

Chesnara plc is a holding company engaged in the management of life and pension books of business in the UK, Sweden and the Netherlands with oversight and governance being provided by a central governance team based in the UK.

The company has three core strategic objectives:

1. Maximise value from existing business;
2. Acquire life and pensions businesses; and
3. Enhance value through profitable new business.

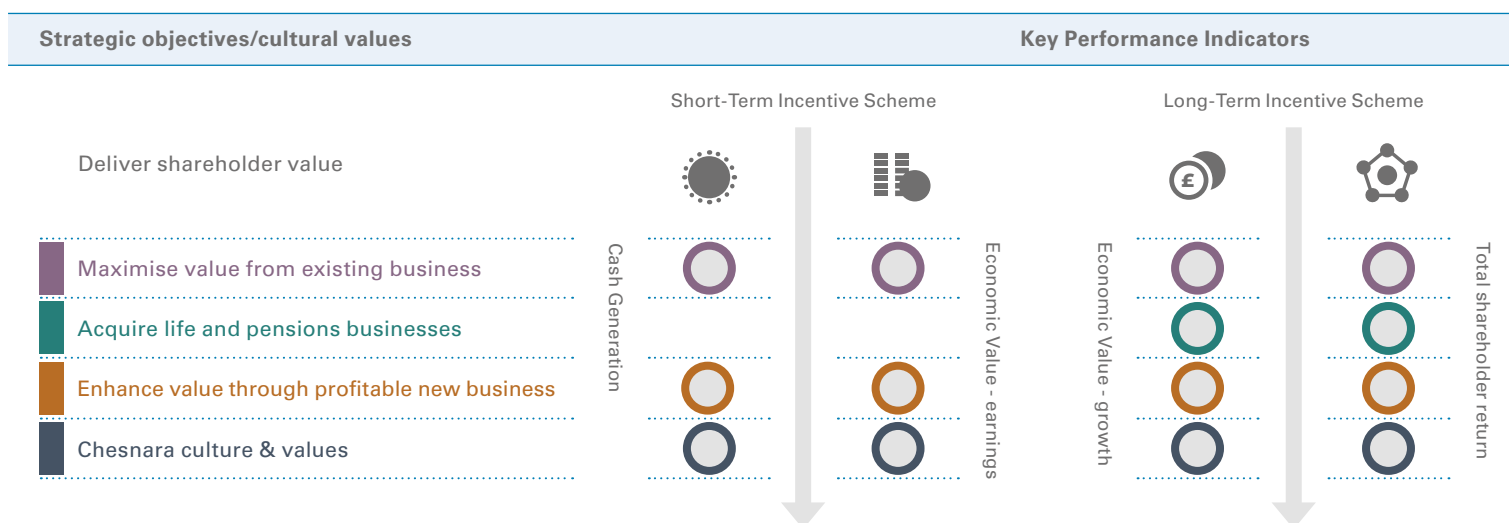
The achievement of these objectives are considered against the culture and risk environment of the company to ensure that rewards do not encourage excessive risk taking or an inappropriate culture to develop.

The schematic below illustrates how the company's KPIs align to its core strategic objectives and, in turn, how those KPIs flow into the performance measures of the executives' short-term and long-term incentives schemes. Reading across the chart shows how the KPIs align to Chesnara's core strategic objectives. For example, 'Maximise value from existing business', 'Enhance value through profitable new business' and 'Acquire life and pensions businesses' will directly impact the Economic Value growth of the group. And likewise, progress against all three of these objectives will have an impact on Total Shareholder Return to varying degrees.

The diagram demonstrates that the Policy aligns to all aspects of the group's objectives. For illustration purposes, the diagram shows the KPIs that the Committee has most recently considered appropriate for the incentive schemes but the Committee may change the KPIs and / or their weighting for future awards. In addition to the KPIs shown, the Short-Term Incentive Scheme includes objectives for the executives covering key strategic deliverables for the year ahead.

Overall Policy aims are:

- to maintain a consistent and stable remuneration strategy based on clear principles and objectives;
- to ensure remuneration structures do not encourage or reward excessive risk-taking which is outside the boundaries of our stated risk appetite;
- to link remuneration clearly to the achievement of our business strategy and ensure that both executive and shareholder reward are closely aligned;
- to enable the company to attract, motivate and retain high calibre executives; and
- for the Policy to be easy to understand and communicate.



1 Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

The implementation of this Policy involves:

- paying salaries that reflect individual roles, an individual's personal development in their role and sustained individual performance and contribution, taking account of the external competitive market;
- enabling executives to enhance their earnings by meeting and then outperforming stretching short and long-term targets in line with the group's strategy;
- requiring executives to build and maintain shareholdings in the company during employment and for 2 years post-employment;
- rewarding executives fairly and responsibly for their contribution and paying what is commensurate with achievement of their objectives; and
- including malus and clawback provisions in the Short-term Incentive Scheme (STI Scheme), including the deferred share award, and the Long-Term Incentive Scheme (LTI Scheme).

For the avoidance of doubt, the Policy includes authority for the company to honour any commitments entered into with current, or former, directors that have been disclosed to shareholders in previous Remuneration Reports. Details of any payments to former directors will be set out in the implementation section of this report as they arise.

The Policy table**Executive remuneration**

The following tables give an overview of the company's Policy on the different elements of the executives' remuneration package.

Purpose and link to strategy	Operation	Performance measures and maximum
Basic salary		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group.	<p>In setting basic salaries for new executive roles, or reviewing the salaries for existing roles, the Committee will take into account, as it considers appropriate, some or all of the following factors:</p> <ul style="list-style-type: none"> – assessment of the responsibilities of the role; – the experience and skills of the jobholder on their commencement and their development in it at the review point; – the group's salary budgets and results; – the jobholder's performance; – with the use of periodic benchmarking exercises, the external market rates for roles of a similar size and accountability; – inflation and salaries across the company; and – the balance between fixed and variable pay to help ensure good risk management disciplines. <p>Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance and development in the role.</p> <p>Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions or significant changes in a jobholder's responsibilities).</p>	Changes to responsibilities, increased complexity of the organisation, personal and group performance are taken into consideration when deciding whether a salary increase should be awarded.
Taxable benefits		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to reduce the potential for ill health to undermine executives' performance.	<p>Executives receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of car and fuel benefits.</p> <p>Benefits may be changed in response to changing circumstances, whether personal to an executive or otherwise, subject to the cost of any changes being largely neutral.</p>	No performance measures attached.
Pensions		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to encourage responsible provision for retirement.	The executives can participate in a defined contribution pension scheme at the same level as all employees with employer contributions being 9.5% of basic salary. If pension limits are reached, the executive may elect to receive the balance of the contribution as cash.	No performance measures attached. Maximum pension contribution expressed as a percentage of basic salary to be the same as that awarded to other UK staff.

The Policy table (continued)

Purpose and link to strategy	Operation	Performance measures and maximum
Short-Term Incentive Scheme (STI)		
To drive and reward achievement of the group's business plan and key performance indicators. To help retention and align the interests of executives with those of shareholders.	<p>Approved by shareholders in 2014, the STI Scheme is discretionary. Awards are based on the Committee's assessment and judgement of personal and corporate performance against specific targets and objectives in support of the group's business plan. These are assessed over each financial year.</p> <p>Provided the minimum performance criteria is judged to have been achieved, an award will be granted in two parts; at least 35% into deferred share awards in the shape of nil cost options which will vest after a three-year deferral period making a total of four years after the award grant; and the balance in cash.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the award is granted and the date the options are exercised.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>The STI Scheme includes malus and clawback provisions.</p>	<p>Performance is measured based on the financial results of the group and its strategic priorities, together with the performance of the executives in relation to specific personal objectives. The main weighting is given to financial results – typically 80%.</p> <p>The targets may include, but are not limited to, costs, IFRS pre-tax profit, EcV¹ operating profit, cash generation¹, group strategic objectives, including consideration of Environmental, Social and Governance risks and performance, and personal performance.</p> <p>STI Scheme targets are commercially sensitive and therefore are not disclosed. Actual targets and results will be disclosed in the Annual Report immediately following each performance period.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the scheme rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is 100% of basic salary with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>
Long-Term Incentive Scheme (LTI)		
To incentivise the delivery of the longer-term strategy of the group by the setting of stretching targets based on shareholder value, and to help to retain executives and increase their share ownership in the company.	<p>Approved by shareholders in 2014, the LTI Scheme is discretionary. Awards are made under a performance share plan, with nil price. The right to receive share awards will be based on achievement of performance conditions over a minimum 3 year period.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the share awards between the date the award is granted and the date the options are exercised.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>Awards made from 2019 will not be permitted to be exercised by executives until they have held them for a further 2 year holding period beyond the 3 year performance period, making a total of five years after the grant date.</p> <p>The LTI Scheme includes malus and clawback provisions.</p>	<p>Vesting is dependent on two performance measures, weighting of which may vary as it considers appropriate:</p> <p>1. Total Shareholder Return: Performance conditions are based on total shareholder return of the company when compared to that of the companies comprising the FTSE 350 Higher Yield Index. No payout of this element will be made unless the company achieves at least median performance. Full vesting will be achieved if the company is at the upper quartile compared to the peer group as set-out by externally produced analysis.</p> <p>2. Group Economic Value: this target is commercially sensitive and therefore not disclosed in advance. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is up to 100% of basic salary, with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>
Non-executive directors' remuneration		
Fees & expenses		
To recruit and retain independent individuals with the skills, experience and qualities relevant to the non-executive role and who are also able to fulfil the required time commitment.	<p>Fees for the Chairman are determined and agreed with the board by the Committee (without the Chairman being party to this deliberation). Non-executive director fees are determined by the Chairman and the executives.</p> <p>Fees are reviewed periodically. In their setting, consideration is given to market data for similar roles in companies of comparable size and complexity whilst also taking account of the required time commitment.</p> <p>All non-executive directors are paid a base fee. Additional fees are paid to the senior independent director, the chair of board Committees and to other non-executive directors to reflect additional time commitments and responsibilities required by their individual roles.</p>	<p>Fees for the Chairman and non-executive directors are not performance related.</p> <p>Reflecting the periodic nature of the fee reviews, increases at the time they are made may be above those paid to executives and / or other employees.</p>

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

Explanatory Notes:**1. Why these performance measures were chosen and how performance targets are set**

STI Scheme - The performance measures for the STI Scheme reflect the main financial contributors to sustaining returns for shareholders and the group strategic objectives. This ensures that executives are incentivised on the important deliverables needed to support the business plan and strategy. The Committee determines the measures, their weighting and the targets for each financial year. The measures will be based upon the most relevant taken from a selection which may include, but are not limited to, costs, IFRS pre-tax profit, EcV¹ operating profit, cash generation¹, group objectives, including consideration of environmental, social and governance risks and performance, and personal objectives. Where relevant, targets will be set with reference to board approved budgets. The maximum potential award requires significant outperformance against the targets set.

LTI Scheme - The performance measures for the LTI Scheme have been selected for their alignment to shareholder interests using an absolute measure (growth in group EcV) and a comparative measure (Total Shareholder Return (TSR)). The measures and targets are set by the Committee. The maximum potential award for the group EcV measure requires significant outperformance of budgeted targets. The TSR measure uses the FTSE 350 Higher Yield Index over a 3 year period with averaging during the first and last month or an appropriate substitute. The Committee currently considers this to be an appropriate comparator given Chesnara's strategic aims and focus on sustained dividend generation.

In setting targets for both Schemes, the Committee exercises its judgement in an effort to align the stretch in the targets with the company's risk appetite. Full details of the performance measures, weightings, targets and corresponding potential awards are set out in the annual Remuneration Report. The Committee exercises discretion when determining outcomes as opposed to relying solely on formulaic outturns and utilises assurance inputs in so doing.

The Policy table notes that all of the financial targets for the STI Scheme are commercially sensitive as is one of the measures for the LTI Scheme. The Committee has considered whether it could reasonably use transparent targets but concluded that transparency should not be sought at the expense of selecting the optimal measures and targets for the alignment of executive interests with those of shareholders even if these are not capable of being disclosed in advance.

Short-Term Incentive Scheme (STI)

- (i) based on a broad range of measures including group-wide objectives;
- (ii) performance measures and their weighting are determined by the Committee each year to help ensure that there is focus on each of the elements necessary to drive sustainable performance. The main weighting will be given to financial measures (typically 80%);
- (iii) maximum potential award up to 100% of salary with each participant having a personal maximum which is to be disclosed in the corresponding Remuneration Report for each award made;
- (iv) award is part cash and part share award which is deferred for a further 3 years. Currently the award is structured 65% cash and 35% deferred shares. This is provided that the total award to a participant is at least £20,000, otherwise the award is 100% cash with no deferral. The Committee may increase the weighting for the share award and adjust the de-minimis amount;
- (v) unvested awards may be withheld under the terms of the malus provision. Notwithstanding any other provision of the rules, the Committee has the power to, at any time before an award has vested, reduce the number of shares subject to the relevant award or any cash amounts which may be paid pursuant to the relevant award (including to nil) in the circumstances of:
 - Discovery of a material misstatement in the audited consolidated accounts of the company or the audited accounts of any group member or subsidiary; and/or
 - An action or omission by a group member or subsidiary in breach of any regulations applicable to the group which results in material financial or reputational harm to the group; and/or
 - Discovery of an error in the assessment of the extent to which a performance target applicable to any award has been satisfied; and/or
 - Action or conduct of the award holder which, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct.

In determining the reduction which should be applied, the Committee shall act fairly and reasonably but its decision shall be final and binding.

For the avoidance of doubt, any reduction may be applied on an individual basis as determined by the Committee.

Cash awards are subject to a 2 year clawback provision; and

- (vi) it is the intention of the Committee to make a new award each year.

¹ Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Annual Report & Accounts.

Long-Term Incentive Scheme (LTI)

- (i) a performance share plan;
- (ii) uses absolute and comparative measures;
- (iii) in making a new award, the Committee will determine the measures, their weighting and targets to maintain a clear focus on longer term strategic aims;
- (iv) performance period is at least 3 years, plus a further 2 year holding period;
- (v) maximum potential award is up to 100% of salary with each participant having a personal maximum which is to be disclosed in the Remuneration Report for each award made;
- (vi) awards made from 2019 will not be permitted to be exercised by executives until they have held them for a period of 5 years after the grant date.
- (vii) includes a malus provision. Notwithstanding any other provision of the rules, the Committee has the power to, at any time before an award has vested, reduce the number of shares subject to the relevant award or any cash amounts which may be paid pursuant to the relevant award (including to nil) in the circumstances of those set out under point (v) above for the STI Scheme.

For the avoidance of doubt, any reduction may be applied on an individual basis as determined by the Committee.
- (viii) a 2 year clawback provision applies; and
- (ix) it is the intention of the Committee to make a new award each year.

Minimum shareholding requirement

In order to align the executives' interests with those of shareholders, a minimum shareholding requirement (the MSR) applies which is currently equal to 100% of basic salary. Both salary and shareholding values are calculated before tax. The requirement is expected to be achieved within five years of appointment. It may be achieved by participating in the company's share plans and the Committee may, in assessing progress towards the minimum, take into account vesting levels and personal circumstances. Aside from shares that are chosen to be sold to pay for income tax and National Insurance liabilities, shares awarded under the STI and LTI Schemes must be retained if the minimum shareholding has not yet been met.

Post-employment provisions exist which require a departing executive to retain a post-employment minimum shareholding. For a period of 12 months commencing on the date of departure, this will be equal to the lower of 100% of final basic salary on departure or the level of shareholding attained on the date of departure. For a subsequent period of 12 months, the post-employment minimum shareholding to apply will be equal to the lower of 50% of final basic salary on departure or the level of shareholding attained on the date of departure.

In determining the post-employment minimum shareholding, only awards made since the date of the approval of this Policy shall be included. Both salary and shareholding values are before tax and shares bought by the executive in the open market and from their own resources are not subject to the post employment provision.

With only two executives, the Committee is taking an approach to enforcement of the Policy which it considers to be proportionate. Executives will be required to attest to comply with the Policy as part of accepting an award.

Note 1. Full provisions are set out in the Minimum Shareholding Policy that the Committee reviews annually.

Expenses

In line with the company's Expenses Policy, all directors may receive reimbursement of reasonable expenses incurred in connection with company business, including settling any tax incurred in relation to these.

Differences in Policy compared with other employees:

The following Note outlines any differences in the company's Policy on executive director remuneration from other employees of the group.

- **Salary and fees:** There are no differences in Policy. The Committee takes into account the company's overall salary budget and percentage increases made to other employees. It also sets the remuneration for senior management, that being the first layer of management below board level.
- **All taxable benefits:** There are no differences in Policy although the benefits available vary by role and jurisdiction. For example, executive cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to other UK personnel but executives receive a fuel allowance which is a benefit not offered to other staff who receive a car allowance.
- **Annual bonus:** This is an integral part of the company's philosophy with all UK employees below board level being eligible to participate in a bonus scheme which is based on personal performance and achievement of financial targets. Senior managers in Sweden participate in annual bonus schemes which reflect the achievement of business targets and personal goals. In line with Swedish regulation, part of the payment of this bonus is deferred. Other employees in Sweden participate in a scheme based on the achievement of company-wide business goals. Since 1/1/19 there has no longer been a bonus scheme for the Netherlands businesses. The Scildon scheme in place at the time of purchase has been closed.
- **Long-term plans:** Only Chesnara's executives are currently entitled to participate in the long-term plans as these are the roles which have most influence on, and accountability for, the strategic direction of the group and the delivery of returns to shareholders. This may be reviewed as appropriate in the light of growth and/or other changes in the company.
- **Pension:** The level of contribution made by the company to executives is the same as that offered to other UK employees.

2. Other

The company operates a Save As You Earn (SAYE) share scheme in the UK. This is a tax efficient, HMRC-recognised, all-employee scheme in which executive directors are eligible to participate.

Approach to remuneration on recruitment

The following principles apply when recruiting executives:

- To offer a remuneration package that is sufficient to attract individuals with the skills and experience appropriate to the role being filled whilst also being consistent with all aspects of this Policy. In addition to salary and variable remuneration, this may include pension, taxable benefits and other allowances such as relocation, housing and education.
- Pay levels will be set taking account of remuneration across the company including other senior appointees and the salary offered for similar roles by other companies of similar size and complexity.
- Each element of remuneration offered will be considered separately and collectively in this context.
- The maximum awards in respect of the STI Scheme and LTI Scheme, as set out in the Policy table, apply in recruitment situations. By exception, the company may award a one-off compensatory bonus or LTI award where the new joiner would lose a bonus or long-term award relating to his or her former role. In the event that such a payment is made, full details will be disclosed in the Annual Report on remuneration for the relevant year.

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

Service contracts and loss of office

Executives

Our Policy is for executives to have service contracts with a rolling twelve-month notice period exercisable by either party.

The table below summarises the notice periods and other termination rights of the executives and the company. The approach of the company on any termination is to consider all relevant circumstances and to act in accordance with any relevant rules or contractual provisions. Typically, a leaving employee is classified as a 'Good Leaver' if they depart under 'Special Circumstances' (defined in the table below). An employee leaving under any other circumstances is classified as a 'Bad Leaver'.

The Committee has discretion to classify an employee as a 'Good Leaver' or a 'Bad Leaver' and to determine the treatment of their outstanding awards upon departure. Regardless of whether a departing executive is deemed to be a 'Good Leaver' or 'Bad Leaver', the Committee has discretion to pay a departing executive's legal fees subject to any such payment being made in accordance with the terms of a compromise agreement which waives all claims against the company.

Typical treatment in relation to salary, benefits and outstanding incentive awards for leavers under each scenario is shown below:

Nature of termination	Notice period	Salary and benefits	Short-Term Incentive Scheme	Long-Term Incentive Scheme	Nature of termination
By executive or company giving notice (and where deemed to be a Bad Leaver).	12 months	Cease on date employment ends. Payment may be made for any unused holiday entitlement.	No grants following service of notice. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	No grants following service of notice. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	By executive or company giving notice (and where deemed to be a Bad Leaver).
By company summarily (Bad Leaver).	None	Cease on date employment ends.	No further grants. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	No further grants. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	By company summarily (Bad Leaver).
Under special circumstances: Good Leaver Status whether leaving by reason of death, injury or disability, redundancy, retirement with the agreement of the Committee, the sale of employing business, or other special circumstances (such as terminal illness) at the discretion of the Committee.	None prescribed	Normally cease on date employment ends. Payment may be made for any unused holiday entitlement. Discretion for the company to pay salary and benefits in a single payment or in monthly instalments. Where payments are made monthly the executive is under an obligation to mitigate his or her loss and monthly payments will cease or reduce upon the executive accepting alternative employment. If leaving by reason of redundancy the payment may include statutory redundancy pay.	Discretion to make further grants during a notice period where this is considered to be in the company's interests. Where employment ends before deferred share awards made, at the discretion of the Committee, the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms, or determine award is to vest on ceasing to be employed and will also assess the extent to which targets have been met. In either case the award will be pro-rated to reflect the period of the performance period that has been worked and will be paid in cash. The Committee has discretion to pro-rate using a longer period. Where employment ends after deferred share awards made, the award will be retained and vest in accordance with original terms. The Committee has discretion to allow the award to vest on ceasing to be employed. All outstanding options must be exercised within 6 months of the date on which employment ends or on which they vest (whichever is later), unless the Committee specifies a longer period.	No further grants. Where employment ends before share awards vest, at the discretion of the Committee the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms or, by exception may determine awards to vest on ceasing to be employed and will also assess the extent to which the targets have been met. In either case the award will be pro-rated to reflect the period of the performance period that has been worked. The Committee has discretion to pro-rate using a longer period. All outstanding options must be exercised within 6 months of the date on which employment ends or on which they vest (whichever is later) unless the Committee specifies a longer period.	Under special circumstances: Good Leaver Status whether leaving by reason of death, injury or disability, redundancy, retirement with the agreement of the Committee, the sale of employing business, or other special circumstances (such as terminal illness) at the discretion of the Committee.

Non-executive directors

- Appointments are made under a contract for services for an initial term of three years subject to election by shareholders at the first Annual General Meeting following their appointment and annual re-election thereafter.
- Non-executive directors are typically expected to serve two three-year terms but may be invited by the board to serve for an additional period. Any renewal is subject to board review and AGM re-election.
- The terms of an appointment are set out in a letter of appointment which can be terminated by either party with three months' notice or immediately if termination is as a result of not being elected at the AGM.
- There are no compensation terms regardless of the circumstances that may lead to a contract being terminated.

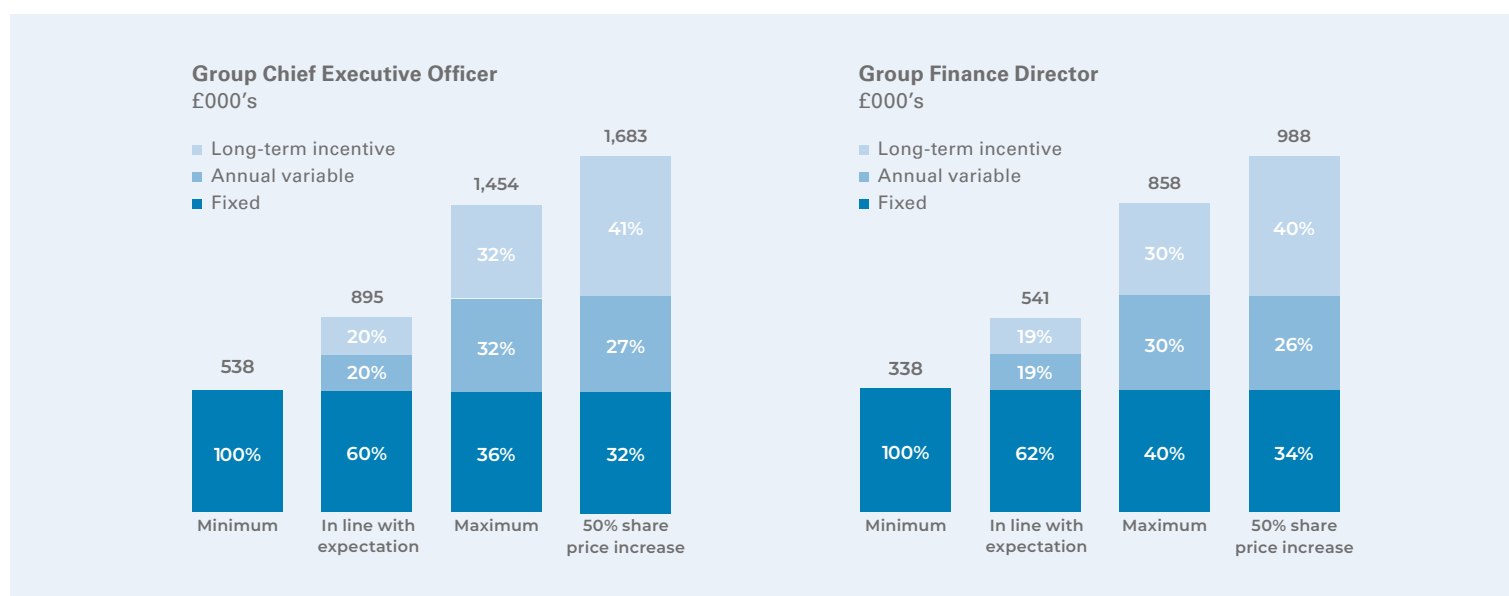
Executives' other directorships

Executives may, if approved by the board, accept appointments as non-executive directors of suitable organisations. Normally fees for such positions are paid to the company, unless the board determines otherwise.

Illustration of the application of the Policy

The view of the Committee is that there should be balance between fixed and variable pay such that, when stretching performance targets have been achieved in full, variable pay should be no more than 200% of salary. The Committee believes that this is appropriate given the strategy of the company and its risk appetite.

The following charts provide estimates of the potential future reward opportunities for each executive, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'In line with expectation', 'Maximum' and '50% share price increase'. The illustration assumes that the Policy applies throughout the period.



Performance in line with expectation assumes that the STI and LTI payments are at 37.8% and 29.2% of their maximum respectively for the Group Chief Executive and 34.0% and 26.3% of their maximum for the Group Finance Director. The targets relate to the measures outlined above but are not declared prior to the publication of the accounts for the relevant year as they may be commercially sensitive.

The estimate of the maximum remuneration receivable assuming the company's share price increases by 50% over the performance period for any long-term incentive is reflected in the 4th column of the charts above.

Minimum

The table below analyses the constitution of the minimum remuneration projection for 2021.

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Group Chief Executive Officer	457.8	36.9	43.5	538.2
Group Finance Director	288.8	21.3	27.4	337.5

The pension figure above is based on 9.5% of gross basic salary.

Statement of shareholder views

Given there is very little change in Policy between this and our last Remuneration Policy the Committee has not considered it necessary to consult with shareholders.

AUDIT & RISK COMMITTEE REPORT



‘It is pleasing to report that the group has remained financially and operationally resilient throughout the COVID-19 pandemic.’

NUMBER OF MEETINGS DURING YEAR: 9

MEMBERS:

Jane Dale	- Chairman
David Brand	- Member (until 30 June)
Veronica Oak	- Member
Mark Hesketh	- Member
Eamonn Flanagan	- Member (from 1 July)

The requirements for the composition of the Audit & Risk Committee are detailed within its terms of reference. The composition of the Committee in accordance with the requirements of the UK Corporate Governance Code and with DTR 7.1.1AR and Committee member biographies are detailed on pages 68 to 69.

Chairman’s introduction

Welcome to the 2020 Audit & Risk Committee Report. I am writing this report from my home, reflecting on a very challenging year. COVID-19 understandably dominated what was already a busy looking agenda. I’m very grateful to my colleagues and the staff at Chesnara for their hard work which enabled the Committee to meet all its usual obligations as well as dealing with the impact of the pandemic. As an introduction to my report I have highlighted some of the key activities of the Committee over the year, starting, of course, with COVID-19.

COVID-19: The pandemic emerged as we were finalising the group’s 2019 Annual Report & Accounts. We reported our initial view of the impact of the emerging pandemic on the group in those accounts. Since then the Committee has continued its close monitoring of both the financial and operational impact of COVID-19 on the Chesnara group, and it is pleasing to report that our business has remained operationally and financial resilient. From an operational perspective we have focused on ensuring that our customers continue to be treated fairly, that our critical processes continue to operate effectively, and that our staff welfare is maintained whilst working remotely. From a financial perspective, the Committee’s primary focus has been on monitoring solvency and liquidity in light of the impact of the significant equity market falls and drops in yields that were witnessed at the outbreak of the pandemic. We have also been monitoring the insurance risk associated with COVID-19 and have not noted any need for material assumption changes. Further information on the Committee’s involvement in overseeing the response to COVID-19 can be found later in my report.

IFRS 17: The Committee has continued its close oversight of the group’s IFRS 17 implementation programme during the year. Most notably was its involvement in the selection of a single supplier for a group-wide solution for calculating the contractual service margin (CSM). Willis Towers Watson were selected from a shortlist of three different solutions. Since the selection back in the summer Management has been working hard with WTW developing the technical specifications that the system requires, with the wider operational implementation expected to be largely delivered over the course of 2021. We have made excellent headway with our technical application of the standard across the group. As well as its direct involvement in the CSM supplier selection process, the Committee has also been involved in some IFRS 17 ‘deep dive’ sessions; this helps to ensure that its members are appropriately aware of all different components of the programme, ranging from technical decisions through to our plans and associated budgets. Looking forward we have lots to deliver in 2021, which will be a key year for this multi-year implementation programme.

Financial reporting matters: The Committee has considered a number of financial reporting matters as part of its role in overseeing the production of the 2020 Annual Report & Accounts. Notably this has included ensuring that COVID-19 is appropriately covered, not least in our going concern and viability statements. In addition, we have completed a small acquisition in the Netherlands during the year, and the Committee has spent time reviewing the accounting and disclosure on this. Further information on significant issues that the Committee has considered are included on page 101.

Looking forward

Change remains firmly on the agenda as we look forward. The impact of audit reform and changes to UK corporate governance will likely be far reaching. From a financial reporting and governance perspective, proposals include directors being held personally responsible for the accuracy of financial statements; the introduction of new rules similar to the US Sarbanes-Oxley regulations; and new requirements to report on environmental, social and governance (ESG) obligations. There are also proposals in relation to the external audit profession, which includes consideration of operational separation between external audit and non-audit work within audit firms. Most of these proposed changes have arisen from independent reviews that have taken place over the last few years, including those performed by Sir Donald Brydon, Sir John Kingman and the Competitions and Markets Authority (CMA). The Financial Reporting Council will also be replaced by the newly formed Audit Reporting and Governance Authority (ARGA). We will be monitoring these changes closely.

We have reported in the risk management section on page 55 that Brexit has not, and is not expected to, significantly impact the group. That said, it has the potential to introduce new solvency and reporting matters, or result in regulatory divergence in terms of the application of Solvency II rules between the UK and EU. The Committee will watch this space closely.

Finally, the impact of COVID-19 on our business will also remain firmly on the Committee’s agenda. We will continue to pay very close attention to the impact on our operations in order to ensure we remain resilient, with our customers and staff at the centre of these considerations. In addition, COVID-19 continues to have the potential to cause ongoing market uncertainty such as the scale of its impact on the global economy and operating environment, and as such, the Committee will continue to ensure that we monitor the potential impact of these on our solvency and hence financial resilience.

Jane Dale
Chairman of the Audit & Risk Committee

29 March 2021

THE CHESNARA AUDIT & RISK COMMITTEE HAS RESPONSIBILITIES OVER A COMBINATION OF BOTH RISK AND AUDIT MATTERS. AN UPDATE AGAINST EACH OF THESE TWO KEY OBLIGATIONS HAS BEEN PROVIDED BELOW.

Audit responsibilities

This section of the report includes the following:

- 1. Activities during 2020:** A summary of the work performed by the Audit & Risk Committee during the year.
- 2. External audit:** Further detail of how the Committee has overseen various aspects of the external audit process.
- 3. Internal audit:** The work performed by the Committee in overseeing the internal audit function of Chesnara.
- 4. Significant issues:** Provides some insight into the significant issues that the Committee has considered during the year in relation to the financial statements, and how these were addressed.

1. Activities during 2020

The Committee's activity during the calendar year is driven by a combination of business as usual (BAU) items and non-standard areas that have required attention during the year. Over and above the more standard areas of focus, the Committee has focused on: The group's **IFRS 17 implementation programme; the impact of COVID-19;** and **keeping abreast of corporate governance developments and audit reform.** A summary of all the activities performed by the Committee during the year in relation to its audit responsibilities is included in the table below:

Financial reporting	<ul style="list-style-type: none"> – Annual Report & Accounts: Reviewed all aspects of the Annual Report & Accounts, including; compliance with accounting standards; accounting policy appropriateness; consideration of financial reporting changes and emerging practice; whether they are fair, balanced and understandable; and disclosures surrounding going concern, prospects and longer-term viability (including any associated management supporting papers). See 'Significant issues' section on page 101 for further details on certain aspects of this year's accounts. – Half Year Report: Reviewed and challenged the Chesnara Half Year Report for the six months ended 30 June 2020. – Actuarial assumptions: Reviewed and challenged the actuarial assumptions underpinning the quarterly financial reporting process, covering IFRS, Solvency II and EcV. See 'Significant issues' section on page 101 for further detail. – Solvency II narrative reporting: Reviewed the Chesnara group Solvency and Financial Condition Report, which is published annually on the Chesnara website and also sent to the Prudential Regulation Authority. – Financial performance: Monitored and scrutinised the financial performance of the group during the year, covering IFRS, Solvency, EcV, Cash Generation and expenses. – IFRS 17: Continued its oversight of the group's ongoing IFRS 17 programme. Key highlights for the year have included; overseeing the decision-making process for appointing a single group-wide supplier for the core IFRS 17 calculation engine; monitoring progress against plans and budget, including consideration of key implementation risks; and ensuring relevant deep-dive sessions have taken place during the year in order to ensure the Committee's own IFRS 17 education continues at an appropriate pace. – COVID-19: The Committee added the impact of COVID-19 to its watchlist of key items early on in 2020 as the pandemic emerged. From a financial reporting perspective the immediate priority was ensuring that the 2019 Annual Report & Accounts (issued on 23 April 2020) had appropriate information included in relation to the pandemic, which was classified as a post balance sheet event. For the purpose of the 2020 Annual Report & Accounts, the key focus of the Committee has been on ensuring that the impact of COVID-19 is appropriately reported. This has included a particular focus on the group's going concern, viability and prospects statements; our disclosures within our Section 172 reporting on key decisions as a result of the pandemic; and the reporting of the group's principal risks and uncertainties. – FRC updates: Actively monitored any key publications issued by the Financial Reporting Council regarding financial reporting matters during the year. This has included, but is not limited to, guidance issued in relation to financial reporting over COVID-19, including its impact on going concern, risk and viability; guidance on Section 172 Reporting; and the 2020 Annual Review of Corporate Reporting.
External audit	<ul style="list-style-type: none"> – External audit plans: Reviewed the group-wide plans of the external auditor, including consideration of the key audit risks. – External audit quality: Assessed the quality of the external auditor during the year. This has included, amongst other things, consideration of feedback from management, coupled with reviewing the report issued by the Audit Quality Inspection Unit on Deloitte LLP, which was issued by the Financial Reporting Council in July 2020. – External audit reporting and feedback: Reviewed key findings reported by the external auditor on the Annual Report & Accounts and Half Year Report, including financial reporting judgements and control matters. As part of its interactions with the external auditor the Committee met with the external auditor without the presence of executive directors. – External audit independence: Reviewed the assessment regarding the independence of the external auditor, with specific consideration given to audit fees and also the nature / volume of the services delivered by the external auditor during the year.
Internal audit	<ul style="list-style-type: none"> – Review of plans: Reviewed and approved the plans of the internal audit functions across the group, via interactions with local Audit & Risk Committees. See page 100 for more information. – Evaluation of internal audit effectiveness: The Committee evaluates its effectiveness on an annual basis and considers through this process, amongst other things, the effectiveness of internal audit. It determined in 2020 that the papers that it receives, opportunity to engage with contributors, the atmosphere in meetings and throughout this engagement as well as the way in which it is kept informed had all been effective, including as part of that the performance of the internal audit function. – Oversight of internal audit function developments during the year: During 2020 the Committee focused on ensuring that Internal Audit was still able to operate despite the disruption to the organisation and the move to home working. See further detail in the 'internal audit' section overleaf. – Review of internal audit findings: Received regular updates from business unit Audit & Risk Committees regarding key findings from internal audits that have been performed during the year. Reviewed the internal audit findings, management responses and tracking of required follow up actions for Chesnara entity internal audits.
Other	<ul style="list-style-type: none"> – Feedback from divisional Audit & Risk Committees: Reviewed and challenged regular feedback provided by the group's divisional Audit & Risk Committees. – Committee Terms of Reference: Reviewed its Terms of Reference during the year and also completed its annual assessment of compliance with its terms of reference. – Performance evaluation: Conducted an evaluation of the Committee's performance during the year, which was completed by members of the Committee.

Role of the Audit & Risk Committee

The role of the Audit & Risk Committee includes assisting the board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control. The scope of its responsibilities also includes focus on risk management: accordingly, it also assists the board in fulfilling its obligations in this regard. The Committee is also responsible for making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor. The Committee's duties include keeping under review the scope and results of the audit work, its cost effectiveness and the independence and objectivity of the external auditor. The full terms of reference of the Audit and Risk Committee are available on our website www.chesnara.co.uk

Audit responsibilities (continued)**2. External audit****Effectiveness of the audit process**

The effectiveness of the external audit process is performed on an annual basis and had regard to the following factors:

- The quality of the background papers and verbal presentations to the Committee on the audit planning process, interim and final audit findings and compliance with independence criteria. The current lead audit engagement partner, Stephen Williams, was appointed during 2016 and this will be his fifth and final year leading the Chesnara audit;
- The Committee has been working with Deloitte on appointing a lead audit partner to replace Stephen Williams and are in the process of considering a short list of candidates. All candidates are suitably qualified and experienced and as such this change in partner does not change the Committee's views on the effectiveness of Deloitte as our external auditor;
- The rationale put forward for the materiality limits established and the explanation given of the impact these have had on the work performed;
- The views of the executive on the way in which the audit has been conducted;
- The report produced by the Financial Reporting Council dated July 2020 entitled 'Deloitte LLP Audit Quality Inspection'. The report was discussed with the auditor although the Chesnara plc audit was not in the population of those inspected; and
- The audit fees charged and the change in fees from the previous year. Changes in annual fees do, of course, need to reflect change in the nature of the company's business which has expanded over time.

It was concluded that the audit process was effective. The company is committed to putting its audit out to tender at least every ten years, having completed its last external audit tender during 2017. The next audit tendering process will need to take place at the latest during 2027, following the 2026 audit.

Provision of non-audit services and independence

The Committee has in place a policy on the engagement of the audit firm for non-audit services. Approval is granted where the service is clearly related to the process of audit services, including regulatory returns ('assurance services'). In other cases, the approval of the Committee is required and documented governance processes are followed.

The Committee regularly monitors the level of fees paid for non-audit services to ensure, over a period of years, that these represent a low proportion of total fees paid. Reports from the auditor on independence are also reviewed annually and discussed with the auditor. It should be noted that total fees paid by the company are not material in the context of the overall business of the auditor.

Details of the fees paid to Deloitte, and its associates, for both audit and non-audit services during the year have been provided below, with associated commentary.

Details of the fees paid to Deloitte, and its associates, for both audit and non-audit services during the year have been provided below, with associated commentary.

Audit fees	2020 £000	%	2019 £000	%
		proportion		proportion
Audit services	937	80%	814	79%
Assurance services	216	18%	239	21%
Non-audit services	20	2%	–	–
Total	1,173		1,053	

Audit services

The fees charged for audit services have increased slightly when compared with 2019, largely driven by an annual inflationary uplift, coupled with some additional work arising from a combination of revised auditing standards that became effective during the year and additional work that is required in order for the auditor to assess the risk of COVID-19 on the group, and how this is disclosed in the Annual Report & Accounts.

Assurance services

The cost of assurance services performed by the external auditor is largely in line with the prior year. These fees largely related to Deloitte's review work over the Chesnara Half Year Report, coupled with assurance services that are required over certain regulatory returns in the Netherlands.

Non-audit services

The non-audit services provided in 2020 are in relation to work performed in connection with the winding-up of Modernac, a former associated company based in Luxembourg.

3. Internal audit

Chesnara has a local decentralised model for delivering its internal audit, with each of its business unit Audit & Risk Committees being responsible for the oversight and supervision of its own internal audit work. The Chesnara Audit & Risk Committee oversees this by reviewing plans and receiving regular reports from each territory. The group has utilised a mix of outsourced and in-house capabilities throughout the year, adapted to meet the specific needs of each local market. Each of the local teams had to react to the impact of COVID-19 and in particular the change to a remote working model. This resulted in some changes being required to local plans and also in terms of the way certain audits were delivered, with more reliance on remote desk-based reviews utilising video conferencing. That said, it is pleasing to report that despite these challenges, the plans across the group were broadly maintained, with the respective teams looking at a mixture of processes and areas including compliance; data quality; remuneration; outsourcing; information security; service level agreements; operational resilience; customer strategy project; roll out of remote working arrangements and subsequent delivery of customer service and associated data security; underwriting processes and operations; ORSA reporting processes and Insurance Distribution Directive (IDD) compliance. No significant issues have been identified through the delivery of the internal audit programme during the year.

4. Significant issues

The table below provides information regarding the significant issues that the Committee has considered in relation to the preparation of the Annual Report & Accounts. This includes consideration of matters communicated by the auditors.

Area of focus	Reporting issue	Role of the Committee	Conclusion/action taken
COVID-19 and its impact on going concern, viability and prospects, and associated disclosures	<p>The emergence of COVID-19 as a global pandemic during 2020 has resulted in a need for companies to clearly articulate in its Annual Report & Accounts the impact that it has had on its operations, financial position and outlook. Guidance has been issued by the Financial Report Council on where COVID-19 might be expected to be covered in the Annual Report & Accounts, including:</p> <ul style="list-style-type: none"> – Going concern and long-term viability statements – Principal risks and uncertainties – Section 172 disclosures regarding key decisions made in the year – Business performance updates – Reporting of sensitivities 	<p>The Committee has been closely monitoring the impact of COVID-19 on the group's operations and financial position over the course of the year. From a Report & Accounts perspective the Committee's role has been to review the summary paper prepared by management sign-posting the key areas where COVID-19 should be referred to, and to ensure that the Annual Report & Accounts present a fair reflection of the impact of COVID-19 on the Chesnara group.</p>	<p>The Committee is satisfied that the Annual Report & Accounts presents a complete and accurate picture of the impact of COVID-19 on the Chesnara group.</p>
Accounting and reporting for the Argenta acquisition	<p>During the year the group completed the acquisition of a small book of policies from Argenta Assuranties N.V. As a one-off transaction it is important to ensure that the accounting and disclosure is appropriately reflected in the Annual Report & Accounts.</p>	<p>The role of the Committee has been to ensure that the accounting for the acquisition is reflective of the transaction, across all financial metrics that are used by the group, and that appropriate disclosures have been made in the Annual Report & Accounts.</p>	<p>The Committee has reviewed the acquisition accounting paper for the Argenta purchase and is comfortable that it reflects the underlying arrangements. The Committee has also reviewed the disclosures within the Annual Report & Accounts.</p>
Scildon adequacy of reserves	<p>IFRS 4 'Insurance contracts' requires an assessment of the adequacy of the reserves held for insurance liabilities, referred to as the Liability Adequacy Test (LAT). Historically the LAT outcome has shown that the IFRS reserves in Scildon are sufficient and in excess of the company's best estimate liability (BEL) calculations, but given further yield falls during the year, to which Scildon is sensitive, the LAT results have been a key focus of management and the Audit & Risk Committee.</p>	<p>The Committee has paid close attention to the liability adequacy test that has been performed as at year end 2020 and has reviewed the results from this assessment, as documented in management's paper to the Committee. Particular attention was given to the assumptions underpinning the BEL, and any key management judgments such as the best estimate of the benefits and costs associated with the current in-flight IT system upgrade.</p>	<p>The outcome from the liability adequacy test was that the IFRS reserves required strengthening by £10.0m. The Committee is satisfied that this has been appropriately reflected in the closing reserves, and that adequate disclosure in the financial statements has been made.</p>
Scildon acquired value in-force intangible asset	<p>The group IFRS balance sheet includes an intangible asset, representing the acquired value of the in-force policies at the point of the acquisition of Scildon (the AVIF asset), which is being amortised over the estimated profit profile of the associated policies. An impairment test of this intangible asset is required on an annual basis.</p>	<p>The Committee has reviewed the work performed by management in assessing the carrying value of the AVIF intangible asset, including scrutinising the assumptions made and conclusions drawn.</p>	<p>The review concluded that the gross AVIF asset was required to be written down by £26.6m during the year. £11.6m of this was recognised in the 2020 half year report.</p>
Movestic DAC	<p>The group balance sheet includes an intangible asset representing the component of acquisition costs that have been deferred to be recognised over the expected life of the policies to which the acquisition costs relate. The asset is made up of different cohorts of policies and is subjected to an annual impairment test. The expected life of the policies is a key judgment for management and is influenced by recent experience.</p>	<p>The Committee is required to satisfy itself that the judgments underpinning the accounting assumptions are appropriate and reflect the relevant facts and observations.</p>	<p>In light of recent experience in Movestic, in particular the dynamic that there is generally more switching between different product providers in this market, it was deemed appropriate to impair certain components, resulting in a charge to the income statement of £1.0m.</p>
Actuarial assumptions	<ul style="list-style-type: none"> – A key aspect of the Audit & Risk Committee's role is to review and challenge the actuarial assumptions that underpin the valuation of the policyholder liabilities in the financial statements. The assumptions are inherently judgemental and are updated at least annually to reflect the facts and circumstances available at the time. The assumptions are underpinned by a combination of internally observed experience coupled with data that is available at a market level. The key assumptions include estimates over: <ul style="list-style-type: none"> – future mortality and morbidity rates; – future lapse assumptions; – future expense required to manage the policies in force; – policyholder options and guarantees; – ensuring that the liability adequacy test is met under IFRS 4. <p>A particular focus of the Committee this year has been to ensure that the impact of COVID-19 has been given appropriate attention.</p>	<p>The Committee reviewed and approved the actuarial basis of assumptions report underpinning the valuation of insurance liabilities. This specifically included reviewing the impact of COVID-19 on the assumptions.</p>	<p>The Committee concluded that the actuarial assumptions were appropriate. Disclosures over key judgements are included in Note 3 and Note 30 of the IFRS financial statements.</p>

Risk responsibilities

This section of the report provides information regarding the risk oversight responsibilities of the Audit & Risk Committee

General responsibilities

Overall the Committee is responsible for:

- the group’s risk management and internal control systems and their effectiveness;
- overseeing the group’s risk profile in the context of its current and future strategy;
- discussing and recommending to the board for approval, the group’s risk appetite statement, reverse stress testing and scenario stress testing;
- advising the board on proposed changes to the group’s risk appetite statement where this is deemed appropriate;
- monitoring risk exposures across the group and advising the board where such exposures do not appear to accord with the group’s risk appetite statement;
- reviewing the group’s capability to identify and manage emerging and new risk types;
- challenging the regular stress and scenario testing of the group’s business;
- determining whether there is a sufficient level of risk mitigation in place;
- overseeing due diligence of a major strategic transaction, including any proposed acquisition or disposal, prior to the board taking a decision to proceed with a view to ensuring that the board is aware of all material risks associated with the transaction;
- considering the adequacy and effectiveness of the technology infrastructure and supporting documentation in the risk management system and framework;
- considering and approving the remit of the risk function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- providing qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to any performance objectives; and
- considering and recommending to the board for approval, the group’s risk related regulatory submissions, including the ORSA.

Focused activities performed during the year

The table below and on the following page provides some information regarding the more focused activities that the Committee has performed during the year in discharging its risk oversight responsibilities. In particular this includes how it has focused on the impact of COVID-19.

COVID-19: The Committee has paid very close attention to the impact of COVID-19 on the group. This has largely been managed through deep dive updates provided by the chief risk officer in the quarterly risk reports, coupled with capturing and tracking the impact of COVID-19 in a ‘live’ non-regular ORSA document. The Committee has focused on the following areas in relation to the pandemic:

- **Financial resilience:** The emergence of COVID-19 as a global pandemic resulted in some significant investment market movements during March 2020, notably equity market falls and yield falls. At one point the FTSE 100 was down c34% on the start of the year, and 10 year gilts had fallen by 62 basis points. Solvency has remained resilient across the business, which is consistent with the sensitivities of the business as reported in the annual group’s Own Risk and Solvency Assessment (ORSA) as required by Solvency II rules. No significant mortality strengthening has been required, and our assessment of sensitivities subsequent to the emergence of the pandemic continue to show that, should further economic volatility emerge, we expect to continue to remain solvent.
- **Operational resilience:** COVID-19 resulted in a need for the vast majority of staff within the Chesnara group to work from home for significant periods of time. The Committee monitored the impact of this closely, focusing on ensuring that the group was able to continue to deliver its important business services with minimal disruption in order to continue to treat customers fairly. The Chesnara group was able to transition to a largely remote-working environment with minimal disruption and benefitted from investment in operational resilience and communication technology across the group in recent years. The Committee also paid close attention to its core outsourcers, particularly in the UK, where they have customer servicing responsibilities. Full operational impact reports were produced by each subsidiary within the group as they transitioned to a remote working environment, and this demonstrated that all important business services could continue to be delivered.
- **Staff health and well-being:** As the remote-working environment has continued to be required over extended periods of the year, greater focus has been necessary on staff health and well-being. The Committee has sought to identify and understand the risk in this area and what measures management can put in place to mitigate the impact of extended periods without ‘in-person’ interactions. This has resulted in a collective effort in ensuring staff in the business remain engaged, through a particular focus on more frequent interactions both within teams and from senior management to staff. The group has utilised video technology where feasible in order to ‘humanize’ staff interactions as much as possible.
- **Systems of governance conclusions:** The business has focused on ensuring it can continue to deliver its core governance routines despite the challenges of the pandemic. It is pleasing to report that these have continued largely unaffected; and this is backed up by the results of our annual systems of governance survey, which continued to give very positive results consistent with pre-pandemic surveys.

Key projects across the group:

- **IFRS 17:** As a multi-year group-wide programme, the Committee has been paying close attention to the IFRS 17 programme. Not only does the Committee need to ensure that it understands IFRS 17 from a technical perspective in order to be able to discharge its audit responsibilities, the Committee is also charged with ensuring that it understands and challenges the project delivery and risks. The Committee has obtained regular project updates throughout the year and has continued to review, and challenge progress made to date and the future plans of the project.
- **Scildon IT systems:** The division has been embarking on an upgrade to its policyholder administration system. The Committee has remained abreast of the programme, how it is being managed, and ensuring that any emerging risks are being appropriately dealt with by management. In particular the Committee has stayed abreast of any impact of COVID-19 on the project’s delivery timescales and associated budget.

Regular activities performed during the year

The table below provides some further information regarding the 'business as usual' activities that the Committee has performed during the year in discharging its risk oversight responsibilities:

<p>– Quarterly risk reporting: During the year the Committee reviewed the quarterly group and divisional risk reports on the identification, evaluation and management of principal risks across the group, including any emerging risks. The quarterly risk reporting included 'in focus' topics as required, including, amongst other things;</p> <ul style="list-style-type: none"> • COVID-19: This was a key focus area throughout the year. See update in previous section for further detail. • IT, data security and cyber risk: Each business unit carried out gap analysis against the group principles for IT and data security. This work demonstrated that all business units are materially aligned to the group principles, acknowledging that these may be documented and embedded in a variety of ways. All actions identified to close any non-material gaps have now been completed. • Brexit: In particular, the potential impact on the solvency regime in which the group operates.
<p>– Principal risk definition: Reviewed and challenged the group's definition of principal risks for the purpose of reporting and monitoring against these risks, including how they are mitigated through the group's internal control framework.</p>
<p>– Risk plan review and sign off: The Committee reviewed and approved the group and divisional risk plans and associated resourcing needs.</p>
<p>– Internal control report: The Committee reviewed and approved the annual internal controls assessment report, which concluded that the controls across the group are operating effectively.</p>
<p>– Systems of governance review: An annual review of the effectiveness of the systems of governance review was facilitated by the risk function. This considered a number of areas of the overall system of governance including its completeness, effectiveness, its use and the overall culture. This concluded there were no major areas of concern. Any areas for improvement have been built into the 2021 plans, with suitable priorities attached.</p>
<p>– ORSA review: The Committee reviewed the 2020 group ORSA and made a formal recommendation to the board to approve it. The ORSA includes the outcome of the group's stress and scenario testing and included specific consideration of the impact of COVID-19. The stresses that are modelled are reviewed and approved as part of the ORSA planning process, and the results are included in the final ORSA report.</p>
<p>– Risk appetite: Reviewed and approved the group's risk appetite framework, including reviewing and challenging the key risk indicators / tolerance limits and key business performance measures.</p>
<p>– Review divisional Audit & Risk Committee progress: Received and challenged updates provided by divisional Audit & Risk Committees.</p>
<p>– Continuous solvency monitoring: Reviewed the output from the group's continuous solvency monitoring activities. There were no issues arising from this process during the year.</p>
<p>– Standard formula assessment: As part of its annual cycle the actuarial function performs an assessment of the appropriateness of the standard formula for the purposes of calculating the group's capital requirements under Solvency II. The work and associated findings was reviewed and challenged by the Committee.</p>

Assurance

Taken together, the group's risk function and Internal Audit function ensure that the committee is provided with appropriate assurance throughout each year. The second-line Risk function ensures independent review and challenge of business performance and activities with the opportunity to influence areas of review to be undertaken by the independent third-line Internal Audit function. The committee can direct the activity of either function as circumstances require, amending work plans to accommodate deep dives if felt appropriate to do so. The incremental ORSA work in 2020 as a result of COVID-19 is one such example. The committee leverages these functions within the group's proportionate three-lines of defence model in addition to engaging with and having board representation on the business unit audit & risk committees which themselves have local risk and Internal Audit functions. In this way, and through receiving assurance reports from each business unit on a quarterly basis as introduced in 2020, the committee satisfies itself with regard the assurance it obtains on the group's activities and performance.



Jane Dale
Chairman of the Audit & Risk Committee

29 March 2021

DIRECTORS' REPORT

Chesnara plc - Company No. 4947166

The directors present their annual report and the audited consolidated financial statements of Chesnara plc for the year ended 31 December 2020. The Corporate Governance Report on pages 72 to 76 forms part of the Directors' Report.

The following information, that has been included by way of a cross reference to other areas of the Annual Report & Accounts, is required by the Companies Act to be included within the Directors' Report:

Requirements/reference

Financial risk management objectives and policies

The 'Financial management' section on pages 51 to 52 and the 'Risk management' section on pages 53 to 59.

Exposure to price risk, credit risk, liquidity risk and cash flow risk

Note 6 'Management of financial risk' to the IFRS Financial Statements.

Likely future developments

The 'Business review' section on pages 34 to 40.

Greenhouse gas reporting

The 'Corporate and social responsibility' section on pages 60 to 65.

Environmental, employee and social community matters

The 'Corporate and social responsibility' section on pages 60 to 65.

The company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the company. The ordinary shares are listed on the Official List and traded on the London Stock Exchange. As at 31 December 2020, the company had 150,065,457 ordinary shares in issue, of which none were held as treasury shares. During the year, no treasury shares were held or traded.

In order to retain maximum flexibility, the company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2020, to repurchase up to just under 10% of its issued share capital. Further details are provided in the Notice of this year's Annual General Meeting.

At the Annual General Meeting in 2020, shareholders approved resolutions to allot shares up to an aggregate nominal value of £5,002,052 and to allot shares for cash other than pro rata to existing shareholders. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

No person has any special rights of control over the company's share capital and all issued shares are fully paid. There are no specific restrictions on the size of holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or voting rights. The directors have no current plans to issue shares.

Directors

Full information of the directors who served in 2020 is detailed in the Corporate Governance Report on pages 72 to 76.

Detail of the non-executive directors who served as Chairmen and members of the board Committees of the board are set out in the Corporate Governance Report on pages 72 to 76. Information in respect of the Chairman and members of the Remuneration Committee and in respect of directors' service contracts is included in the Remuneration Report on pages 80 to 90, which also includes details of directors' interests in shares and share options. The Chairman and all the non-executive directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. All the executive directors have service contracts with the company of no more than one year's duration and will offer themselves for re-election at least every three years.

The service contracts of all the directors are retained at the company's office and will be available for inspection for 15 minutes prior to the Annual General Meeting. In addition, no director had any material interest in any significant contract with the company or with any of the subsidiary companies during the year.

The directors benefited from qualifying third party indemnity provisions in place during the years ended 31 December 2019 and 31 December 2020 and the period to 29 March 2021.

Director evaluations

During the year, the Chairman evaluated the performance of the directors in one to one meetings and the senior independent director evaluated the performance of the Chairman. It was confirmed that each director continued to make effective contributions to their role and the board as a whole.

Director appointments

With regard to the appointment and replacement of directors, the company follows the UK Corporate Governance Code 2018 and is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution. In July 2020, Eamonn Flanagan was appointed to the board.

Share capital

Details of the issued share capital, together with details of movements in the issued share capital of Chesnara plc during the year are shown in Note 41 to the IFRS Financial Statements which is incorporated by reference and deemed to be part of this report.

Articles of Association

The Company's Articles of Association may only be amended by special resolution of the company at a general meeting of its shareholders.

Conflicts of Interest

Procedures are in place to ensure compliance with the directors' conflict of interest duties as set out in the Companies Act 2006. The company has complied with these procedures during the year and the board considers that the procedures operated effectively. During the year, details of any new conflicts or potential conflicts were advised and submitted to the board for consideration, and where appropriate, approved.

Results and dividends

The consolidated statement of comprehensive income for the year ended 31 December 2020, prepared in accordance with International Financial Reporting Standards adopted by the EU and set out on page 118 shows:

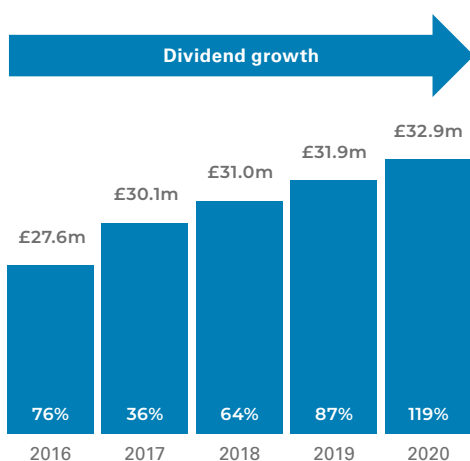
	2020 £000	2019 £000
Profit for year attributable to shareholders	21,191	79,142

An interim dividend of 7.65p per ordinary share was paid by Chesnara on 13 November 2020. The board recommends payment of a final dividend of 14.29p per ordinary share on 24 May 2021 to shareholders on the register at the close of business on 9 April 2021.

The Chesnara dividend policy is directly influenced by two key factors. We recognise that our shares are predominantly held as a source of predictable and sustainable income. Our primary aim is therefore to provide an attractive yield with steady growth where possible.

Our aim to satisfy investor expectations cannot and will not be delivered at the expense of financial security and solvency. As such, dividend capacity is assessed giving full regard to our Group Capital Management Policy which currently prohibits dividends to be declared that would result in Chesnara having a solvency ratio below 110%.

Total dividend as a ratio of cash generated



Over the past 5 years £154m of dividends have been paid at an average annual yield of 6.1% (based on average annual share prices) representing 66% of the cash generated over the period.

Considerations

Cash generation	Historic and projected cash generation levels need to support any dividend payment although there is no explicit requirement for the current year's cash generation to cover the dividend.
Solvency	Dividends will not be paid if they were to result in a breach in our Capital Management Policy which currently sets a minimum dividend paying solvency constraint of 110%.
Acquisition strategy	The Chesnara business model is based upon making future acquisitions and any dividend payments consider the financial requirements to continue to deliver our acquisition strategy.
Investor expectations	In addition to a stable and attractive dividend yield our investors value predictability and sustainability of earnings. As such, under normal circumstances, 'special dividends' are unlikely.

The board makes dividend decisions with reference to a range of management information, reports and policies including the group ORSA, group business plan, solvency analysis including sensitivities, analysis of historic financial results and the Group Capital Management Policy.

Substantial shareholdings

Information provided to the company by major shareholders pursuant to the FCA's Disclosure and Transparency Rules (DTR), is published via a Regulatory Information Service and is available on the company's website. The company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 31 December 2020 and 16 March 2021:

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 31 December 2020
Aberdeen Standard Investments	24,624,574	16.41%
Columbia Threadneedle Investments	18,207,841	12.13%
M&G Investments	9,190,725	6.12%
Canaccord Genuity Wealth Management	8,520,159	5.68%
Hargreaves Lansdown Asset Management	7,840,848	5.23%
Interactive Investor	5,302,858	3.53%
Janus Henderson Investors	5,216,939	3.48%
Royal London Asset Management	5,137,519	3.42%

Subsequent to 31 December 2020 there have been changes to this position and the holdings as at 16 March 2021 are shown below. No other person holds a notifiable interest in the issued share capital of the company.

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 16 March 2021
Aberdeen Standard Investments	23,441,666	15.62%
Columbia Threadneedle Investments	18,229,478	12.15%
M&G Investments	9,190,725	6.12%
Canaccord Genuity Wealth Management	8,550,000	5.70%
Hargreaves Lansdown Asset Management	8,350,890	5.56%
Interactive Investor	6,783,230	4.52%
Royal London Asset Management	5,117,519	3.41%
Janus Henderson Investors	4,966,939	3.31%

Chesnara plc has no multiple voting rights or voting certificates relative to total voting rights and no issued share capital is composed of non-voting shares. Depository receipts represent 0% of voting rights and our free float percentage of voting rights exceeds 98%.

Related party transactions and significant contracts

During the year ended 31 December 2020, the company did not have any material transactions or transactions of an unusual nature with, and did not make loans to, related parties in which any director has or had a material interest.

There were no significant contracts with substantial shareholders during the year.

Post balance sheet events

There have been no post balance sheet events that either require adjustment to the financial statements or are important in the understanding of the company's current position, financial performance or results.

Charitable donations

Charitable donations made by group companies during the year ended 31 December 2020 were £22,000 (2019: £5,000) and included supporting The Foxton Centre, a Preston based charity with a long history and strong commitment to working in the local community with both adults and young people. Further details of this charity can be found at www.thefoxtoncentre.co.uk

No political contributions were made during the year ended 31 December 2020 (2019: £nil).

Employees

The average number of employees during 2020 was 306 (2019: 316)

Employee involvement

The group believes that employee communication and consultation is important in enhancing the company culture and connectivity, and in motivating and retaining employees. An open communications programme enables all employees to understand key strategies and other matters of interest and importance, quickly and efficiently. The communication includes face-to-face briefings, open discussion forums with senior management and email.

Business relationships

Throughout the year the directors have had regard for the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year. Information supporting this is provided in the Section 172 disclosures on pages 26 to 33.

Going concern statement

After making appropriate enquiries, including detailed consideration of the impact of COVID-19 on the group's operations and financial position and prospects the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements as stated in Note 2 to the IFRS Financial Statements. Detailed analysis of relevant risks and other factors is included within the Risk Management section on page 53 to 59, within the Financial Management section on pages 51 to 52 and within Notes 5 and 6 to the IFRS Financial Statements.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

A resolution for the re-appointment of Deloitte LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board on 29 March 2021 and signed on its behalf by:



David Rimmington
Group Finance Director

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.


The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.



Luke Savage
Chairman

29 March 2021

John Deane
Chief Executive Officer

29 March 2021

Near Morecambe, United Kingdom

SECTION D: IFRS FINANCIAL STATEMENTS

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- 118 — Consolidated Statement of Comprehensive Income
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHSNARA PLC

Report on the audit of the financial statements

Opinion

In our opinion

- the financial statements of Chesnara plc (the parent company) and its subsidiaries (the group) give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Cash Flow Statements; and
- the related Notes 1 to 51, excluding the capital adequacy disclosures calculated in accordance with the Solvency II regime in Note 29 which are marked as unaudited.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.



Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in Note 14 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Valuation of insurance liabilities, pinpointed to the valuation of the Save & Prosper (S&P) Cost of Guarantees (CoG), and the adequacy of Scildon reserves; – Valuation of the Scildon Acquired Value In-Force (AVIF) intangible asset; – Valuation of the Movestic Deferred Acquisition Costs (DAC) intangible asset; and – Implementation of CA plc Fund Manager Rationalisation (FMR). <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Similar level of risk
Materiality	The materiality that we used for the group financial statements was £14.7m which was determined on the basis of 3% of net assets at 31 December 2020.
Scoping	We focused our group audit scope on the audit work at three UK locations, and three overseas locations where the group's policies are administered.
Significant changes in our approach	<p>In comparison to the prior year, we have not identified a separate key audit matter for the current year relating to the appropriateness of the COVID-19 post balance sheet event disclosures, as these are no longer relevant.</p> <p>However, for relevant key audit matters outlined in Section 5, we have assessed and evaluated how management has taken account of the lower asset returns due to the significant resultant deterioration in economic conditions as a result of COVID-19.</p> <p>We have identified one new key audit matter relating to the FMR project that was undertaken within the Countrywide Assured plc subsidiary. Countrywide Assured plc had historically used various fund managers to manage its day-to-day fund management requirements and the FMR project sought to rationalise these into a single fund manager.</p> <p>This has been identified as a key audit matter due to the changes to processes and controls over the preparation of accounting entries to the general ledger in response to the changes in fund structure and reporting received from the single fund manager.</p>

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluated management's stress and scenario testing, and challenged management's key assumptions. In conjunction with internal actuarial specialists, we reviewed the governance over, and the production of, solvency monitoring information, and considered its consistency with other available information and our understanding of the business;
- assessed the actions that came out of the various governance committee meetings which considered COVID-19 in advance of reporting;
- evaluated management's assessment of the risks across the group, including: solvency risk, liquidity risk, and operational matters;
- assessed the mitigating actions management have put in place, and further plans they have if required, in anticipation of any further deterioration of the wider UK and Global economy as a result of COVID-19 or Brexit; and
- assessed the going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Valuation of insurance liabilities

Key audit matter description

Across the group, there are two matters relating to insurance liabilities which we have identified as key audit matters:

Valuation of Save & Prosper Cost of Guarantees

The matter relating to insurance contract liabilities, which we have identified as a key audit matter, is the valuation of Save & Prosper (S&P) Cost of Guarantees (CoG). The key audit matter identified has been classified as a fraud risk due to the complexity in the valuation of this liability.

The assessment and calculation of the CoG reserves for policies written by S&P is complex and can lead to material impacts on the valuation of the CoG. These reserves are calculated using a stochastic model based on a variety of possible economic scenarios, which are sensitive to the inherent volatility in bond and equity markets, which are the key inputs into the model.

Historically, the residual cost to shareholders arising from the CoG has fluctuated as a result of movements in bond yields and equity markets. The value of the CoG was £18.8m at 31 December 2020 (31 December 2019: £17.3m). This increase was primarily due to lower than expected asset returns over 2020, which decreased policyholder asset shares, and therefore increased the residual cost to shareholders. The value is determined by management's third party actuarial expert, and management compare this valuation against an in-house derived estimate using an approximation model to validate its reasonableness.

See Note 3(a) for management's consideration of this critical accounting judgement and key sources of estimation and uncertainty, Note 30 for disclosure of the calculation methodology and the charge to income for the current and prior year.

Adequacy of Scildon reserves

Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions.

IFRS 4 requires an insurer, at the end of each reporting period, to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows (the Liability adequacy test, or LAT). Given Scildon's accounting policy makes use of historical market interest rates, there is a heightened risk that its reserves under IFRS 4 are not adequate.

We therefore view the initial parameter setting process and liability adequacy test as key audit matters, specifically in relation to the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors.

During the year a fall in interest rates due to the impact of COVID-19 on the global economy, has been a significant driver in the increase of the Best Estimate Liabilities (BEL) used within the LAT. The test performed over the adequacy of the Scildon reserves, by management, identified a deficit of £10.0m between the BEL and the IFRS reserves, thus resulting in an additional reserve being created. The BEL are also impacted by expected cost savings and new business levels included within the expense assumptions, relating to a new IT system implementation project within the Scildon component.

At such a point that such assumptions are not considered to be achievable, to the extent that the LAT assessment continues to bite there be a direct impact on the level of required IFRS reserves. This is due to the IFRS reserves now being aligned to the BEL. The relevant assumptions, and the impact on Scildon reserving is documented within Note 30.

We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the setting of the parameters used to calculate the reserves at inception.

The accounting policy adopted by the group is documented within Note 2(h) to the financial statements.

Valuation of insurance liabilities (continued)

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

In respect of the valuation of Save & Prosper Cost of Guarantees:

- we gained an understanding of the internal controls around the reserving process, with specific reference to the S&P CoG;
- we performed procedures to assess the objectivity, competence, capabilities and independence of management's actuarial expert;
- we challenged the key movements in the S&P CoG reserve over the period, as well as any changes in the approach taken by management's actuarial expert in determining the reserve. We tested the movements in the CoG analysis of change by considering market and policy value movements in the period between 31 December 2019 and 31 December 2020;
- we challenged management's actuarial expert on the testing performed on the Economic Scenario Generator (ESG) model output used as an input to the CoG model. Together with our actuarial specialists we assessed the economic inputs to the model for reasonableness;
- we tested management's estimation model at each quarter-end since the 31 December 2019 audited position. We independently sourced and reconciled inputs to the model for each of the periods and assessed whether the result produced by management using the estimation model was within an acceptable tolerance; and
- where manual adjustments have been made by management we have challenged the derivation and purpose of such adjustments with involvement from our actuarial specialists by evaluating supporting documents and calculations.

In respect of the adequacy of Scildon reserves:

- we gained an understanding of the key controls around the setting of the assumptions feeding into the LAT;
- performed analytics on policy cash flow data, in order to identify outliers and movements compared to the prior period;
- for a sample of policies, we recalculated the reserve at a policy level, using our independent replication model, and compared the results to those produced by management;
- with involvement of actuarial specialists, we challenged the mortality, lapse and expense assumptions which feed into the test, by evaluating experience, supporting documents and calculations. We have also challenged the interest rate assumptions, given they are a significant driver of the LAT deficit in the current period, by evaluating relevant supporting documents and calculations; and
- assessed the expected cost savings and new business levels included within the expense assumptions, relating to a new IT system implementation project. This included evaluating information provided by group and Scildon management including the associated business plans, and through direct challenge of management's actuarial expert and the appointed actuary.

Key observations

Based on the audit procedures performed, we consider that the S&P Cost of Guarantees reserve is appropriate.

We also concluded that the initial parameter setting process and Liability Adequacy Test performed by management were reasonable, supporting the adequacy of Scildon's insurance contract liabilities.

Valuation of Scildon AVIF

Key audit matter description

Following the acquisition of Scildon, Chesnara recorded an Acquired Value In-Force (AVIF) intangible asset of £66.0m on the group balance sheet, reflecting the capitalised future profit in the Scildon business. The carrying value of the intangible asset at the balance sheet date was £21.6m (2019: £56.0m).

Management is required to assess the impairment of the Scildon AVIF intangible balance at least annually, in line with the relevant requirements of IAS 36 Impairment of assets and IFRS 4 Insurance Contracts and this process involves significant judgement.

In response to the performance of Scildon, impacted by the impact of COVID-19 on investment returns, management performed an additional impairment test at 30 June 2020, resulting in an £11.6m impairment. A further impairment of £15.0m has been recorded in the remaining period to 31 December 2020, see Note 3(a) for management's considerations of the AVIF impairment assessment.

The AVIF is assessed for impairment against the discounted value in force (VIF) arising on the underlying portfolio. Our key audit matter is pinpointed to the discount rate used by management to discount the future policyholder cash flows underpinning the VIF.

Due to the highly judgemental nature of this balance, we identified manipulation of this assessment as an area of potential fraud.

See Note 3(a) for management's consideration of significant accounting judgements. The accounting policy adopted by the group is documented within Note 2(o) to the financial statements and the acquired in-force business intangible is disclosed in Note 19.

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

In respect of the Scildon AVIF we performed the following procedures:

- we gained an understanding of the internal controls in place to monitor and mitigate the risk of inappropriate management adjustments to the key assumptions;
- we have constructed a range of independent discount rates based on alternative industry data in order to challenge the rate applied by management;
- with the involvement of actuarial specialists we have challenged the Scildon cash flows as used within management's impairment assessment, assessing whether the parameters and judgements used are consistent with those used within the modelling of the Scildon BEL. In particular our challenge focussed around the investment return assumptions driving the reduction in expected future cash flows; and
- we have assessed the disclosure of the aforementioned impairment within Note 3(a).

Key observations

Based on the audit procedures performed, we consider the discount rate used in the base VIF, which is used to assess the impairment of the Scildon AVIF intangible balance, to be appropriate.

Valuation of Movestic Deferred Acquisition Costs (DAC) intangible asset

Key audit matter description

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset, and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised.

There are a number of key judgement areas within this balance, both in terms of the amortisation period selected for the DAC and also in management's assessment of the asset for impairment. The impairment assessment is most sensitive to mortality, transfers, surrenders, and expenses.

As at year end 2020, the DAC balance held on the group balance sheet totalled £69.1m (2019; £63.9m), of which £58.5m (2019; £53.5m) relate to the Movestic component. Due to the significance of the balance and the uncertainty brought about by regulatory changes in Sweden driving an increase in transfers out, we identified a key audit matter related to the Movestic DAC. Through the annual impairment test of the DAC, management identified and reported an impairment of £1.0m relating specifically to single premium occupational pension policies written between 2012 and 2017. See Note 3(b) for further details.

Due to the potential for management to introduce inappropriate bias to judgements made in the impairment assessment, we have determined that there is a risk of misstatement due to fraud. The accounting policy relating to deferred acquisition costs has been presented through Note 2(h)iii, with details of the balance and movement within Note 18.

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

In respect of the Movestic DAC:

- we gained an understanding of the internal controls in place around the setting of the amortisation profile, and the impairment test;
- we have assessed the rationale for the expense ledger balances capitalised, and performed tests of detail around contracts to assess the valuation of the DAC;
- we have agreed the DAC sub-ledger to the general ledger, and created an expectation of the DAC balances, also performing a subsequent investigation into any differences;
- with the involvement of actuarial specialists we have challenged the amortisation profile adopted by management, by constructing a range of independent amortisation profiles based on alternative data; and
- with the involvement of actuarial specialists we have challenged the reasonableness of managements assumptions within the impairment test, including; mortality, transfers, surrenders, and expenses. We have challenged such assumptions by evaluating experience, supporting documents and calculations.

Key observations

Through the procedures performed, we consider the assumptions in determining the DAC valuation to be appropriate.

Implementation of Countrywide Assured plc Fund Manager Rationalisation (FMR)

Key audit matter description

Countrywide Assured plc used various fund managers to manage its day-to-day fund management requirements. During 2019 the company decided to rationalise to a single fund manager. The changes in fund manager and certain aspects of investment administration services completed in September 2020 with processes and controls embedding over the course of Q4 2020/Q1 2021. As part of the change in fund manager, certain aspects of the fund structure were also simplified.

In addition to the operational changes required as a result of changing fund manager and investment administration services, changes to the financial reporting processes and controls over investment accounting were also required. These included changes to processes and controls over the preparation of accounting entries to the general ledger in response to the changes in fund structure and reporting received from the single fund manager.

The impacted balances within Countrywide Assured plc, as at 31 December 2020 were as follows:

- Equity securities – £4.0m
- Holding in collective investment schemes – £2,073.3m
- Debt securities – £208.3m

These are included within the consolidated balances and disclosed further in Note 24 and the operational changes are discussed further within the Strategic Report on page 34.

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

We obtained an understanding of the relevant controls over the valuation and existence of financial assets impacted by the FMR related changes to processes.

In respect of the FMR:

- we revisited our risk assessment considerations in response to the changes;
- we independently obtained custodian confirmations for 100% of the equity securities, holdings in collective investment schemes and debt securities;
- we assessed whether the investment records agree with the holdings of the custodian by inspecting the reconciliations;
- we performed detailed testing on a sample of valuations to independent pricing sources;
- we performed detailed testing on a sample of realised gains and losses impacting on net investment return;
- we assessed whether the trial balances agree to the underlying investment records held by the company by inspecting the reconciliations; and
- we assessed the competence of the fund manager as a service organisation, including evaluating the service auditor report that provides details of the control environment for the services provided to Countrywide Assured plc.

Key observations

Based on the audit procedures performed, we consider that the investment related balances are appropriate.

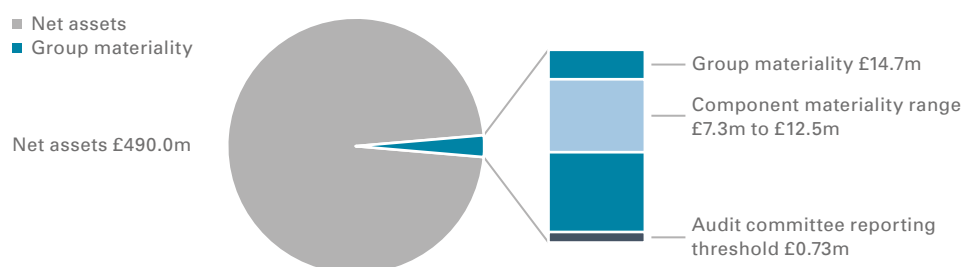
Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£14.7m (2019: £12.8m)	£12.4m (2019: £10.5m)
Basis for determining materiality	3% of net assets at 31 December 2020. In the case of the parent company, materiality has been capped at 85% of group materiality. In the prior period, materiality was 3% of adjusted net assets as at 30 June 2019 to factor in the inherent volatility in asset prices in net assets between 30 June 2019 and 31 December 2019. In the current period, we have determined of materiality using the 31 December 2020 net assets balance, thus rendering the aforementioned adjustment redundant.	
Rationale for the benchmark applied	A net assets measure is closely aligned to the objectives of capital solvency and efficiency, dividend payments and ultimately cash generation that is relevant for Chesnara's business model. This represents a stable long-term measure of value in a business that has a significant closed insurance book.	



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	60% (2019: 70%) of group materiality	60% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls, the nature of the balances, the high level of audit adjustments identified the previous audit and the further pressures on the control as a result of the current COVID-19. Considering these factors, performance materiality was reduced to 60% for the current year.	

Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £730,000 (2019: £640,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The risk assessment and scoping for the group has been performed centrally by the group audit team. Referral instructions have been provided to each of the component audit teams detailing the procedures to be performed to support the group opinion. The procedures performed by the group audit team specifically relate to the parent company, and group consolidation.

Based on this assessment and consistent with the prior year, we focused our group audit scope primarily on the audit work at six locations where the group's policies are administered. Three relate to Countrywide Assured plc and are in the United Kingdom, and the remaining three locations in the Netherlands and Sweden relate to Waard Leven, Waard Schade, Movestic Livförsäkring AB, and Scildon. These components account for all the operations of the group and were all subject to a full scope audit.

Excluding the parent company, the component materiality levels set by the group auditor range from £7.3m to £8.8m (2019: £6.4m to £7.0m). The movement in range in the year arises due to the increase in group materiality, and foreign exchange movements impacting the re-translated balance sheets.

Working with other auditors

The audit at each location involved the use of component audit teams. The group audit team have utilised virtual meetings throughout the period, to monitor and challenge each of the component audit teams, including the attendance of senior group audit team members at key component meetings. Furthermore, the group audit team have reviewed the audit files of each component team, focussing on the following areas:

- independence and continuance;
- controls work around key audit matters, and financial reporting;
- legal and regulatory compliance; and
- assessment of key audit matters and significant risks.

In addition to the review of the component audit files, the group audit team has challenged the component responses to the referral instructions ensuring that the planned procedures have been performed appropriately.

Upon receipt of the component financials from the component audit teams, the group audit team challenge management around the Chesnara group consolidation process.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, internal audit, and the Audit & Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team, including significant component audit teams, and relevant internal specialists, including tax, valuations, actuarial, and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Valuation of insurance liabilities, pinpointed to the valuation of the Save & Prosper (S&P) Cost of Guarantees (CoG), and the adequacy of Scildon reserves, valuation of the Scildon Acquired Value In-Force (AVIF) intangible asset and valuation of the Movestic Deferred Acquisition Costs balance (DAC). In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, Tax and Pensions legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulatory solvency requirements and compliance with the requirements of the Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

As a result of performing the above, we identified the valuation of insurance liabilities, pinpointed to the valuation of the Save & Prosper (S&P) Cost of Guarantees, and the adequacy of Scildon reserves, the valuation of the Scildon Acquired Value In-Force (AVIF) intangible asset, and valuation of the Movestic Deferred Acquisition Costs (DAC) balance as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA, FCA, FRC, DNB and FSA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 107;
- The directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 52;
- The directors' statement on fair, balanced and understandable set out on page 107;
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 54;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 72 and 74; and
- The section describing the work of the Audit & Risk Committee set out on pages 98 to 103.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the group's board on 1 October 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ending 31 December 2009 to 31 December 2020.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stephen Williams FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

29 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2020 £000	2019 £000
Insurance premium revenue	7	293,365	268,331
Insurance premium ceded to reinsurers	7	(42,907)	(44,215)
Net insurance premium revenue		250,458	224,116
Fee and commission income	8	92,698	92,895
Net investment return	9	254,568	1,090,640
Other operating income	10	40,181	37,838
Total revenue net of investment return		637,905	1,445,489
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	11	(420,031)	(445,265)
Net decrease/(increase) in insurance contract provisions	11	6,869	(176,541)
Reinsurers' share of claims and benefits	11	48,178	38,064
Net insurance contract claims and benefits		(364,984)	(583,742)
Change in investment contract liabilities	12	(110,878)	(664,463)
Reinsurers' share of investment contract liabilities	12	1,340	5,424
Net change in investment contract liabilities		(109,538)	(659,039)
Fees, commission and other acquisition costs	13	(23,625)	(21,750)
Administrative expenses	14	(70,952)	(67,811)
Other operating expenses			
Charge for impairment of acquired value of in-force business	15	(27,623)	–
Charge for amortisation of acquired value of in-force business	15	(9,562)	(10,445)
Charge for amortisation of acquired value of customer relationships	15	(63)	(70)
Other	15	(5,062)	(5,635)
Total expenses net of change in insurance contract provisions and investment contract liabilities		(611,409)	(1,348,492)
Total income less expenses		26,496	96,997
Share of profit of associate	23	–	1,072
Post completion gain on portfolio acquisition	51	388	788
Financing costs	16	(2,299)	(2,751)
Profit before income taxes	7	24,585	96,106
Income tax expense	17	(3,394)	(16,964)
Profit for the year	7	21,191	79,142
Items that will not be reclassified to profit and loss:			
Foreign exchange translation differences arising on the revaluation of foreign operations	4	22,618	(18,684)
Revaluation of land and buildings		(464)	144
Other comprehensive income for the year, net of tax	1	22,154	(18,540)
Total comprehensive income for the year		43,345	60,602
Basic earnings per share (based on profit for the year)	46	14.12p	52.77p
Diluted earnings per share (based on profit for the year)	46	14.03p	52.47p


The Notes and information on pages 124 to 201 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December	Note	2020 £000	2019 £000
Assets			
Intangible assets			
Deferred acquisition costs	18	69,051	63,885
Acquired value of in-force business	19	61,655	90,823
Acquired value of customer relationships		409	431
Goodwill	20	–	43
Software assets	21	8,508	5,988
Property and equipment	22	8,718	7,043
Investment in associates	23	–	6,481
Investment properties		1,124	1,020
Reinsurers' share of insurance contract provisions	30	197,068	188,452
Amounts deposited with reinsurers	31	37,026	37,330
Financial assets			
Equity securities at fair value through income	24	10,180	432,645
Holdings in collective investment schemes at fair value through income	24	6,714,303	5,524,504
Debt securities at fair value through income	24	1,098,559	1,458,917
Policyholders' funds held by the group	24	332,117	299,375
Mortgage loan portfolio	24/25	344,918	32,187
Derivative financial instruments	24/27	830	2,076
Total financial assets	1	8,500,907	7,749,704
Insurance and other receivables	26	45,048	53,936
Prepayments	26	13,349	8,353
Reinsurers' share of accrued policyholder claims	38	12,716	14,132
Income taxes		4,566	5,394
Cash and cash equivalents	28	105,351	107,956
Total assets		9,065,496	8,340,971
Liabilities			
Insurance contract provisions	30	3,958,037	3,610,415
Other provisions		613	521
Financial liabilities			
Investment contracts at fair value through income	31	4,035,040	3,694,316
Liabilities relating to policyholders' funds held by the group	32	332,117	299,375
Lease contract liabilities	33	2,844	2,527
Borrowings	34	66,955	88,163
Derivative financial instruments	27	3	547
Total financial liabilities		4,436,959	4,084,928
Deferred tax liabilities	36	19,086	22,500
Reinsurance payables	37	2,863	3,207
Payables related to direct insurance and investment contracts	38	96,337	87,136
Deferred income	39	3,355	3,907
Income taxes		9,427	9,964
Other payables	40	50,107	41,728
Bank overdrafts	28	1,645	1,174
Total liabilities		8,578,429	7,865,480
Net assets	7	487,067	475,491
Shareholders' equity			
Share capital	41	43,768	43,767
Share premium	41	142,085	142,053
Other reserves	42	30,772	8,618
Retained earnings	43	270,442	281,053
Total shareholders' equity		487,067	475,491

The Notes and information on pages 124 to 201 form part of these financial statements.

Approved by the board of directors and authorised for issue on 29 March 2021 and signed on its behalf by:



Luke Savage
Chairman



John Deane
Chief Executive Officer

Company number: 04947166

COMPANY BALANCE SHEET

31 December	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Financial assets			
Investments in subsidiaries	24	354,720	354,720
Deferred tax asset		620	521
Total non-current assets		355,340	355,241
Current assets			
Property and equipment		224	263
Financial assets			
Holdings in collective investment schemes at fair value through income	24	57,945	74,758
Receivables and prepayments		123	855
Income taxes		3,819	2,440
Cash and cash equivalents	28	1,915	769
Total current assets		64,026	79,085
Total assets		419,366	434,326
Current liabilities			
Lease contract liabilities		216	253
Borrowings	34	15,402	14,849
Other payables	40	1,859	4,190
Total current liabilities		17,477	19,292
Non-current liabilities			
Borrowings	34	23,608	37,676
Total non-current liabilities		23,608	37,676
Total liabilities		41,085	56,968
Net assets		378,281	377,358
Shareholders' equity			
Share capital	41	7,496	7,495
Share premium	41	142,085	142,053
Other reserves	42	50	50
Retained earnings	43	228,650	227,760
Total shareholders' equity		378,281	377,358

The Notes and information on pages 124 to 201 form part of these financial statements.

The profit for the financial year of the parent company was £32.7m (2019: £64.9m).

The financial statements of Chesnara plc (registered number 4947166) were approved by the board of directors and authorised for issue on 29 March 2021 and signed on its behalf by:



Luke Savage
Chairman



John Deane
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December			
	Note	2020 £000	2019 £000
Profit for the year		21,191	79,142
Adjustments for:			
Depreciation of property and equipment	22	637	538
Amortisation of deferred acquisition costs	18	12,845	11,547
Impairment of acquired value of in-force business	19	27,623	–
Amortisation of acquired value of in-force business	19	9,562	10,445
Amortisation of acquired value of customer relationships		63	70
Amortisation of software assets	21	1,292	1,442
Depreciation on right of use assets	22	757	704
Interest on lease liabilities	16	55	63
Share based payment		492	593
Tax paid		3,128	16,494
Interest receivable		(2,987)	(1,596)
Dividends receivable		(1,929)	(2,250)
Interest expense	16	2,244	2,688
Impairment losses		1,019	–
Fair value gains on financial assets		(138,119)	(201,937)
Share of profit of associate	23	–	(1,072)
Increase in intangible assets related to insurance and investment contracts		(15,316)	(14,058)
Interest received		5,335	2,011
Dividends received		3,241	2,942
Changes in operating assets and liabilities:			
Increase in financial assets		(150,789)	(799,774)
(Increase)/decrease in reinsurers' share of insurance contract provisions		(6,981)	23,809
Decrease/(increase) in amounts deposited with reinsurers		304	(2,981)
Decrease in insurance and other receivables		6,763	7,640
Increase in prepayments		(4,227)	(1,474)
Increase in insurance contract provisions		233,055	145,907
Increase in investment contract liabilities		36,539	685,502
Increase/(decrease) in provisions		39	(307)
Decrease in reinsurance payables		(523)	(6,912)
Increase/(decrease) in payables related to direct insurance and investment contracts		7,451	(2,472)
Increase/(decrease) in other payables		6,188	(3,119)
Net cash generated/(utilised by) from operations		58,952	(46,415)
Income tax paid		(6,456)	(878)
Net cash generated/(utilised by) from operating activities		52,496	(47,293)
Cash flows from investing activities			
Development of software		2,734	(3,097)
Purchases of property and equipment		(857)	(98)
Net cash generated/(utilised by) investing activities		1,877	(3,195)
Cash flows from financing activities			
Proceeds from issue of share capital		1	–
Proceeds from the issue of share premium		32	–
Repayments of borrowings		(26,094)	(18,465)
Repayment of lease liabilities		(695)	(646)
Dividends paid		(32,294)	(31,316)
Interest paid		(2,295)	(2,570)
Net cash utilised by financing activities		(61,345)	(52,997)
Net decrease in net cash and cash equivalents		(6,972)	(103,485)
Net cash and cash equivalents at beginning of year	28	106,782	214,254
Effect of exchange rate changes on net cash and cash equivalents		3,896	(3,987)
Net cash and cash equivalents at end of the year	28	103,706	106,782

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 124 to 201 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2020 £000	2019 £000
Profit for the year		32,692	64,939
Adjustments for:			
Tax recovery		(1,504)	(1,704)
Interest receivable		1,087	1,362
Share based payment		492	593
Dividends receivable		(40,553)	(69,772)
Depreciation on right of use assets		60	9
Decrease/(increase) in financial assets		16,813	(27,470)
Changes in operating assets and liabilities:			
Decrease in loans and receivables		729	1,426
(Increase)/decrease in prepayments		(100)	76
Increase in provisions		25	266
Decrease/(increase) in other payables		(341)	1,508
Net cash generated/(utilised by) operating activities		9,400	(28,767)
Income tax received		–	1,796
Net cash generated/(utilised by) operating activities		9,400	(26,971)
Cash flows from investing activities			
Dividends received from subsidiary company		40,553	69,772
Purchases of property and equipment		(21)	(266)
Net cash generated from investing activities		40,532	69,506
Cash flows from financing activities			
Net proceeds from the issue of share capital		1	–
Net proceeds from the issue of share premium		32	–
Repayment of borrowings		(15,376)	(17,055)
Repayment of lease liabilities		(62)	(19)
Dividends paid		(32,294)	(31,320)
Interest paid		(1,087)	(1,362)
Net cash utilised by financing activities		(48,786)	(49,756)
Net increase/(decrease) in net cash and cash equivalents		1,146	(7,221)
Net cash and cash equivalents at beginning of year		769	7,990
Net cash and cash equivalents at end of the year	28	1,915	769

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 124 to 201 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020						
Note	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
	43,767	142,053	8,618	–	281,053	475,491
Equity shareholders' funds at 1 January 2020						
Profit for the year	–	–	–	–	21,191	21,191
Issue of share capital	1	–	–	–	–	1
Issue of share premium	–	32	–	–	–	32
Dividends paid	–	–	–	–	(32,294)	(32,294)
Foreign exchange translation differences	4	–	22,618	–	–	22,618
Revaluation of land and buildings	–	–	(464)	–	–	(464)
Share based payment	–	–	–	–	492	492
	43,768	142,085	30,772	–	270,442	487,067
Equity shareholders' funds at 31 December 2020						

Year ended 31 December 2019						
Note	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
	43,767	142,053	27,158	–	232,638	445,616
Equity shareholders' funds at 1 January 2019						
Profit for the year	–	–	–	–	79,142	79,142
Dividends paid	–	–	–	–	(31,320)	(31,320)
Foreign exchange translation differences	4	–	(18,684)	–	–	(18,684)
Revaluation of land and buildings	–	–	144	–	–	144
Share based payment	–	–	–	–	593	593
	43,767	142,053	8,618	–	281,053	475,491
Equity shareholders' funds at 31 December 2019						

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
	7,495	142,053	50	–	227,760	377,358
Equity shareholders' funds at 1 January 2020						
Profit for the year	–	–	–	–	32,692	32,692
Issue of share capital	1	–	–	–	–	1
Issue of share premium	–	32	–	–	–	32
Dividends paid	–	–	–	–	(32,294)	(32,294)
Share based payment	–	–	–	–	492	492
	7,496	142,085	50	–	228,650	378,281
Equity shareholders' funds at 31 December 2020						

Year ended 31 December 2019						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
	7,495	142,053	50	–	193,548	343,146
Equity shareholders' funds at 1 January 2019						
Profit for the year	–	–	–	–	64,939	64,939
Dividends paid	–	–	–	–	(31,320)	(31,320)
Share based payment	–	–	–	–	593	593
	7,495	142,053	50	–	227,760	377,358
Equity shareholders' funds at 31 December 2019						

The Notes and information on pages 124 to 201 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Chesnara plc (Registered number 4947166) (the company) is a limited liability company, incorporated in the United Kingdom and registered in England and Wales. The company is limited by shares and has a primary listing on the London Stock Exchange. The address of the registered office is 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, England, PR1 8UY, UK.

The company and its subsidiaries, together forming the group, comprise UK, Swedish and Dutch life and pensions businesses.

The UK business is represented by the CA segment, as described in Note 7. Its activities are performed almost entirely in the UK, where it underwrites life risks such as those associated with death, disability and health and provides a portfolio of investment contracts for the savings and retirement needs of customers through asset management. It is substantially closed to new business, such that new insurance contracts are only issued to existing customers, dependent on their changing needs.

The Swedish business comprises the Movestic segment, as described in Note 7. Its activities are performed predominantly in Sweden, where it underwrites life, accident and health risks and provides a portfolio of investment contracts. It is open to new business, securing distribution of its products principally through independent financial advisers.

The Dutch business comprises the Waard Group and Scildon segments, as described in Note 7. These represent the group's Dutch life and general insurance businesses. The Waard Group originally consisted of 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 the company was subsequently de-registered 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.

These financial statements are presented in pounds sterling, which is the functional currency of the parent company. Foreign operations are included in accordance with the policies set out in Note 2. The financial statements were authorised for issue by the directors on 29 March 2021.

Representation of prior year amounts

In order to better reflect the nature of the balances, we have excluded prepayments and insurance receivables from financial assets on the face of the statement of financial position. The prior year comparative has been represented accordingly. On the Statement of Comprehensive Income, we have added in a line item to show other comprehensive income and the prior year figure has been represented accordingly.

2 Significant accounting policies

In the information which follows, distinction is made, where necessary, in respect of the applicability of certain policies to the UK business, the Swedish business and the Dutch business.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with Adopted IFRSs.

IFRS 9

'IFRS 9 Financial Instruments' is effective from 1 January 2018 and replaces 'IAS 39 Financial Instruments: Recognition and Measurement'. The group has however 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'. The temporary exemption is available to reporting entities whose activities are predominantly connected with insurance and the IASB has recommended that the exemption applies until the earlier of the introduction of 'IFRS 17 Insurance Contracts' and 1 January 2023.

An assessment of the group's liabilities has been made as at 31 December 2017. The assessment determined that the proportion of liabilities connected within scope of IFRS 4, together with other liabilities connected with insurance was greater than 90% of the total liabilities of the group as at that date. Other liabilities connected with insurance include non-derivative investment contract liabilities measured at fair value under IAS 39, with a value of £3,420.3m at 31 December 2017. Certain disclosures are required as a result of deferring the application of IFRS 9 and these disclosures are contained in Note 5 and Note 24 to the financial statements.

Chesnara plc (the company) does not meet the qualifying criteria for temporary exemption from applying IFRS 9 as a stand-alone reporting entity. Therefore, IFRS 9 has been applied to the parent company financial assets within these financial statements. Within the group, Movestic Kapitalförvaltning AB, has also applied IFRS 9 to its individual financial statements and these are available at www.movestic.se

At the date of authorisation of these financial statements the following standards and interpretations, which are applicable to the group and which have not been applied in these financial statements, were in issue but not yet effective (and in some cases have not been adopted by the EU):

Title	Subject
IFRS 17	Insurance contracts
IFRS 10 and IAS 28 (amendments)	Sale or contribution of assets between an investor and its associate or joint venture
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IFRS 3	Reference to the conceptual framework
Amendments to IAS 16	Property, plant and equipment – proceeds before intended use
Amendments to IAS 37	Onerous contracts – cost of fulfilling a contract
Annual improvements to IFRS Standards 2018-2020 cycle	Amendments to IFRS 1 first-time adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
Interest Rate Benchmark Reform (IBOR) – Phase 2	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective date: 1 January 2021)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the group in future periods, except as follows:

- IFRS 17 was issued in May 2017 and will replace IFRS 4, the current insurance contract accounting standard. In June 2020, amendments to the original draft were issued, which are still subject to endorsement within the EU and UK. These amendments defer the effective date of IFRS 17 by 2 years to 1 January 2023. The new standard will significantly change how the group measures and reports its insurance contracts. Implementation activities were progressed during 2020, following an initial assessment of the technical and operational implications of the standard performed in 2019. These implementation activities are ongoing and will continue throughout 2021 and the financial impact of adopting the standard will continue to be assessed.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until further work is performed.

In publishing the parent company financial statements, together with the group financial statements, the company has taken advantage of the exemption in S408 of the Companies Act 2006 not to present its individual income statement and related Notes that form a part of these approved financial statements. The parent company profit for the year has been disclosed in Note 43 and page 120.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and of entities controlled by the company (its subsidiaries), made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The parent company financial statements present information about the company as a separate entity and not about its group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profit or loss and each component of other comprehensive income are attributed to the company and to the non-controlling interests. Total comprehensive income is attributed to the company shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2 Significant accounting policies (continued)**(c) Basis of preparation**

The consolidated and parent company financial statements have been prepared on a going concern basis. The directors believe that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the directors have taken into consideration the points as set out in the Financial Management section under the heading 'Going Concern'.

The financial statements are presented in pounds sterling, rounded to the nearest thousand, and are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial instruments at fair value through income; assets and liabilities held for sale; investment property; and investment contract liabilities at fair value through income.

Assets and liabilities are presented on a current and non-current basis in the Notes to the financial statements. If assets are expected to be recovered or liabilities expected to be settled within a year, they are classified as current. If they are expected to be recovered or settled in more than one year, they are classified as non-current. The company balance sheet is also presented in this manner.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements made by management in the process of applying the group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in Note 3.

The accounting policies set out below, unless otherwise stated, have been applied consistently to all years presented in these consolidated financial statements.

In accordance with IFRS 4, Insurance Contracts, on adoption of IFRS the group applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards, introducing changes only where they provide more reliable and relevant information.

(d) Business combinations

The group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Expenses directly attributable to the acquisition are expensed as incurred. The acquiree's identifiable assets, liabilities, and contingent liabilities, which meet the conditions for recognition under IFRS 3, are measured initially at their fair values at the acquisition date. Gains arising on a bargain purchase, where the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree exceeds the cost of acquisition, is recognised in the Consolidated Statement of Comprehensive Income at the acquisition date.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a group company transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the associate. Losses may provide evidence of an impairment of assets transferred, in which case appropriate provision is made for impairment.

(f) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates, being its functional currency. For the purpose of these consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the parent company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency, being foreign currencies, are recorded at the rates of exchange prevailing on the dates of the transactions. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. At each balance sheet date, monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date and exchange differences are recognised in profit or loss. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing when the fair value was determined.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as equity and are recognised in the group's foreign currency translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Transactions relating to business combinations denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the transaction date.

(g) Product classification

The group's products are classified at inception as either insurance or investment contracts for accounting purposes. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all rights and obligations are extinguished or expire (see below for how we classify different products). They may also transfer financial risk. Investment contracts are contracts which carry financial risk, with no significant insurance risk. Where contracts contain both insurance and investment components and the investment components can be measured reliably, for certain Movestic products, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

In some insurance contracts and investment contracts the financial risk is borne by the policyholders. Such contracts are usually unit-linked contracts.

With-profits contracts, which subsist only within the UK business, all contain a discretionary participation feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses, which may be a significant portion of the total contractual benefits.

In respect of the S&P component of the CA segment, the amount and timing of such contractual benefits are at the discretion of the group and are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the group. The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the group may exercise its discretion as to the quantum and timing of their payment to contract holders.

In respect of the original CA book, all such contracts are wholly reinsured with ReAssure Limited, and the amount or timing of the additional payments are contractually at the discretion of the reinsurer and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract; or
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the reinsurer; or
- (iii) the profit or loss of the reinsurer.

For the purpose of assessing whether significant insurance risk exists, the following general framework is applied:

- *Unit-linked contract with death benefit greater than 105% of unit fund:* A threshold has been set to determine significant insurance risk, and for these group of products the assessment is made with reference to the policyholder's unit fund. In the event that the death benefit on a product is deemed to exceed 105% of the value of the unit fund, it is classified as an insurance product.
- *Unit-linked product with death benefit based on premiums received:* Products that have a death benefit based on premiums received are deemed to carry significant insurance risk, as there are plausible scenarios where the additional amounts may be significant.
- *Unit-linked product with death benefit of a fixed sum assured:* A death benefit that is a fixed sum assured is classed as having significant insurance risk as there are plausible scenarios where additional amounts may be significant.
- *With-profits – guaranteed minimum pensions:* Guaranteed minimum pension products have significant insurance risk as the cost to the provider is contingent on the policyholder, their survival to maturity and the annuity market.
- *With-profits – guaranteed minimum fund value:* These products have a death benefit equal to the present value of the guarantee which may be onerous depending on the timing of the death.
- *Protection:* Protection products, such as term assurance or whole of life products, carry clear insurance risk, as the potential benefit can far exceed the premiums for the product.

2 Significant accounting policies (continued)**(h) Insurance contracts**

There are fundamental differences between the nature of the insurance contracts subsisting in the UK, Swedish and Dutch businesses, including inter alia contract longevity. The related product characteristics are set out for the separate UK, Swedish and Dutch businesses in Note 5. As a consequence, the alignment of income and expense recognition with the underlying assumption of risk leads to the adoption of separate accounting policies appropriate to each business, as follows:

(i) Premiums

Across all four businesses, both regular and up-front single payment premiums are accounted for when they fall due, or in the case of unit-linked insurance contracts, when the liability is recognised, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

In Sweden, written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties paid on premiums.

For the annually renewed risk contracts in Sweden, unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a straight-line basis according to the duration of the policy underwritten.

(ii) Claims and benefits

Claims are accounted for in the accounting year in which they are due or notified. Surrenders are accounted for in the accounting year in which they are paid. Claims include policyholder bonuses allocated in anticipation of a bonus declaration. Reinsurance recoveries are accounted for in the same period as the related claim.

Swedish non-life claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses, together with any adjustments to claims from previous years.

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claims provisions are not discounted. Provisions are calculated gross of any reinsurance recoveries.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of outstanding claims provisions is described in Note 30.

(iii) Acquisition costs

In the UK, Swedish and Scildon segments, acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. Such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

(iv) Measurement of insurance contract provisions

In the UK and Dutch businesses, insurance contract provisions are measured using accounting policies having regard to the principles laid down in Council Directive 2002/83/EC.

Insurance contract provisions are determined following an annual actuarial investigation of the long-term funds and are calculated initially on a statutory basis in order to comply with the reporting requirements of the Prudential Sourcebook for Insurers and the Dutch Central Bank respectively. This valuation is then adjusted to remove certain contingency reserves and to remove excess prudence from other reserves. In accordance with this, the provisions are calculated on the basis of current information, using the specific valuation methods set out below.

Unit-linked provisions are measured by reference to the value of the underlying net asset value of the group's unitised investment funds, determined on a bid value basis, at the balance sheet date.

For immediate annuities in payment the provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, including projected improvements in future mortality, interest rates and expenses. For certain temporary annuities in payment no allowance for mortality or mortality improvement has been made.

In respect of CA (S&P), for those classes of non-linked business with a discretionary participation feature, a gross premium method has been used to value the liability, whereby expected income and costs have been projected, allowing for mortality, interest rates and expenses.

For the other classes of non-linked business the provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

In respect of CA (original book) for those classes of non-linked and unit-linked business where policyholders participate in profits the liability is wholly reassured to ReAssure. The liability is calculated on a net premium basis, but is then increased to the realistic liability as a result of the liability adequacy test.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets: this is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in income for the year. Insurance contract provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

In Sweden, provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claim provisions are not discounted other than for income protection and waiver of premium benefits, where payments may be made for a considerable period of time.

(i) Investment contracts

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(i) Amounts collected

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the balance sheet as an adjustment to the liability to the investor.

(ii) Amounts deposited with reinsurers

Amounts deposited with reinsurers under reinsurance arrangements, which primarily involve the transfer of financial risk, are entered directly to the balance sheet as amounts deposited with reinsurers. These assets are designated on initial recognition as at fair value through income.

(iii) Benefits

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities in the accounting period in which they are paid.

(iv) Acquisition costs

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised. All other costs are recognised as expenses when incurred.

(v) Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through income. The group has designated investment contract liabilities at fair value through income as this more closely reflects the basis on which the businesses are managed.

The financial liability in respect of unit-linked contracts is measured by reference to the value of the underlying net asset value of the unitised investment funds, determined on a bid value, at the balance sheet date.

For the UK business, the impact of deferred tax on unrealised capital gains is passed to the policyholder and for the Swedish business a policyholder yield tax in respect of an estimate of the investment return on the underlying investments in the unitised funds are also reflected in the measurement of the respective unit-linked liabilities.

Investment contract liabilities are managed together with related investment assets on a fair value basis as part of the documented risk management strategy.

The fair value of other investment contracts is measured by discounting current estimates of all contractual cash flows that are expected to arise under contracts.

(j) Reinsurance

The group cedes reinsurance in the normal course of business for the purpose of avoiding the retention of undue concentration of risk on any one life, policyholder or loss event (for example multiple losses under a group Life contract). Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, which comprise amounts due from insurance companies for paid and unpaid losses and ceded life policy benefits. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments and are presented as amounts deposited with reinsurers.

The net premiums payable to a reinsurer may be more or less than the reinsurance assets recognised by the group in respect of the reinsurance cover purchased. Any gain or loss is recognised in the income statement in the period in which the reinsurance premiums are payable.

Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts and in accordance with the terms of the reinsurance contract. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer. Impairment losses reduce the carrying value of the related reinsurance assets to their recoverable amount and are recognised as an expense in the income statement.

The group enters into certain financing arrangements, which are established in the form of a reinsurance contract, but which are substantively in the form of a financial instrument. Such arrangements are classified and presented as borrowings within financial liabilities.

(k) Fee and commission income and other operating income*Fee and commission income:*

In accordance with IFRS 15, fees charged for investment management services provided in connection with investment contracts are recognised as revenue over time, as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period over time in which services will be provided.

Initial fees charged for investment management services provided in connection with insurance contracts are recognised over time as revenue when earned.

For both insurance and investment contracts, initial fees, annual management charges and contract administration charges are recognised over time as revenue on an accruals basis. Surrender charges are recognised as a reduction to policyholder claims and benefits incurred when the surrender benefits are paid.

Benefit-based fees comprising charges made to unit-linked insurance and investment funds for mortality and morbidity benefits are recognised over time as revenue on an accruals basis.

For insurance and investment contracts, commissions received or receivable which do not require the group to render further services are recognised at the point at which the commission becomes due. However, when it is probable that the group will be required to render further services during the life of the contract, the commission, or part thereof, is deferred and recognised over time as revenue over the period in which services are rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(k) Fee and commission income and other operating income (continued)

Other operating income:

Fee income from investment managers is recognised in accordance with IFRS 15 and are in relation to Movestic, and are received from the fund companies, based on the value of the managed assets. The fee income is recognised and adjusted on an ongoing basis, as Movestic meets its commitments.

(l) Investment income

Investment income comprises income from financial assets and rental income from investment properties.

Income from financial assets comprises dividend and interest income, net fair value gains and losses (both unrealised and realised) in respect of financial assets classified as fair value through income, and realised gains on financial assets classified as loans and receivables.

Dividends are accrued on an ex-dividend basis. Interest received and receivable in respect of interest-bearing financial assets classified as fair value through income is included in net fair value gains and losses. For loans and receivables and cash and cash equivalents interest income is calculated using the effective interest method.

Rental income from investment properties under operating leases is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of each lease. Lease incentives are recognised in the Consolidated Statement of Comprehensive Income as an integral part of the total lease income.

(m) Expenses

(i) Operating lease payments

Under IFRS 16, the depreciation of right-of-use assets is recognised in the Statement of Comprehensive Income as an administration expense. Payments made in relation to lease commitments are reflected in the balance sheet as a reduction to the corresponding lease liability.

(ii) Financing costs

Financing costs comprise interest payable on borrowings and on reinsurance claims deposits included within reinsurance payables, calculated using the effective interest rate method. Under IFRS 16, interest on lease liabilities is recognised in the Statement of Comprehensive Income as finance costs.

(n) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income. Tax that relates directly to transactions reflected within equity is also presented within equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Within each tax jurisdiction that the group operates, there exists the ability to offset individual deferred tax assets and deferred tax liabilities.

(iii) Policyholders' fund yield tax

Certain of the group's policyholders within the Swedish business are subject to a yield tax which is calculated based on an estimate of the investment return on underlying investments within their unitised funds. The group is under an obligation to deduct the yield tax from the policyholders' unitised funds and to remit these deductions to the tax authorities. The remittance of this tax payment is included in other operating expenses as it does not comprise a tax charge on group profits.

(o) Acquired value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

The difference between the fair value of insurance contracts and the liability measured in accordance with the group's accounting policies for the contracts is recorded as acquired present value of in-force business. The present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated at the time of acquisition. The present value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test.

The present value of in-force investment contracts recognised under IAS 38 is stated at cost less accumulated amortisation and impairment losses. The initial cost is deemed to be the fair value of the contractual customer relationships acquired. The acquired present value of the in-force investment contracts is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of profit from the contracts. The recoverable amount is estimated at each balance sheet date. If the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount is reduced to its recoverable amount.

(p) Acquired value of customer relationships

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. These are carried gross of tax, are amortised in accordance with the expected emergence of profit from the new contracts and are tested periodically for recoverability.

(q) Software assets

An intangible asset in respect of internal development software costs is only recognised if all of the following conditions are met:

- (i) an asset is created that can be identified;
- (ii) it is probable that the asset created will generate future economic benefits; and
- (iii) the development costs of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Software assets, including internally developed software, are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years.

(r) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful economic lives of the property and equipment on the following basis:

Computers and similar equipment	3 to 5 years
Fixtures and other equipment	5 years

Assets held under leases, as right of use assets, are depreciated over their useful economic lives on the same basis as owned assets, or where shorter, over the term of the relevant lease. These include office buildings, office and IT equipment and motor vehicles.

(s) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. On initial recognition investment properties are measured at cost including attributable transaction costs, and are subsequently measured at fair value. Independent external valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every 12 months.

The fair values reflect market values at the balance sheet date, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the Consolidated Statement of Comprehensive Income. Rental income from investment property is accounted for as described in accounting policy (l).

(t) Financial assets

Investments in subsidiaries are carried in the company balance sheet at cost less impairment.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently four different categories of financial assets are used: 'financial assets at fair value through income', 'mortgage loan portfolio', 'prepayments' and 'loans and receivables'. Financial assets classified as at fair value through income comprise financial assets designated as such on initial recognition and derivative financial instruments.

All financial assets held for investment purposes other than the Waard mortgage loan portfolio and derivative financial instruments are designated as at fair value through income on initial recognition since they are managed, and their performance is evaluated, on a fair value basis in accordance with documented investment and risk management strategies. This designation is also applied to the group's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis as part of the documented risk management strategy. Purchases and sales of 'regular way' financial assets are recognised on the trade date, which is when the group commits to purchase, or sell, the assets.

All financial assets are initially measured at fair value plus, in the case of financial assets not classified as fair value through income, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, financial assets classified as at fair value through income are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

The fair values of financial assets quoted in an active market are their bid prices at the balance sheet date.

The mortgage loan portfolio held by the Waard Group is stated at amortised cost less impairment losses and incorporates the effective interest rate calculation method.

Financial assets not recognised at fair value through income are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the group considers, among other factors, the financial stability of the counterparty, current market conditions and fair value volatility.

Financial assets are derecognised when contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

(u) Insurance and other receivables, prepayments

Financial assets classified as insurance and other receivables are stated at amortised cost less impairment losses. A provision for the impairment of loans and receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original contract terms after the date of the initial recognition of the asset and when the impact on the estimated cash flows of the financial asset can be reliably measured.

Prepayments are held at cost and are amortised over the relevant time period.

2 Significant accounting policies (continued)**(v) Derivative financial instruments**

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Hedge accounting has not been applied.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Embedded derivatives which are not closely related to their host contracts and which meet the definition of a derivative are separated and fair valued through income.

(w) Policyholders' funds held by the group and liabilities relating to policyholders' funds held by the group

Policyholders' funds held by the group and liabilities relating to policyholders' funds held by the group are recognised at fair value.

(i) Policyholders' funds held by the group

The policyholders' funds held by the group represent the assets associated with an Investment product in the Swedish business, where the assets are held on behalf of the policyholder and where all the risks and rewards associated with the assets are the policyholders' not the group's.

The policyholders' funds held by the group are held for investment purposes on behalf of the policyholders and are designated as at fair value through income. The fair values of the policyholders' funds held by the group are the accumulation of the bid prices of the underlying assets at the balance sheet date. Transactions in these financial assets are recognised on the trade date, which is when the group commits (on behalf of the policyholder) to purchase, or sell the assets.

(ii) Liabilities relating to policyholders' funds held by the group

The liability relating to policyholders' funds held by the group represents the liability that matches the asset policyholders' funds held by the group. As stated previously, the risk and rewards associated with the investment product (and its underlying assets and matching liability) lie with the policyholders, not the group.

(x) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments. Highly liquid is defined as having a short maturity of 3 months or less at their acquisition.

Operating activities cash flows includes loans and financial investments. The purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. This is due to the cash receipts and payments made on behalf of the customers for which their funds are held by the entity. Dividends and interest received from the financial investments are captured within the operating activities.

Investing activities cash flows cash includes payments to acquire property, plant and equipment, intangibles, and other long-term assets. These payments include those relating to capitalised development costs.

Financing activities cash flows include cash proceeds from issuing shares capital, cash payments to owners to acquire or redeem the entity's shares, cash repayments of amounts borrowed, cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease, dividends paid out to shareholders, and interest paid on the borrowings.

Assets held for sale and liabilities held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction that is highly likely to complete within 1 year from the date of classification, rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value and are classified separately from other assets in the balance sheet. Assets and liabilities are not netted. In the period where a non-current asset or disposal group is recognised for the first time, the balance sheet for the comparative prior period is not restated.

(y) Impairment

The carrying amounts of the group's assets other than reinsurance assets (refer to (j) on page 129) and assets which are carried at fair value are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and impairment losses are recognised in the Consolidated Statement of Comprehensive Income. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Impairment losses are reversed through the Consolidated Statement of Comprehensive Income if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(z) Provisions

Provisions are recognised when the group has a present, legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(aa) Borrowings

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised in the Consolidated Statement of Comprehensive Income on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability.

(bb) Leases

The group assesses whether a contract is or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments
- Variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options
- The payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured by discounting the revised lease payments using a revised discount rate.

The group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The group does not have any leases that include purchase options or transfer ownership of the underlying asset. The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if these were owned. For the group this is 'Property and Equipment'.

For short-term leases (lease of than 12 months or less) and leases of low-value assets (such as personal computers and office furniture) the group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has not used this practical expedient.

The groups' weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2020 is 2.1% for the UK and Swedish division and 2.0% for the Netherlands division.

2 Significant accounting policies (continued)**(cc) Employee benefits****(i) Pension obligations***UK businesses*

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which group companies pay fixed contributions. There are no legal or constructive obligations on group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Swedish business

The group participates in a combined defined benefit and defined contribution scheme for the benefit of its employees. However, the Scheme is a multi-employer scheme, with the associated assets and liabilities maintained on a pooled basis. There is limited information available to the group to allow it to account for the Scheme as a defined benefit scheme and, in accordance with IAS 19 Employee Benefits, it is, therefore, accounted for as a defined contribution scheme. Contributions paid to the Scheme are recognised in the Consolidated Statement of Comprehensive Income when due.

Dutch business (Waard)

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which group companies pay fixed contributions. There are no legal or constructive obligations on group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Dutch business (Scildon)

Scildon had a defined benefit plan which was closed and transferred into a defined contribution pension plan during 2019. The defined Benefit Pension Scheme was administered by Stichting Pensionfonds Legal & General Nederland. The company had agreed to contribute to the premium for the unconditional part of the pension. The company paid a contribution to the Scheme and subsequently had no further financial obligations with respect to this part of the Scheme. During 2019, a new defined contribution pension scheme was established for the benefit of Scildon employees.

Further disclosure can be found in Note 35.

(ii) Bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The expense is recognised in the Consolidated Statement of Comprehensive Income on an accruals basis.

(dd) Share-based payments

The value of employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

(ee) Share capital and shares held in treasury**(i) Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments, as consideration for the acquisition of a business, are included in the cost of acquisition.

(ii) Shares held in treasury

Where the company purchases its own equity share capital, the consideration paid, including directly attributable costs, is deducted from total shareholders' equity and shown separately as 'treasury shares' until they are cancelled. Where such shares are subsequently sold, any consideration received is credited to the share premium account.

(ff) Dividends

Dividend distributions to the company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the company's shareholders at the Annual General Meeting.

(gg) Other payables and payables related to direct insurance and investment contracts

Insurance and investment contract payables and other payables are recognised when due and are measured on initial recognition at the fair value of the consideration paid.

(hh) Investment in subsidiaries

Investments in subsidiaries are carried in the statement of financial position at cost less impairment. The company assesses at each reporting date whether an investment is impaired by assessing whether any indicators of impairment exist. If objective evidence of impairment exists, the company calculates the amount of impairment as the difference between the recoverable amount of the group entity and its carrying value and recognises the amount as an expense in the income statement. The recoverable amount is determined based on the cash flow projections of the underlying entities.

(ii) Acquisitions and portfolio transfers

Acquisitions are accounted for under IFRS 3 'Business combinations'. This requires management to perform an assessment of the fair value of the assets and liabilities acquired and consideration paid at the point of acquisition. In the event that the fair value of the assets and liabilities exceeds the fair value of the consideration, this is recognised as a day 1 gain. Where the fair value of the consideration exceeds the fair value of the assets and liabilities acquired it is recognised as a goodwill intangible asset on the group balance sheet. Where a transaction is not deemed to be a business combination it is accounted for as an asset and liability purchase. In this scenario the group identifies and recognises the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

3 Critical accounting judgements and key sources of estimation and uncertainty

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities and also makes critical accounting judgements in applying the group's accounting policies. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The more critical areas, where accounting estimates and judgements are made, are set out below. Each item identifies the business segments, as described in Note 7, to which it is relevant.

During the year, the UK had exited the EU, which has had very limited disruption to business. This is discussed in more detail in the key sources of estimation and uncertainty section below.

Critical accounting judgements**(a) Classification of long-term contracts (CA, Movestic, Waard Group and Scildon)**

The group has exercised judgement in its classification of long-term business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 2 Significant Accounting Policies. Insurance contracts are those where significant risk is transferred to the group under the contract and judgement is applied in assessing whether the risk so transferred is significant, especially with regard to pensions contracts, which are predominantly, but not exclusively, created for investment purposes. Refer to Note 2(g) – Product Classification on page 127.

Key sources of estimation and uncertainty**(a) Acquired value of in-force business (CA, Movestic, Waard Group and Scildon)**

The group applies accounting estimates and judgements in determining the fair value, amortisation and recoverability of acquired in-force business relating to insurance and investment contracts. In the initial determination of the acquired value of in-force business, the group uses actuarial models to determine the expected net cash flows (on a discounted basis) of the policies acquired. The key assumptions applied in the models are driven by the expected behaviour of policyholders on termination rates, expenses of management and age of individual contract holders as well as global estimates of investment growth, based on recent experience at the date of acquisition. The assumptions applied within the models are considered against historical experience of each of the relevant factors. Refer to accounting policy Note 2(o) on page 130 and Note 19 on page 162.

The acquired value of in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. Acquired value of in-force business is tested for recoverability by reference to expected future income and expense levels. Such impairment testing requires a degree of estimation and judgement. In particular the value is sensitive to the rate at which future cash flows are discounted and to the rates of return on invested assets, based on applying a range of discount rates, which have been determined with reference to our review of the current market assessment of the true value of money and the risks specific to the asset for which the cash flows have not been adjusted. The rates used for the purpose of the impairment testing range from 4% to 12%.

As at 31 December 2020, material carrying values of acquired in-force business, net of amortisation, are £23.5m in respect of Movestic (31 December 2019: £23.9m) and £21.6m in respect of Scildon (31 December 2019: £56.0m). During the year, the Scildon AVIF was written-down by £26.6m.

A 100bps increase in the effective discount rate would reduce the underlying value of in-force business by £1.0m for Movestic and £1.0m for Scildon. A 10% fall in projected future profits would reduce the underlying value of in-force business by £2.3m for Movestic and £3.4m for Scildon.

3 Critical accounting judgements and key sources of estimation and uncertainty (continued)**Key sources of estimation and uncertainty (continued)****(b) Deferred acquisition costs and deferred income – investment contracts (CA, Movestic and Scildon)**

The group applies judgement in deciding the amount of direct costs that are incurred in acquiring the rights to provide investment management services in connection with the issue of investment contracts. Judgement is also applied in establishing the amortisation of the assets representing these contractual rights and the recognition of initial fees received in respect of these contracts. The assets are amortised over the expected lifetime of the investment management service contracts and deferred income, where applicable, is amortised over the expected period over which it is earned. Estimates are applied in determining the lifetime of the investment management service contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels. This test for recoverability is performed using best estimates of future cash flows, using a market consistent estimate of future investment returns. Refer to accounting policy 2(k) on page 129 and Note 18 on page 161.

As at 31 December 2020, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £1.4m and £2.7m respectively (as at 31 December 2019: £1.7m and £3.3m respectively). The impact on the above numbers of a 1 year movement in the estimated lifetime of the management services contract or amortisation period is not material.

As at 31 December 2020, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £58.5m (as at 31 December 2019: £53.3m). During the year, Movestic DAC was written down by £1.0m. An increase in the length of the amortisation period by 5 year would have increased profit before tax for the year ended 31 December 2020 by £11.1m and shareholders' equity as at 31 December 2020 by £11.1m.

As at 31 December 2020, the carrying values of deferred acquisition costs, net of amortisation, in respect of Scildon, was £9.2m (as at 31 December 2019: £8.9m). An increase in the length of the amortisation period by 1 year would have increased profit before tax for the year ended 31 December 2020 by £1.6m and shareholders' equity as at 31 December 2020 by £1.3m.

(c) Estimates of future payments arising on insurance contracts

Longer term business: The group has to make a number of estimates in order to calculate the liabilities for long-term insurance business. Such estimates are also used when performing liability adequacy tests to verify the adequacy of IFRS technical provisions. These estimates include areas such as future mortality and morbidity rates, the level of contract persistency, investment returns, administration expenses and the costs of guarantees. Future expenses are based on management's best estimate at the balance sheet date, and includes the costs and benefits of in-flight projects to the extent there is reasonable certainty as to their outcome. At 31 December 2020 this included a net of costs benefit of £6m in relation to changes to IT systems and processes in Scildon which were in progress at the end of the year. The technical provisions for such contracts arise in CA, Waard Group and Scildon, and are summarised on Note 30 on page 174. The total carrying value at 31 December 2020 was £3,888.9m (31 December 2019: £3,539.7m). Further information on how these estimates are derived, along with the sensitivity of the balance sheet to these assumptions on a gross and net of reinsurance basis, is included in Note 30 on page 179.

Products with guarantees: The group has offered guaranteed annuity options within certain contracts. Estimates have been made of the number of contract holders who will exercise these options, in order to measure their value. Changes in investment conditions could result in significantly more contract holders exercising their options than the group has assumed in determining the liabilities arising from these contracts.

S&P with-profits contracts contain a discretionary participation feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that may be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the group; and
- that are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the group.

The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the group may exercise its discretion as to the quantum and timing of their payment to contract holders.

As at 31 December 2020, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £273.3m (31 December 2019: £265.0m). This amount is part of the technical provisions for CA in Note 30(a) on page 174. Key sensitivities for this balance are included within the sensitivities disclosure for CA in Note 30 on page 179.

(d) Brexit

We have consistently reported that we expected minimal impact from Brexit. Having now exited the EU we have indeed experienced very limited disruption. The only area where we have seen an impact is with regards to a modest divergence of the Solvency II regulatory rules from the PRA compared to those from EIOPA. The changes have had no financial impact at this stage. We continue to expect a high level of equivalence between regulatory reporting regimes but are mindful of the possibility of an increased level of divergence as the PRA are enabled to move to UK specific terms. We see no specific reason to expect the PRA to use their enhanced freedoms take a route that systemically makes it harder to do business in the UK.

(e) Climate change

In our principal risks and uncertainties on pages 55 to 59 we identify that climate change related risks have the potential to manifest as an 'investment and liquidity risk' (principal risk 1) or a 'regulatory change risk' (principal risk 2). Whilst climate change risk is one of the most significant challenges facing the world, with Chesnara having its part to play in shaping policies and practices that contribute to managing climate risk challenges, the year end balance sheet does not include any significant judgments that are underpinned by a particular climate change scenario. As a consequence, we do not believe that climate change risk is currently a key source of estimate uncertainty.

4 Exchange rates

The group's principal overseas operations during the year were located within Sweden and the Netherlands.

The results and cash flows of these operations have been translated into sterling at an average rate for the year of £1 = SEK 11.80 (2019: £1 = SEK 12.07) for the Swedish business and £1 = EUR 1.13 (2019: £1 = EUR 1.14) for the Dutch business.

Assets and liabilities have been translated at the year-end rate of £1 = SEK 11.15 (31 December 2019: £1 = SEK 12.29) for the Swedish business and £1 = EUR 1.11 (31 December 2019: £1 = EUR 1.18) for the Dutch business.

Total foreign currency exchange rate movements for the year ended 31 December 2020 resulted in gain recognised in the Consolidated Statement of Comprehensive Income of £22.6m (year ended 31 December 2019: loss of £18.8m).

5 Management of insurance risk

The group's management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the group comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the group is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The group manages its insurance risk through adoption of underwriting strategies, the aim of which is to avoid the assumption of undue concentration of risk, approval procedures for new products, pricing guidelines and adoption of reinsurance strategies, the aim of which is to reinforce the underwriting strategy by avoiding the retention of undue concentration of risk on any one life.

Notwithstanding that the group pursues common overarching objectives and employs similar techniques in managing these risks, the disparate characteristics of the products and of the market and regulatory environments of the UK, Swedish and Dutch businesses are such that insurance risk is managed separately for the separate businesses. Accordingly, the information which follows differentiates these businesses. The UK and Waard businesses which are substantially closed to new business, are differentiated in the information provided below, where necessary. The Swedish and Dutch businesses, which are open to new business, comprises the Movestic and Scildon segments respectively.

(a) UK business

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of the UK business and of the ways in which the associated risks are managed.

Sums assured/benefits per annum – gross and net of reinsurance 31 December

	2020		2019	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,682,545	1,508,592	1,879,757	1,684,485
Long-term non-linked without DPF (sums assured)	8,795,071	1,093,115	8,801,168	1,098,518
Immediate annuities (benefits per annum)	5,256	5,220	5,428	5,392
Deferred annuities with DPF (benefits per annum)	1,828	1,828	1,846	1,846
Long-term with DPF (sums assured)	281,441	274,240	295,031	286,888

Long-term unit-linked and non-linked insurance contracts – without discretionary participation features

Product features

The UK business has written both unit-linked and non-linked contracts, which include death and morbidity benefits on a whole life, endowment and term assurance basis. In addition there are immediate annuities primarily written from vesting pensions.

For contracts where death is the insured risk, the most significant factors that could increase risk are epidemics (such as COVID-19, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

Management of risks

Unit-linked insurance contracts are contracts where charges are made for insurance risk and administration charges and the primary purpose of which is to provide an investment return to policyholders. In addition, the policyholder is insured against death and serious injury. Unit-linked contracts operate by investing the policyholders' premiums into pooled investment funds of the UK business, the policyholders' share of the fund being represented by units. The benefit is payable on death, or maturity if earlier, the amount payable on death being subject to a guaranteed minimum amount. For these contracts, all of the investment risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Therefore, there is exposure to insurance risk only insofar as the value of the unit-linked fund is lower than the guaranteed minimum death benefit. For a material portion of the business, the charges taken for mortality and morbidity costs are reviewable, which allows the company to mitigate some of its insurance risk.

5 Management of insurance risk (continued)**(a) UK business (continued)**

Non-linked business contains three distinct groups of products:

- (i) A number of products representing approximately 71% (2019: 75%) of sums assured, provide fixed and guaranteed benefits and have fixed future premiums. For these there are no mitigating terms and conditions that reduce the insurance risk accepted;
- (ii) Immediate annuities provide regular income payments generally during the outstanding life of the policyholder, and in some cases that of a surviving spouse or partner. In certain cases payments may be guaranteed for a minimum period. These expose the business to longevity risk, though to some extent this provides a hedge to the mortality risk taken on other products; and
- (iii) For the remainder of the business, which is operated on a quasi-linked basis, charges are made for mortality risk on a monthly basis and these charges may be altered based on mortality experience, thereby minimising the exposure to mortality risk. In the light of charges made for insurance risk and administration services and of the investment performance of the assets notionally backing these contracts, the premium payable may be altered at regular intervals. A number of these contracts also include Permanent Health Insurance (PHI) benefits which have reviewable charges, which may be altered based on morbidity experience, thereby minimising the exposure to morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce this mitigating effect.

Reinsurance is used extensively on the business described above to mitigate concentrations of insurance risk. The insurance risk is further managed through pricing, product design and, for non-linked and quasi-linked contracts, appropriate investment strategy.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases are avoided, through the use of reinsurance.

Long-term insurance contracts – with discretionary participation features – CA*Product features*

CA historically wrote with-profits business in the UK, where the policyholder benefits comprise a guaranteed sum assured payable on death or at maturity, to which may be added a discretionary annual bonus and a discretionary terminal bonus.

Management of risks

This business is wholly reassured to ReAssure and hence the only risk retained by CA for this business is the risk of default by the reinsurer. This risk is detailed in the Credit Risk Management section of Note 6.

Long-term insurance contracts – with discretionary participation features – CA (S&P)*Product features*

At retirement the with-profits deferred annuity contracts provide for guaranteed minimum pensions and the with-profits endowments provide for guaranteed minimum lump sums. With-profits whole of life policies guarantee a minimum amount payable on death. The guaranteed annuities or lump sums represent investment returns on contributions mainly at 5% p.a. A terminal bonus may be paid at maturity or retirement, and on death, depending on the investment performance of the with-profits policyholder assets when the policyholder receives the higher of the asset share and the minimum guaranteed amount. The asset share is based on the contributions invested plus an allocation of investment return less a fixed charge for expenses, and certain direct expenses. In accordance with the Principles and Practices of Financial Management for its with-profits business S&P may make a deduction of up to 1.5% per annum from the asset shares of with-profits policyholders to meet the future cost of guarantees. The amount deducted remains part of the assets in the with-profits policyholder funds. The size of the deduction is reassessed at least annually. In the event of a policyholder choosing to transfer out, the amount payable is not guaranteed and is based on the asset share.

Management of risks

For life endowment and whole of life policies mortality risk is material. This risk is mitigated to some extent by the use of reinsurance. The risk is to increases in mortality rates, which are most likely to be from epidemics (such as COVID-19, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For deferred annuity contracts, the risk is to improving mortality. The risk is managed through the initial pricing, and technical provisions are assessed allowing for future mortality improvements based on industry available information on mortality experience.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases, are avoided through the use of reinsurance.

Other risks on insurance contracts

Apart from financial risks relating to the financial assets, which support life assurance contracts, as set out in Note 6, there are other significant types of risk pertaining to life insurance contracts written by the UK business, as follows:

Expense risk

The strategy of the UK business is to outsource the majority of operational activities to third party administrators in order to reduce the significant expense inefficiencies that would arise with fixed and semi-fixed costs on a diminishing policy base. There are, however, risks associated with the use of outsourcing. In particular, there will be a need in future to renegotiate the terms of the outsourcing arrangements as the existing agreements expire. There is also a risk that, at some point in the future, third party administrators could default on their obligations. The UK business monitors the financial soundness of third party administrators and has retained step-in rights on the more significant of these agreements. There are also contractual arrangements in place which provide for financial penalties in the event of default by the administration service provider.

Persistency risk

Persistency risk is the risk that the investor cancels the contract or discontinues paying new premiums into the contract, thereby exposing the UK business to a loss resulting from an adverse movement in the actual experience compared to that expected in the product pricing. Although changes in the levels of persistency would not adversely affect the result in the short-term they would reduce future profits available from the contract.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for the UK business are set out in Note 30 Insurance Contract Provisions.

(b) Swedish business

The terms and conditions of insurance contracts which have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of Movestic and of the ways in which the associated risks are managed. The breakdown of the insurance products of Movestic, by gross and net premiums written and by claims outstanding, which reflects the scale of business written, is as follows:

Premiums Year ended 31 December	2020		2019	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	7,581	6,702	5,953	1,353
Norway	11	2	11	2
Individual				
Death	3,768	2,344	2,568	1,301
Waiver of premium	1,948	(107)	2,385	697
Income protection	3,032	1,019	6,003	5,086
	16,340	9,960	16,920	8,439

Claims outstanding As at 31 December	2020		2019	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	32,798	25,206	38,850	29,588
Norway	223	48	840	182
Individual				
Death	531	274	565	309
Waiver of premium	7,551	2,622	8,574	3,101
Income protection	20,112	9,072	20,945	10,903
	61,215	37,222	69,774	44,083

Terms and conditions*Product features – group contracts*

Group contracts insure policyholders in respect of death with the option to include additional accident and disability benefits. Policyholders may also include their spouse and children (up to the age of 25) on the policy.

Policies are sold in Sweden and have been sold in Norway in the past via intermediaries. Group contracts sold in Sweden allow the policyholder to choose the sum assured level. Contracts sold in Norway have sum assured levels that are normally determined by the policyholders' employer and apply to all members of that company scheme.

The Swedish product typically provides a maximum coverage of insured benefits up to 40 times a base amount (31 December 2020: SEK 47,300, being approximately £4,244) although most policies are between 5 to 25 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (31 December 2020 NOK: 99,858, being approximately £8,959) although most policies are between 6 to 15 times the base amount.

All contracts are for an annual period.

Product features – individual contracts

In relation to individual contracts, Movestic writes contracts, which include death and morbidity benefits on term assurance with disability, waiver of premium and income protection options. Policies are sold in Sweden and all sales are intermediated.

In relation to the income protection and the waiver of premium benefits within the individual contracts, the monthly benefits upon a claim may be payable to the policyholders over a long period up to their retirement. The contracts have been unbundled as between insurance and investment contracts. Risk in respect of investment contracts is described in Note 6. All insurance contracts are for an annual period and payments are made on a monthly basis.

Management of risk

The main risk associated with the group and individual contracts is the frequency and size of claims (for either death or accident or sickness). Claims experience can be variable, with the main factors being the age, sex and occupation of the policyholder.

5 Management of insurance risk (continued)**(b) Swedish business (continued)**

In addition, for the group contracts, Movestic is exposed to a single loss event that covers a number of employees of an organisation.

The key risks are managed through appropriate product design and pricing of the policies to ensure that the potential cost to Movestic of these events (and associated expenses of underwriting and administration) are reflected in the price charged to the policyholder. Key controls implemented include a defined pricing structure based on the characteristics of the policyholder and the regular review of management information on the type and frequency of accidents.

Group contracts are issued on an annual basis which means that Movestic's exposure runs for a period of 12 months, after which Movestic has the option to decline to renew or can increase the price on renewal.

Individual contracts are long-term contracts but Movestic has the option to review the premiums on an annual basis.

For both the group and individual contracts, between 20% to 80% of the premiums and claims relating to this product are ceded to a reinsurer which reduces the overall insurance risk exposure to Movestic. The claim portfolio arising from the acquisition of the business of Aspis Liv, a small Swedish Life and Health insurer in 2010, is reinsured for approximately 80% of the claims amount.

In addition, for the majority of the group contracts, the loss arising from a single event to multiple employees is reinsured. The reinsurance provides indemnity for a single loss between SEK 5m (approximately £0.5m) and SEK 150m (approximately £13.5m).

Concentration of insurance risk

Concentration of insurance risk is determined by reference to benefits assured for individual contracts and by estimated maximum loss for group contracts.

Regarding benefits assured for individual contracts, the combined effect of reinsurance and the fact that the vast majority of the total benefit assured relates to numerous small value contracts, limit the level of concentration risk. Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 98.6% of the business having retained sums assured of less than £250,000.

In respect of group contracts, the business is exposed to multiple employees of the same organisation being involved in a single loss event. Movestic forecasts that its maximum loss would be approximately SEK 283m (approximately £25.4m) gross of reinsurance and SEK 5m (approximately £0.4m) after reinsurance.

Assumptions and sensitivities for group contract and individual contract insurance contract provisions

Information relating to insurance contract provisions assumptions and sensitivities for the Swedish business is set out in Note 30 Insurance Contract Provisions.

(c) Waard Group

Sums assured/benefits per annum – gross and net of reinsurance 31 December	2020		2019	
	Gross	Net	Gross	Net
	£000	£000	£000	£000
Long-term unit-linked without DPF (sums assured)	1,716,595	995,170	10,930	10,930
Long-term non-linked without DPF (sums assured)	4,011,292	2,299,855	1,453,159	1,391,754

Protection*Product feature*

The division mainly wrote term life, sold as a single premium policy in combination with a loan or mortgage. Policy conditions allow for a surrender value at lapse. In addition, similar types of policies covering the risk of disability, unemployment and accident were written. The most significant factors that could increase risk are epidemics and changes in lifestyle and the social security environment. The policies acquired from Monuta and Argenta are mainly term life and endowments with some profit sharing conditions.

Management of risks

The portfolio is in run-off and no significant underwriting occurs. For the existing portfolio, the division entered into an excess of loss and catastrophe (Life) and quota share (Health) reinsurance agreement to mitigate the risk in excess of risk appetite for mortality, disability and unemployment.

Concentration of insurance risk

Waard did not write group life and health contracts and an excess of loss limit of €100,000 is applied for life risk, hence concentration risk is limited.

Unit-linked*Product features*

The division wrote unit-linked business, with policies paying out 90% of the unit-value at death of the policyholder and 100% at expiry. Early surrender triggers smaller charges for policyholders.

Persistency and expense risk

The portfolio is small and very mature. To mitigate the expense risk, management may also consider the possibility of merging the portfolio into a larger scale one, keeping cost levels appropriate. Persistency levels are moderate and largely depend on investment performance.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Waard are set out in Note 30 Insurance Contract Provisions.

(d) Scildon
**Sums assured/benefits per annum – gross and net of reinsurance
31 December**

	2020		2019	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,658,661	1,435,164	3,278,940	1,992,386
Long-term non-linked without DPF (sums assured)	39,470,854	17,349,438	33,800,425	17,691,985
Immediate annuities (benefits per annum)	46,645	32,334	38,319	26,119
Deferred annuities	5	5	4	4

Protection*Product feature*

The division mainly wrote term life, sold as a regular premium policy. Older policy profit sharing conditions (before 2011) allow for a surrender value at lapse or profit sharing at maturity. The current mass market product has no surrender value or profit sharing. The most significant factors that could increase risk are epidemics and changes in lifestyle leading to higher mortality.

Management of risks

Term assurances are the main new business product type and significant underwriting occurs. Quota share reinsurance agreements are in place with a maximum retention per policy, to mitigate the risk in excess of risk appetite for mortality at the moment of underwriting. The national NHT cover in case of terrorism is in place but no additional catastrophe or stop loss reinsurance is in place.

Concentration of insurance risk

Scildon does write group pensions contracts (SME segment) with an excess of loss limit of €200,000 per life, hence concentration risk is limited.

Unit-linked*Product features*

Scildon writes unit-linked and index linked business, with most policies paying out 0%, 90% or 110% of the unit-value at death of the policyholder and 100% at maturity. Early surrender triggers smaller charges for policyholders. Index linked policies contain either explicit or implicit guarantees, which triggers smaller charges for policyholders. The group pension contracts are also unit-linked in nature.

Persistency and expense risk

The portfolio is large, but slowly decreasing. To mitigate the expense risk, management may also consider the possibility of merging the portfolio into a larger scale one, keeping cost levels appropriate. Persistency levels are moderate and due to the guarantees given for some policies there is a prevailing risk of high persistency.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Scildon are set out in Note 30 Insurance Contract Provisions.

6 Management of financial risk

The group is exposed to a range of financial risks, principally through its insurance contracts, financial assets, including assets representing shareholder assets, financial liabilities, including investment contracts and borrowings, and its reinsurance assets. In particular, the key financial risk is that, in the long-term, proceeds from financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts and borrowings. The most important components of this financial risk are market risk (interest rate risk, equity and property price risk, foreign currency exchange risk and liquidity risk), and credit risk, including the risk of reinsurer default. Further, the group has significant foreign currency exchange rate risk in relation to movements between the Swedish krona and the euro against sterling, arising from its ownership of Movestic, Scildon and the Waard Group.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in Note 5. The terms and conditions of investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from investment contracts are as follows:

The group provides two types of investment contract: unit-linked savings and unit-linked pensions predominantly written in the UK and Sweden.

- (i) Unit-linked savings are single or regular premium contracts, with the premiums invested in a pooled investment fund, where the policyholder's investment is represented by units or trust accounts where the policyholder decides where to invest. On certain contracts there is a small additional benefit payable on death which is deemed not to transfer significant insurance risk to the business for these contracts. The benefits payable at maturity or surrender of the contracts are the underlying value of the investment in the unit-linked funds or trust accounts, less surrender charges where applicable.
- (ii) Unit-linked pensions are single or regular premium contracts with features similar to unit-linked savings contracts. Benefits are payable on transfer, retirement or death.
- (iii) No investment contracts exist within the Dutch business.

Market risk management

(i) General

The group businesses manage their market risks within Asset Liability Matching (ALM) frameworks that have been developed to achieve long-term investment returns at least equal to their obligations under insurance and investment contracts, with minimal risk. Within the ALM frameworks the businesses periodically produce reports at legal entity and asset and liability class level, which are circulated to the businesses' key management. The principal technique of the ALM frameworks is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, with separate portfolios of assets being maintained for each distinct class of liability.

For unit-linked contracts the group's objective is to match the liabilities, both insurance and investment contract liabilities, with units in the assets of the funds to which the value of the liabilities is linked, such that the policyholder bears the market risk. This minimises the impact of market risks on these contracts, such that the remaining primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign currency movements on the fair value of the unit-linked assets, on which asset-related fees are based.

For non-unit-linked business, the group's objective is to match the timing of cash flows from insurance and investment contract liabilities with the timing of cash flows from assets subject to identical or similar risks. By matching the cash flows of liabilities with those of suitable assets, market risk is managed effectively, whilst liquidity risk is minimised. These processes to manage the risks, which the group has not changed from previous periods, ensure that the group is able to meet its obligations under its contractual liabilities as they fall due.

With respect to CA (S&P) there is significant additional risk insofar as investment returns on policyholder with-profits assets supporting the with-profits business may result in insufficient policyholder assets to meet contractual obligations to with-profits policyholders, because of the impact of contract guarantees.

The Notes below explain how market risks are managed using the categories utilised in the businesses' (Asset Liability Matching) ALM frameworks. In particular, the ALM frameworks require the management of interest risk, equity price risk, and liquidity risk at the portfolio level, so that the appropriate risks for each portfolio may be managed in an effective way. The following tables reconcile the classes and portfolios used in the businesses' ALM frameworks to relevant items in the consolidated balance sheet and are followed by a portfolio-by-portfolio description of the nature of the related market risk and how that risk is managed.

31 December 2020	Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £000	Other non-linked contracts and other shareholder £000	Total £000
Assets					
Property and equipment	–	–	–	8,718	8,718
Investment properties	–	–	–	1,124	1,124
Reinsurers' share of insurance contract provisions	9,190	37,771	–	150,107	197,068
Amounts deposited with reinsurers	37,026	–	–	–	37,026
Financial assets					
Equity securities at fair value through income	6,180	–	–	4,000	10,180
Holdings in collective investment schemes at fair value through income	6,067,413	304,096	–	342,794	6,714,303
Debt securities at fair value through income	11,402	7,426	106,680	973,051	1,098,559
Mortgage loan portfolio	319,246	–	–	25,672	344,918
Derivative financial instruments	–	679	–	151	830
Total financial assets	6,404,241	312,201	106,680	1,345,668	8,168,790
Insurance and other receivables	1,546	546	–	42,956	45,048
Prepayments	237	116	–	12,996	13,349
Reinsurers' share of accrued policyholder claims	6,143	–	–	6,573	12,716
Income taxes	–	–	–	4,566	4,566
Cash and cash equivalents	8,101	3,819	826	92,605	105,351
Total assets	6,466,484	354,453	107,506	1,665,313	8,593,756
Liabilities					
Insurance contract provisions	2,823,651	319,544	103,383	711,459	3,958,037
Other provisions	–	–	–	613	613
Financial liabilities					
Investment contracts at fair value through income	4,031,023	–	–	4,017	4,035,040
Lease liabilities	–	–	–	2,844	2,844
Borrowings	–	–	–	66,955	66,955
Derivative financial instruments	–	3	–	–	3
Total financial liabilities	4,031,023	3	–	73,816	4,104,842
Deferred tax liabilities	–	–	–	19,086	19,086
Reinsurance payables	326	7	–	2,530	2,863
Payables related to direct insurance and investment contracts	30,312	6,202	1,524	58,299	96,337
Income taxes	–	–	–	9,427	9,427
Other payables	4,026	1,354	–	44,727	50,107
Bank overdrafts	198	473	–	974	1,645
Total liabilities	6,889,536	327,583	104,907	920,931	8,242,957

*Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(i) General (continued)

31 December 2019	Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £000	Other non-linked contracts and other shareholder £000	Total £000
Assets					
Property and equipment	–	–	–	7,043	7,043
Investment in associates	–	–	–	6,481	6,481
Investment properties	–	–	–	1,020	1,020
Reinsurers' share of insurance contract provisions	9,085	40,267	–	139,100	188,452
Amounts deposited with reinsurers	37,330	–	–	–	37,330
Financial assets					
Equity securities at fair value through income	432,645	–	–	–	432,645
Holdings in collective investment schemes at fair value through income	5,077,043	190,696	–	256,765	5,524,504
Debt securities at fair value through income	132,095	133,047	109,191	1,084,584	1,458,917
Mortgage loan portfolio	–	–	–	32,187	32,187
Derivative financial instruments	123	1,953	–	–	2,076
Total financial assets	5,641,906	325,696	109,191	1,373,536	7,450,329
Insurance and other receivables	19,390	2,036	–	32,510	53,936
Prepayments	260	36	–	8,057	8,353
Reinsurers' share of accrued policyholder claims	6,112	59	–	7,961	14,132
Income taxes	–	–	–	5,394	5,394
Cash and cash equivalents	44,580	1,283	1,248	60,845	107,956
Total assets	5,758,663	369,377	110,439	1,641,947	7,880,426
Liabilities					
Insurance contract provisions	2,498,328	321,183	107,024	683,880	3,610,415
Other provisions	–	–	–	521	521
Financial liabilities					
Investment contracts at fair value through income	3,690,272	–	–	4,044	3,694,316
Lease liabilities	–	–	–	2,527	2,527
Borrowings	–	–	–	88,163	88,163
Derivative financial instruments	118	365	–	64	547
Total financial liabilities	3,690,390	365	–	94,798	3,785,553
Deferred tax liabilities	–	–	–	22,500	22,500
Reinsurance payables	394	8	–	2,805	3,207
Payables related to direct insurance and investment contracts	23,965	5,122	1,468	56,581	87,136
Income taxes	–	–	–	9,964	9,964
Other payables	2,612	304	–	38,812	41,728
Bank overdrafts	206	176	–	792	1,174
Total liabilities	6,215,895	327,158	108,492	910,653	7,562,198

*Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

Unit-linked contracts

For unit-linked contracts, which may be insurance or investment contracts, the group matches the financial liabilities, with units in the financial assets of the funds to which the value of the liabilities is linked, such that the policyholders bear the principal market risk (being interest rate, equity price and foreign currency risks) and credit risk. Accordingly, this approach results in the group having no significant direct market or credit risk on these contracts. Its primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based.

There is residual exposure to market risk on certain unit-linked contracts where the group provides to policyholders guarantees as to fund performance or additional benefits which are not dependent on fund performance. This exposure is mitigated to the extent that the group matches the obligations with suitable financial assets external to the unit-linked funds, such that the residual exposure is not considered to be material.

Insurance contracts with discretionary participation features

Insurance contracts with discretionary participation features subsist entirely within the UK businesses in the form of with-profits policies.

For the CA business, where the policyholder benefits comprise a discretionary annual bonus and a discretionary terminal bonus, the with-profits business is wholly reinsured to ReAssure and hence there is no market risk for this class of business. Policyholders have the option, for a small element of the with-profits business, to invest a portion of their investment in unit-linked funds as an alternative to the with-profits fund. In this case, a portion of the business is retained, with the management of financial risks of this portion being the same as described under 'Unit-linked contracts' above.

For the CA (S&P) business the primary investment objective of the with-profits policyholder funds is that the guaranteed minimum benefits of the with-profits policyholders should be met entirely from the policyholder funds. The secondary investment objective is, where possible, to provide a surplus in excess of the guaranteed minimum benefits. The entire surplus in the policyholder fund accrues to the with-profits policyholders. Any deficit in the policyholder fund is ultimately borne by shareholders. Therefore, the group has a significant exposure to market risk in relation to with-profits business should the with-profits policyholder assets be unable to fully meet the cost of guarantees. To achieve the investment objectives, the funds may invest in a range of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, both in UK and overseas. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities). Investment guidelines restrict the level of exposure for certain asset categories. In respect of derivatives, these may only be used for the purposes of reduction of investment risks and efficient portfolio management.

Annuities in payment

These are contracts which pay guaranteed financial benefits, generally monthly, for the lifetime of the policyholder, and in some cases of their spouse. The financial component of these contracts is a guaranteed fixed interest rate: accordingly the group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the fixed interest debt securities backing the liabilities are insufficient to fund the benefits payable. The group manages the interest rate risk by matching closely new contracts written with fixed interest debt securities of a suitable duration and quality. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined by means of projecting expected cash flows from the contracts using prudent estimates of mortality.

Other non-linked contracts and shareholder funds

These categories, in which market risk is borne by shareholders, consist of non-linked insurance contracts without DPF and of net shareholder assets representing shareholders' equity. The group manages market risks by setting investment guidelines which restrict market exposures.

Non-linked contracts without DPF include contracts which pay guaranteed benefits on death or other insured events, the terms being fixed at the inception of the contract. Exposure to market price risk is minimised by generally investing in fixed-interest debt securities, while interest rate risk is generally managed by closely matching contracts written with financial assets of suitable yield and duration. To the extent that the group is unable to fully match its interest rate risk, it makes provision in respect of assumed shortfalls on guaranteed returns to policyholders.

Shareholder funds at both group parent company and operating subsidiary level, in accordance with corporate objectives and, in some instances, in accordance with local statutory solvency requirements, are invested in order to protect capital and to minimise market and credit risk. Accordingly they are generally invested in assets of a shorter-term liquid nature, which gives rise to the risk of lower returns on these investments due to changes in short-term interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. Where liabilities are backed by less marketable assets, for example investment properties, there are provisions in contractual terms which allow deferral of redemptions in times of adverse market conditions. The group's substantial holdings of money market assets also serve to reduce liquidity risk.

The tables below present a maturity analysis of the group's liabilities, showing balance sheet carrying value and distinguishing between investment contracts and insurance contracts and other liabilities. The time bands have been updated and as a result the prior year has been represented.

31 December 2020									
Carrying values and cash flows arising from:	Carrying value £000	Contractual cash flows (undiscounted)							Total £000
		<1 yr £000	1-2 yrs £000	2-5 yrs £000	5-10 yrs £000	10-15 yrs £000	15-20 yrs £000	>20 yrs £000	
Insurance contract liabilities									
Unit-linked	2,823,651	2,823,651	-	-	-	-	-	-	2,823,651
With DPF	319,544	42,461	26,629	85,703	69,953	41,353	9,766	5,145	281,010
Annuities in payment	103,383	5,180	5,000	13,898	19,373	14,547	9,911	9,873	77,782
Other non-linked	711,459	114,686	92,418	241,019	283,024	165,262	78,962	51,855	1,027,226
Total insurance contract liabilities	3,958,037	2,985,978	124,047	340,620	372,350	221,162	98,639	66,873	4,209,669
Investment contract liabilities									
Unit-linked	4,031,023	4,031,023	-	-	-	-	-	-	4,031,023
Other	4,017	4,017	-	-	-	-	-	-	4,017
Total investment contract liabilities	4,035,040	4,035,040	-	-	-	-	-	-	4,035,040
Liabilities relating policyholder's fund held by the Group	332,117	332,117	-	-	-	-	-	-	332,117
Lease liabilities	2,844	669	1,355	1,262	89	-	-	-	3,375
Borrowings	66,955	44,699	23,862	-	-	-	-	-	68,561
Derivatives	3	3	-	-	-	-	-	-	3
Total financial liabilities	4,436,959	4,412,528	25,217	1,262	89	-	-	-	4,439,096
Other liabilities									
Other provisions	613	613	-	-	-	-	-	-	613
Deferred tax liabilities	19,086	19,086	-	-	-	-	-	-	19,086
Reinsurance payables	2,863	2,863	-	-	-	-	-	-	2,863
Payables related to direct insurance and investment contracts	96,337	96,337	-	-	-	-	-	-	96,337
Deferred income	3,355	3,355	-	-	-	-	-	-	3,355
Income taxes	9,427	9,427	-	-	-	-	-	-	9,427
Other payables	50,107	50,107	-	-	-	-	-	-	50,107
Bank overdrafts	1,645	1,645	-	-	-	-	-	-	1,645
Total	8,578,429	7,581,939	149,264	341,882	372,439	221,162	98,639	66,873	8,832,198

31 December 2019									
Carrying values and cash flows arising from:	Carrying value £000	Contractual cash flows (undiscounted)							Total £000
		<1 yr £000	1-2 yrs £000	2-5 yrs £000	5-10 yrs £000	10-15 yrs £000	15-20 yrs £000	>20 yrs £000	
Insurance contract liabilities									
Unit-linked	2,498,328	2,498,328	–	–	–	–	–	–	2,498,328
With DPF	321,183	41,982	24,545	81,764	74,387	48,914	15,371	6,185	293,148
Annuities in payment	107,024	5,359	5,200	14,600	20,801	16,250	11,848	14,143	88,201
Other non-linked	683,880	101,733	90,858	218,570	273,353	160,781	74,343	43,888	963,526
Total insurance contract liabilities	3,610,415	2,647,402	120,603	314,934	368,541	225,945	101,562	64,216	3,843,203
Investment contract liabilities									
Unit-linked	3,690,272	3,690,272	–	–	–	–	–	–	3,690,272
Other	4,044	4,044	–	–	–	–	–	–	4,044
Total investment contract liabilities	3,694,316	3,694,316	–	–	–	–	–	–	3,694,316
Liabilities relating to policyholder's fund held by the group	299,375	299,375	–	–	–	–	–	–	299,375
Lease liabilities	2,527	654	1,128	806	93	–	–	–	2,681
Borrowings	88,163	52,602	16,192	23,050	–	–	–	–	91,844
Derivatives	547	547	–	–	–	–	–	–	547
Total financial liabilities	4,084,928	4,047,494	17,320	23,856	93	–	–	–	4,088,763
Other liabilities									
Other provisions	521	521	–	–	–	–	–	–	521
Deferred tax liabilities	22,500	22,500	–	–	–	–	–	–	22,500
Reinsurance payables	3,207	3,207	–	–	–	–	–	–	3,207
Payables related to direct insurance and investment contracts	87,136	87,136	–	–	–	–	–	–	87,136
Deferred income	3,907	3,907	–	–	–	–	–	–	3,907
Income taxes	9,964	9,964	–	–	–	–	–	–	9,964
Other payables	41,728	41,728	–	–	–	–	–	–	41,728
Bank overdrafts	1,174	1,174	–	–	–	–	–	–	1,174
Total	7,865,480	6,865,033	137,923	338,790	368,634	225,945	101,562	64,216	8,102,103

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as due in the earliest period in the table because they are repayable or transferable on demand. Note 6(i) on page 143 provides more information on the assets held to match these liabilities.

Insurance contracts with DPF (with-profits business) can be surrendered before maturity for a cash amount specified in contractual terms and conditions. Accordingly, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due in the earliest period of the table because this option can be exercised immediately by all policyholders. As stated above, CA insurance contracts with DPF are wholly reinsured to ReAssure and hence, in practice, there is no liquidity risk, the only risk retained for this business being the risk of default by the reinsurer, which is detailed under 'Credit Risk Management' on page 150. The maturity analysis in respect of the CA (S&P) segment of the business, however, is presented on an estimated basis, in accordance with the anticipated maturity profile and on estimates of mortality.

The undiscounted contractual cash flows stated above, are based upon the cash flows payable directly to customers and hence do not include an estimate of future expenses incurred, as is the case in the balance sheet carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)**(iii) Currency risk**

Currency risk is the risk that the fair value or future cash flows of an asset or liability will change as a result of movements in foreign exchange rates. The group's exposure to currency risk is minimised to the extent that the risk on investments denominated in foreign currencies which back unit-linked investment and insurance contracts is borne by policyholders. It is, however, exposed to currency risk through:

- (i) its investment in Movestic, the assets and liabilities of which are principally denominated in Swedish krona; and
- (ii) its investment in Waard and Scildon, the assets and liabilities of which are principally denominated in euros.

The group's currency risk through its ownership of Movestic, Scildon and Waard Group is reflected in:

- (i) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic, Scildon and Waard Group's financial statements; and
- (ii) the impact of adverse exchange rate movements on cash flows between Chesnara plc and its foreign subsidiaries: in the short-term these relate to cash flows from Movestic, Scildon and Waard to Chesnara by way of dividend payments. The risk on cash flows is managed by closely monitoring exchange rate movements and buying forward foreign exchange contracts, where deemed appropriate.

The following tables set out the group's exposure to assets and liabilities denominated in foreign currencies, expressed in sterling, at the respective balance sheet date:

31 December	2020	2019
	£000	£000
Swedish krona		
Assets	3,858,099	3,451,070
Liabilities	(3,764,667)	(3,372,372)
Net assets	93,432	78,698
Euro		
Assets	2,653,919	2,183,080
Liabilities	(2,338,853)	(1,889,425)
Net assets	315,066	293,655
Norwegian krone		
Assets	694	1,340
Liabilities	(226)	(825)
Net assets	468	515
US dollar		
Assets	2,839	1,051
Liabilities	(739)	(616)
Net assets	2,100	435

(iv) Sensitivities

The table below shows the impact of movements in market risk variables identified above on profit before tax for the year under review and on shareholder equity as at the balance sheet date. We believe these risk variables represent the ones that are most reasonably possible to occur in the future, to which the group results are sensitive.

The variables are:

- (i) a 10% increase and decrease in equity and property values;
- (ii) a 100 basis point increase and decrease in per annum market rates of interest; and
- (iii) a 10% favourable and adverse movement in foreign currency exchange rates.

As explained above, market risks relating to assets backing unit-linked insurance and investment contract liabilities are borne by policyholders, while there is shareholder exposure to volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based. Accordingly, the sensitivities to these risks are presented below.

Net of reinsurance

Variation in/arising from	2020		2019	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 bp increase in market rates of interest	(51.0)	(38.6)	(59.5)	(44.9)
100 bp decrease in market rates of interest	7.1	5.4	60.3	45.3
10% increase in equity and property prices	13.9	11.0	12.3	9.9
10% decrease in equity and property prices	(14.5)	(11.5)	(13.3)	(10.7)
10% favourable movement in SEK: sterling exchange rate	1.4	10.4	1.5	8.7
10% adverse movement in SEK: sterling exchange rate	(1.2)	(8.5)	(1.2)	(7.2)
10% favourable movement in EUR: sterling exchange rate	2.1	35.0	5.6	32.6
10% adverse movement in EUR: sterling exchange rate	(1.7)	(28.6)	(4.6)	(26.7)

The sensitivity to a 100 bp decrease in market rates of interest is notably different in 2020 compared against 2019. This difference comes from the impact of the liability adequacy test, which has caused Scildon's reserves to increase under this sensitivity at 2020 where this was not the case at 2019.

Gross of reinsurance

Variation in/arising from	2020		2019	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 bp increase in market rates of interest	(44.8)	(33.5)	(51.7)	(38.0)
100 bp decrease in market rates of interest	0.1	(0.3)	51.3	37.4
10% increase in equity and property prices	9.9	7.7	8.3	6.7
10% decrease in equity and property prices	(10.4)	(8.2)	(9.3)	(7.5)
10% favourable movement in SEK: sterling exchange rate	1.4	10.4	1.5	8.7
10% adverse movement in SEK: sterling exchange rate	(1.2)	(8.5)	(1.2)	(7.2)
10% favourable movement in EUR: sterling exchange rate	2.1	35.0	5.6	32.6
10% adverse movement in EUR: sterling exchange rate	(1.7)	(28.6)	(4.6)	(26.7)

(v) Credit risk management

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits;
- The mortgage loan portfolio held by Waard with respect to the interest and capital repayments due from the borrowers;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition, there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The group businesses structure the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the businesses hold a significant proportion of their financial assets in debt securities and cash deposits the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue, would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the businesses' liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the businesses remain liable for the payment to the policyholder. In respect of Movestic, the current guidelines state that re-insurance should only be effected with counterparties with a credit rating of A.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(v) Credit risk management (continued)

The following table presents the assets of the group which are subject to credit risk and a reconciliation to the balance sheet carrying value of each item:

31 December	2020			2019		
	Policyholder linked £000	Amount subject to credit risk £000	Balance sheet carrying value £000	Policyholder linked £000	Amount subject to credit risk £000	Balance sheet carrying value £000
Holdings in collective investment schemes	6,630,000	84,303	6,714,303	5,427,225	97,279	5,524,504
Debt securities	11,402	1,087,157	1,098,559	132,095	1,326,822	1,458,917
Policyholders' funds held by the group	332,117	–	332,117	299,375	–	299,375
Cash and cash equivalents	9,940	95,411	105,351	49,655	58,301	107,956
Derivative financial instruments	–	830	830	123	1,953	2,076
Reinsurers' share of insurance contract liabilities	–	197,068	197,068	–	188,452	188,452
Amounts deposited with reinsurers	–	37,026	37,026	–	37,330	37,330
Mortgage loan portfolio	–	344,918	344,918	–	32,187	32,187
Insurance and other receivables	23,340	21,708	45,048	35,891	18,045	53,936
Reinsurers' share of accrued policyholder claims	1	12,715	12,716	62	14,070	14,132
Income taxes	744	3,822	4,566	–	5,394	5,394
Total	7,007,544	1,884,958	8,892,502	5,944,426	1,779,833	7,724,259

The amounts presented above as not being subject to credit risk represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts, where the risk of default is borne by shareholders.

The acquisition of the Argenta portfolio included a substantial number of saving plans designed to save the capital amount due to a bank to pay off personal mortgages. Common in The Netherlands is a structure whereby the insurance company providing the savings vehicle invests in the policyholder's mortgage, which are held by the bank that provides the mortgage. The arrangement with the bank is structured such that any impact as a result of default of the mortgage by the policyholder is incurred by the bank only, with no impact to Chesnara. These assets earn the same interest as the mortgage, thereby providing a perfect investment match against the insurance liability. The above table reflects the material increase in mortgage loan portfolio as the acquired Argenta portfolio uses such a structure.

Assets held to cover insurance contracts with DPF, held within a segregated with-profits fund, are included as being subject to credit risk, as such risk will be borne by shareholders where default would result in there being insufficient with-profits policyholder assets to fund minimum guaranteed obligations. However, in normal circumstances (where the asset share is in excess of the minimum guaranteed amount) substantially all the credit risk remains with policyholders.

The group's exposure to credit risk is summarised as:

Credit rating As at 31 December 2020	AAA	AA	A	BBB	Unrated	Total
	£000	£000	£000	£000	£000	£000
Reinsurers share of insurance contract liabilities	–	147,552	42,299	4,469	2,748	197,068
Holdings in collective investment schemes	–	–	79,406	–	4,897	84,303
Amounts deposited with reinsurers	–	–	37,026	–	–	37,026
Debt securities at fair value through income	290,715	402,929	262,779	130,342	392	1,087,157
Mortgage loan portfolio	–	–	–	–	344,918	344,918
Insurance and other receivables	742	9,368	1,190	1,053	9,355	21,708
Reinsurers share of accrued policyholder claims	–	6,310	5,750	419	236	12,715
Derivative financial instruments	–	–	679	–	151	830
Income taxes	–	–	–	–	3,822	3,822
Cash and cash equivalents	–	–	84,361	1,908	9,142	95,411
Total	291,457	566,159	513,490	138,191	375,661	1,884,958

Credit rating						
As at 31 December 2019						
	AAA	AA	A	BBB	Unrated	Total
	£000	£000	£000	£000	£000	£000
Reinsurers share of insurance contract liabilities	-	131,748	-	4,437	52,267	188,452
Holdings in collective investment schemes	-	-	92,469	-	4,810	97,279
Amounts deposited with reinsurers	-	-	-	-	37,330	37,330
Debt securities at fair value through income	350,598	507,626	266,670	168,231	33,697	1,326,822
Mortgage loan portfolio	-	-	-	-	32,187	32,187
Insurance and other receivables	823	10,877	1,371	1,342	3,632	18,045
Reinsurers share of accrued policyholder claims	-	7,286	125	474	6,185	14,070
Derivative financial instruments	-	-	1,953	-	-	1,953
Income taxes	-	-	-	-	5,394	5,394
Cash and cash equivalents	-	9,012	48,426	863	-	58,301
Total	351,421	666,549	411,014	175,347	175,502	1,779,833

The 'Mortgage loan portfolio' and 'Insurance and other receivables' assets in the credit risk rating table are not held at fair value or managed on a fair value basis. The cash flows for all of these assets consist solely of payments of principal and interest. These assets are not considered to have a low credit rating as defined by IFRS 9 as at 31 December 2020.

There were no holdings of assets that were below BBB in 2020 and 2019. Included within reinsurers' share of insurance contract provisions and amounts deposited with reinsurers, in respect of investment contracts is a total significant exposure of £74.0m as at 31 December 2020 (31 December 2019: £78.0m) to ReAssure. Of this amount £49.0m (31 December 2019: £50.0m) is in respect of currently guaranteed benefits. This counterparty exposure has been mitigated by ReAssure granting to CA a floating charge over related investment assets, which ranks that company equally with ReAssure policyholders. In order to monitor the ongoing creditworthiness of ReAssure, CA reviews the financial statements and regulatory returns submitted by ReAssure to the PRA on an annual basis. No credit limits were exceeded during the year ended 31 December 2020 and 31 December 2019.

Debt securities				
As at 31 December 2020	Policyholder linked	Policyholder with-profit	Non-linked/ shareholder	Total
	£000	£000	£000	£000
Austria	-	-	36,951	36,951
Belgium	-	-	33,047	33,047
France	630	-	228,917	229,547
Germany	-	-	188,064	188,064
Italy	-	-	35,710	35,710
Ireland	-	-	26,397	26,397
Netherlands	582	-	81,533	82,115
Poland	-	-	718	718
Portugal	-	-	1,914	1,914
Spain	-	-	24,319	24,319
UK	6,008	7,426	166,232	179,666
Other	2,997	-	145,140	148,137
Europe	10,217	7,426	968,942	986,585
USA	1,185	-	81,060	82,245
Other	-	-	3,311	3,311
North America	1,185	-	84,371	85,556
Australia	-	-	7,285	7,285
Other	-	-	19,133	19,133
Asia Pacific	-	-	26,418	26,418
Total	11,402	7,426	1,079,731	1,098,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(v) Credit risk management (continued)

Debt securities	Policyholder linked £000	Policyholder with-profit £000	Non-linked/ shareholder £000	Total £000
As at 31 December 2019				
Austria	–	–	39,144	39,144
Belgium	–	–	34,195	34,195
France	2,081	1,382	240,900	244,363
Germany	1,620	–	254,801	256,421
Italy	–	–	58,515	58,515
Ireland	–	–	20,780	20,780
Netherlands	7,704	641	99,150	107,495
Poland	–	–	642	642
Portugal	–	–	2,972	2,972
Spain	–	–	44,746	44,746
UK	102,839	125,769	193,749	422,357
Other	11,668	1,165	110,125	122,958
Europe	125,912	128,957	1,099,719	1,354,588
Canada	2,377	1,781	–	4,158
USA	2,069	983	75,194	78,246
Other	–	–	3,813	3,813
North America	4,446	2,764	79,007	86,217
Australia	632	532	8,228	9,392
Singapore	488	405	–	893
Other	617	389	6,821	7,827
Asia Pacific	1,737	1,326	15,049	18,112
Total	132,095	133,047	1,193,775	1,458,917

Financial assets that are past due or impaired

In 2008, a cash deposit with Kaupthing Singer & Friedlander (KSF) was written down by its full amount of £1,091,000 as a result of KSF entering administration. During 2020, further interim distributions totalling £3,261 (2019: £3,805) were made from the administrators in respect of the deposit.

There are no other group financial assets that are impaired, would otherwise be past due, or impaired, whose terms have been negotiated or past due but not impaired.

7 Operating segments

The group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis as reported internally to the chief operating decision maker, which is the board of directors of Chesnara plc.

The segments of the group as at 31 December 2020 comprise:

CA: This segment represents the group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc (CA), the group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006. This segment also contains Save & Prosper Insurance Limited which was acquired on 20 December 2010 and its then subsidiary Save & Prosper Pensions Limited. The S&P business was transferred to CA during 2011. This segment also contains the business of Protection Life, which was purchased on 28 November 2013 and the business of which was transferred to CA effective from 1 January 2015. CA is responsible for conducting unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk, as described in Note 6 'Management of Financial Risk'.

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

Waard Group: This segment represents the group's closed Dutch life and general insurance business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. On 1 October 2019, the Waard Group acquired a small portfolio of policies from Monuta insurance, which consists of term and savings policies. On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies. The completion took place on the 31 August 2020, at which stage Waard Group obtained control.

Scildon: This segment represents the group's open Dutch life insurance business, which was acquired on 5 April 2017. Scildon's policy base is predominantly made up of individual protection and savings contracts. It is open to new business and sells protection, individual savings and group pension contracts via a broker-led distribution model.

Other group activities: The functions performed by the parent company, Chesnara plc, are defined under the operating segment analysis as other group activities. Also included therein are consolidation and elimination adjustments.

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders of the reporting segments and the group as a whole. There were no changes to the measurement basis for segment profit during the year ended 31 December 2020.

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

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

Further analysis of the segmental profit before tax and consolidation adjustments can be found on page 50 of the Financial Review section.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Operating segments (continued)

(ii) Segmental balance sheet as at 31 December 2020

	CA (UK) £000	Movestic (Sweden) £000	Ward Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Total assets	2,564,764	3,874,967	437,099	2,127,539	64,646	9,069,015
Total liabilities	(2,429,712)	(3,764,907)	(391,590)	(1,954,287)	(41,452)	(8,581,948)
Net assets	135,052	110,060	45,509	173,252	23,194	487,067
Investment in associates	-	-	-	-	-	-
Additions to non-current assets	-	13,028	2,396	3,929	-	19,353

An explanation of the nature of valuation differences between the measurements in reportable segments' assets and liabilities can be found in accounting policy Note 2(h).

(iii) Segmental income statement for the year ended 31 December 2019

	CA (UK) £000	Movestic (Sweden) £000	Ward Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance premium revenue	46,913	18,336	2,071	201,011	-	268,331
Insurance premium ceded to reinsurers	(17,972)	(9,007)	(128)	(17,108)	-	(44,215)
Net insurance premium revenue	28,941	9,329	1,943	183,903	-	224,116
Fee and commission income	25,376	21,291	16	46,212	-	92,895
Net investment return	310,711	563,534	6,838	209,037	520	1,090,640
Other operating income	11,690	26,148	-	-	-	37,838
Segmental revenue, net of investment return	376,718	620,302	8,797	439,152	520	1,445,489
Net insurance contract claims and benefits incurred	(211,479)	(2,848)	(278)	(369,137)	-	(583,742)
Net change in investment contract liabilities	(95,876)	(563,163)	-	-	-	(659,039)
Fees, commission and other acquisition costs	(1,015)	(22,665)	(234)	(2,666)	-	(26,580)
Administrative expenses:						
Amortisation charge on software assets	-	(1,405)	-	(206)	-	(1,611)
Depreciation charge on property and equipment	-	(121)	(52)	(464)	-	(637)
Other	(19,775)	(11,673)	(3,326)	(25,086)	(5,703)	(65,563)
Operating expenses	(702)	(4,941)	-	-	8	(5,635)
Financing costs	(1)	(1,384)	(4)	-	(1,362)	(2,751)
Share of profit from associates	-	1,072	-	-	-	1,072
Profit/(loss) before tax and consolidation adjustments	47,870	13,174	4,903	41,593	(6,537)	101,003
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(3,226)	(2,769)	(663)	(3,787)	-	(10,445)
Charge for amortisation of acquired value of customer relationships	-	(70)	-	-	-	(70)
Fees, commission and other acquisition costs	-	2,350	-	2,480	-	4,830
Segmental income less expenses	44,644	12,685	4,240	40,286	(6,537)	95,318
Post completion gain on portfolio acquisition	-	-	788	-	-	788
Profit/(loss) before tax	44,644	12,685	5,028	40,286	(6,537)	96,106
Income tax (expense)/credit	(7,555)	(438)	(1,428)	(9,247)	1,704	(16,964)
Profit/(loss) after tax	37,089	12,247	3,600	31,039	(4,833)	79,142

(iv) Segmental balance sheet as at 31 December 2019

	CA (UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Total assets	2,669,705	3,466,925	148,289	1,977,223	78,829	8,340,971
Total liabilities	(2,532,017)	(3,372,615)	(103,275)	(1,801,519)	(56,054)	(7,865,480)
Net assets	137,688	94,310	45,014	175,704	22,775	475,491
Investment in associates	–	6,481	–	–	–	6,481
Additions to non-current assets	–	13,511	391	4,623	–	18,525

8 Fees and commission income

Year ended 31 December		2020 £000	2019 £000
Fee income			
Policy-based fees		44,277	41,477
Fund management-based fees recognised under IFRS 15		29,230	30,995
Fund management-based fees recognised under IFRS 4		2,450	2,876
Benefit-based fees		11,493	12,516
Change in deferred income – gross		589	687
Change in deferred income – reinsurers' share		(34)	(140)
Total fee income		88,005	88,411
Commission income		4,693	4,484
Total fee and commission income		92,698	92,895

9 Net investment return

Year ended 31 December		2020 £000	2019 £000
Dividend income		23,557	38,057
Interest income		27,658	31,933
Rental income from investment properties		–	5
Net fair value gains and losses			
Equity securities designated as at fair value through income on initial recognition		124,125	944,598
Debt securities designated as at fair value through income on initial recognition		82,670	82,280
Derivative financial instruments		(3,486)	(6,269)
Investment properties		44	36
Net investment return		254,568	1,090,640

Net fair value gains and losses in respect of holdings in collective investment schemes are included in the line that is most appropriate taking into account the nature of the underlying investments.

No amounts included in net fair value gains and losses of financial instruments were estimated using a valuation technique (year ended 31 December 2019: £nil).

10 Other operating income

Year ended 31 December	2020 £000	2019 £000
Fee income from investment managers	35,487	34,045
Charges to policyholder funds for yield tax	4,165	3,728
Other	529	65
Total other operating income	40,181	37,838

11 Insurance contract claims and benefits

Year ended 31 December	2020 £000	2019 £000
Claims and benefits paid to insurance contract holders (Decrease)/increase in insurance contract provisions	420,031 (6,869)	445,265 176,541
Total insurance contract claims and benefits	413,162	621,806
Reinsurer's share of claims and benefits	(48,178)	(38,064)
Net insurance contract claims and benefits incurred	364,984	583,742

12 Change in investment contract liabilities

Year ended 31 December	2020 £000	2019 £000
Changes in the fair value of investment contracts designated on initial recognition as fair value through income	96,424	626,432
Changes in the fair value of policyholders' funds held by the group designated on initial recognition as fair value through income	14,454	38,031
Total increase in investment contract liabilities	110,878	664,463
Reinsurers' share of investment contract liabilities	(1,340)	(5,424)
Net increase in investment contract liabilities	109,538	659,039

Investment contract benefits comprise benefits accruing to holders of investment contracts issued by the group.

13 Fees, commission and other acquisition costs

Year ended 31 December		2020	2019
		£000	£000
Directly expensed costs:			
Insurance contracts			
Commission, new business and renewal costs		6,151	9,576
Deferred amount		(3,929)	(4,393)
		2,222	5,183
Investment contracts			
Commission, new business and renewal costs		16,705	15,409
Deferred amount		(9,144)	(10,362)
		7,561	5,047
Amortisation of deferred acquisition costs:			
Insurance contracts			
Investment contracts		4,226	3,333
Investment contracts-reinsurance		(22)	(27)
Impairment losses		1,019	–
Total		23,625	21,750

14 Administrative expenses

Year ended 31 December		Note	2020	2019
			£000	£000
Personnel-related costs		44	32,976	33,418
Investment management fees			3,479	5,099
Amortisation charge on software assets			1,292	1,442
Depreciation charge on property and equipment			637	538
Costs paid to third-party administrators			11,248	11,336
Depreciation of right-of-use assets			757	704
Other goods and services			20,563	15,274
Total			70,952	67,811

Included in other goods and services above are the following amounts payable to the auditor and its associates, exclusive of VAT.

Year ended 31 December		2020	2019
		£000	£000
Fees payable to the company's auditor for the audit of the company's financial statements			
		244	211
Fees payable to the company's auditor and its associates for other services to the group:			
The audit of the company's subsidiaries pursuant to legislation*		804	709
Audit-related assurance services		216	302
Total		1,264	1,222

*Includes £111k (2019: £169k) audit fees in respect of the Movestic audit in the year performed by EY.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Other operating expenses

Year ended 31 December	2020 £000	2019 £000
Charge for impairment of acquired value of in-force business	27,623	–
Charge for amortisation of acquired value of in-force business	9,562	10,445
Charge for amortisation of acquired value of customer relationships (AVCR)	63	70
Other		
Payment of yield tax relating to policyholder funds	4,165	3,728
Other	897	1,907
Total	5,062	5,635

The review of the Scildon AVIF concluded that the gross AVIF asset was required to be written down by £26.6m during the year.

16 Financing costs

Year ended 31 December	2020 £000	2019 £000
Interest expense on bank borrowings	1,083	1,363
Interest expense on financial reinsurance	1,161	1,300
Interest expenses on lease liabilities	55	63
Other interest	–	25
Total financing costs	2,299	2,751

Interest expense on bank borrowings is calculated using the effective interest rate method and is the total interest expense for financial liabilities that are not designated at fair value through income.

17 Income tax

Year ended 31 December	2020 £000	2019 £000
Total income tax comprises:		
CA and other group activities – net expense	(4,577)	(5,851)
Movestic – net expense	(235)	(438)
Waard Group – net expense	(883)	(1,428)
Scildon – net credit/(expense)	2,301	(9,247)
Total net expense	(3,394)	(16,964)

UK business**CA and other group activities**
Year ended 31 December

	2020	2019
	£000	£000
Current tax		
Current year	(5,093)	(6,101)
Overseas tax	(280)	(605)
Adjustment to prior years	–	(28)
Net expense	(5,373)	(6,734)
Deferred tax		
Origination and reversal of temporary differences	796	883
Total income tax expense	(4,577)	(5,851)

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2020	2019
	£000	£000
Profit before tax	22,906	38,107
Income tax using the domestic corporation tax rate of 19.0% (2019: 19.0%)	(4,352)	(7,240)
Other permanent differences	(276)	342
Effect of UK tax bases on insurance profits		
Offset of franked investment income	286	1,509
Variation in rate of tax on amortisation of acquired in-force value	(123)	(26)
Foreign tax	(255)	(529)
Effect of change in tax rate	97	98
Other	46	23
Over provided in previous years	–	(28)
Total income tax expense	(4,577)	(5,851)

There has been no change in tax rate during the year (tax rate 19%).

Movestic**Movestic**
Year ended 31 December

	2020	2019
	£000	£000
Current tax		
Current year expense	(241)	(498)
Adjustments for prior years	(19)	13
Net expense	(260)	(485)
Deferred tax		
Origination and reversal of temporary differences	25	47
Total income tax expense	(235)	(438)

17 Income tax (continued)*Movestic (continued)*

Reconciliation of effective tax rate on profit before tax		
Year ended 31 December	2020	2019
	£000	£000
Profit before tax	12,358	12,685
Income tax using the domestic corporation tax rate of 21.4%	(2,645)	(2,715)
Non-taxable income in relation to unit-linked business	2,736	2,497
Impact of different tax rate for subsidiaries	–	(2)
Non-taxable fair value adjustment	(96)	(73)
Permanent differences	(7)	14
Non-deductible expenses	(204)	(173)
(Under)/over provided in prior years	(19)	14
Total income tax expense	(235)	(438)

Ward Group

Ward Group		
Year ended 31 December	2020	2019
	£000	£000
Current tax		
Current year expense	(505)	(2,308)
Adjustment to prior years	–	(12)
Net expenses	(505)	(2,320)
Deferred tax		
Origination and reversal of temporary differences	(378)	892
Total income tax expense	(883)	(1,428)

Reconciliation of effective tax rate on profit before tax		
Year ended 31 December	2020	2019
	£000	£000
Profit before tax	3,897	5,028
Income tax using the domestic corporation tax rate of 25%	(975)	(1,257)
Impact of different tax rate for subsidiaries	92	(159)
Under provided in prior years	–	(12)
Total income tax expense	(883)	(1,428)

Scildon

Scildon Year ended 31 December	2020 £000	2019 £000
Current tax	(1,899)	(2,034)
Adjustments for prior year	–	(1,310)
Net expense	(1,899)	(3,344)
Deferred tax		
Origination and reversal of temporary differences	5,534	(6,720)
Impact to changes in tax rates	(1,334)	817
Total income tax credit/(expense)	2,301	(9,247)

Reconciliation of effective tax rate on profit before tax Year ended 31 December	2020 £000	2019 £000
(Loss)/profit before tax	(14,574)	40,287
Income tax using the domestic corporation tax rate of 25%	3,644	(10,072)
Permanent differences	(8)	8
Non-deductible expenses	(1,335)	817
Total income tax credit/(expense)	2,301	(9,247)

18 Deferred acquisition costs

Year ended 31 December	2020 £000	2019 £000
Balance at 1 January	63,885	65,039
Additions arising from new business	13,073	15,131
Amortisation charged to income	(12,845)	(11,547)
Impairment losses	(1,019)	(19)
Foreign exchange translation difference	5,957	(4,719)
Balance at 31 December	69,051	63,885
Current	11,802	10,803
Non-current	57,249	53,082
Total	69,051	63,885

The amortisation charged to income is recognised in fees, commission and other acquisition costs (see Note 13).

19 Acquired value of in-force business (AVIF)

Year ended 31 December	2020 £000	2019 £000
Cost:		
Balance at 1 January	211,364	219,956
Addition	2,287	–
Foreign exchange translation difference	8,235	(8,592)
Balance at 31 December	221,886	211,364
Amortisation and impairment losses:		
Balance at 1 January	120,541	113,347
Amortisation for the year	9,562	10,445
Impairment charge	27,623	–
Foreign exchange translation difference	2,505	(3,251)
Balance at 31 December	160,231	120,541
Carrying amounts:		
At 1 January	90,823	106,609
At 31 December	61,655	90,823
Current	48,924	17,006
Non-current	12,731	73,817
Total	61,655	90,823

The amortisation charged to the Consolidated Statement of Comprehensive Income is recognised in other operating expenses (see Note 15).

20 Goodwill

Goodwill arose from the purchase of Sparplatsen, a Sweden based software developer by the Movestic business, in order to gain access to the use of an automated investment advisory tool, including risk assessment, asset allocation model and investment guidance tool, for use by the company's customers and IFA network. During 2020, the Sparplatsen was liquidated.

21 Software assets

31 December	2020 £000	2019 £000
Cost:		
Balance at 1 January	25,774	25,069
Additions	3,112	3,097
Disposals	(2,714)	–
Foreign exchange translation difference	2,618	(2,392)
Balance at 31 December	28,790	25,774
Amortisation and impairment losses:		
Balance at 1 January	19,786	19,358
Amortisation charge for the year	1,292	1,442
Disposal	(2,714)	–
Impairment charge	–	982
Foreign exchange translation difference	1,918	(1,996)
Balance at 31 December	20,282	19,786
Carrying amounts at 31 December	8,508	5,988
Current	2,382	2,042
Non-current	6,126	3,946
Total	8,508	5,988

22 Property and equipment

31 December	2020 £000	2019 £000
Cost:		
Balance at 1 January	13,547	12,348
Additions	3,109	3,579
Disposals	(3,546)	(1,854)
Revaluation	(630)	520
Foreign exchange translation difference	1,634	(1,046)
Balance at 31 December	14,114	13,547
Amortisation and impairment losses:		
Balance at 1 January	6,504	8,055
Depreciation charge for the year	1,394	1,242
Disposals	(3,513)	(2,362)
Foreign exchange translation difference	1,011	(431)
Balance at 31 December	5,396	6,504
Carrying amounts at 31 December	8,718	7,043
Current	1,536	685
Non-current	7,182	6,358
Total	8,718	7,043

The group leases several assets including office buildings, office and IT equipment and motor vehicles. The average lease term is 3 years.

Right-of-use assets	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2020 Total £000
Carrying amounts at 1 January	2,214	91	152	48	–	10	2,515
Additions	2,475	41	48	85	–	–	2,649
Disposals	(1,703)	(67)	(41)	–	–	–	(1,811)
Depreciation charge	(619)	(19)	(64)	(47)	–	(8)	(757)
Foreign exchange translation difference	209	5	14	6	–	–	234
Carrying amounts at 31 December	2,576	51	109	92	–	2	2,830
Current							791
Non-current							2,039
Total							2,830

Amount recognised in profit and loss	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2020 Total £000
Interest expense on lease liabilities	46	1	2	2	–	–	51
Fixed lease expense	609	19	64	46	–	9	747
Short-term lease expense	–	–	–	–	–	–	–
Low-value asset lease expense	–	–	–	–	–	–	–
Variable lease expense	–	–	–	–	–	–	–
Total cash outflow for leases	655	20	66	48	–	9	798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Property and equipment (continued)

Right-of-use assets	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2019 Total £000
Carrying amounts at 1 January	2,655	85	165	92	–	19	3,016
Additions	239	27	94	6	–	–	366
Disposals	–	–	(18)	–	–	–	(18)
Depreciation charge	(547)	(17)	(83)	(49)	–	(8)	(704)
Foreign exchange translation difference	(133)	(4)	(6)	(1)	–	(1)	(145)
Carrying amounts at 31 December	2,214	91	152	48	–	10	2,515
Current							1,137
Non-current							1,378
Total							2,515

Amount recognised in profit and loss	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2019 Total £000
Interest expense on lease liabilities	57	2	3	1	–	–	63
Fixed lease expense	549	18	81	45	–	8	701
Short-term lease expense	37	2	9	–	–	–	48
Low-value asset lease expense	–	–	–	–	–	–	–
Variable lease expense	–	–	–	–	–	–	–
Total cash outflow for leases	643	22	93	46	–	8	812

During 2020, Movestic entered into a new agreement in regards to its office floor space, which will impacted the right-of-use asset and lease liability value.

23 Investment in associate

31 December	2020 £000	2019 £000
Balance at 1 January	6,481	5,840
Share of profit	–	1,072
Disposal	(6,481)	–
Foreign exchange translation difference	–	(431)
Balance at 31 December	–	6,481

During the year Modernac SA (in which Movestic Livförsäkring AB has a 49% investment) was liquidated.

24 Financial instruments

Group

Financial assets by measurement category at 31 December	2020 £000	2019 £000
Fair value through income		
Designated at fair-value through income on initial recognition	7,823,042	7,416,066
Policyholders' funds held by the group	332,117	299,375
Derivative financial instruments	830	2,076
Total assets measured at fair value through income	8,155,989	7,717,517
Mortgage loan portfolio	344,918	32,187
Total	8,500,907	7,749,704

Financial assets that are not held at fair value or managed on a fair value basis consist of the 'Mortgage loan portfolio'. The cash flows for all of these assets are solely of payments of principal and interest. The fair value of the mortgage loan portfolio as at 31 December 2020 was £345.0m (31 December 2019: £34.0m) and the change in fair value in the year was an increase of £310.9m due to the addition of a mortgage fund in respect of the acquisition of Argenta Assuranties N.V. (31 December 2019: £8.8m decrease). All other financial assets are held on a fair value basis and have a value of £8,156.0m as at 31 December 2020 (31 December 2019: £7,717.5m) with a change in fair value in the year of an increase of £438.5m (31 December 2019: £686.1m).

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value 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).

Fair value measurement at 31 December 2020				
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities – Listed	10,180	–	–	10,180
Holdings in collective investment schemes	6,521,054	7,825	185,424	6,714,303
Debt securities – fixed rate:				
Government bonds	627,464	–	–	627,464
Listed	466,822	393	–	467,215
Debt securities – floating rate listed	3,880	–	–	3,880
Total debt securities	1,098,166	393	–	1,098,559
Policyholders' funds held by the group	332,117	–	–	332,117
Derivative financial instruments	–	830	–	830
Total	7,961,517	9,048	185,424	8,155,989
Current				2,320,635
Non-current				5,835,354
Total				8,155,989
Financial liabilities				
Investment contracts at fair value through income	–	4,035,040	–	4,035,040
Liabilities related to policyholders' funds held by the group	332,117	–	–	332,117
Derivative financial instruments	–	3	–	3
Total	332,117	4,035,043	–	4,367,160

Fair value measurement at 31 December 2019				
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities – listed	432,645	–	–	432,645
Holdings in collective investment schemes	5,483,162	41,342	–	5,524,504
Debt securities – fixed rate:				
Government bonds	949,641	25,647	–	975,288
Listed	476,904	345	–	477,249
Debt securities – floating rate listed	6,380	–	–	6,380
Total debt securities	1,432,925	25,992	–	1,458,917
Policyholders' funds held by the group	299,375	–	–	299,375
Derivative financial instruments	–	2,076	–	2,076
Total	7,648,107	69,410	–	7,717,517
Current				2,176,844
Non-current				5,540,673
Total				7,717,517
Financial liabilities				
Investment contracts at fair value through income	–	3,694,316	–	3,694,316
Liabilities related to policyholders' funds held by the group	299,375	–	–	299,375
Derivative financial instruments	–	547	–	547
Total	299,375	3,694,863	–	3,994,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Financial instruments (continued)**Holdings in collective investment schemes**

The fair value of holdings in collective investment schemes classified as Level 2 are related to our Scildon operation and do not meet the classification as Level 1, as their fair value is determined using valuation techniques with observable market inputs. The holdings classified as Level 3 also relate to our Scildon operation, and represent investments held in a mortgage fund. These are classified as Level 3 as the fair value is derived from valuation techniques that include inputs that are not based on observable market data.

Debt securities

The debt securities classified as Level 2 at 2019 and 2020 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. Further detail can be found in Note 27.

Investment contract liabilities

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

Significant unobservable inputs in Level 3 instrument valuations

The Level 3 instruments held in the group are in relation to investments held in a fund that contains mortgage backed assets in the Netherlands. The fair value of the mortgage fund is determined by the fund manager on a monthly basis. The fair value of mortgage receivables in the fund is model-based, with a number of variables in the valuation model, such as the discount rate and the assumed constant prepayment rate.

Sensitivity of Level 3 instruments measured at fair value on the statement of financial position to changes in key assumptions. There is a risk that the value of the fund decreases or increases over time. This can be as a consequence of a periodic reassessment of the constant prepayment rate and the discount rate used in the valuation model.

Reconciliation of Level 3 fair value measurements of financial instruments. 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:

31 December				2020	
				£000	
At start of period				–	
Transfers into Level 3				32,463	
Total gains and losses recognised in the income statement				3,249	
Purchases				143,589	
Settlements				–	
Exchange rate adjustment				6,123	
At the end of period				185,424	

31 December	Carrying amount		Fair value	
	2020	2019	2020	2019
	£000	£000	£000	£000
Financial liabilities				
Borrowings	66,955	88,163	68,371	90,124

Borrowings consist of bank loans and an amount due in relation to financial reinsurance. The fair value of the bank loans are taken as the principal outstanding at the balance sheet date. These are calculated using floating rates with the amortised cost being determined net of unamortised arrangement fees which form part of the effective interest rate calculation. The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date. During the year, there was a transfer between Level 2 to Level 3 in relation to mortgage backed assets. There were no other transfers between Levels 1, 2 and 3 during the year. The group holds no Level 3 liabilities as at the balance sheet date.

Company

Fair value measurement at 31 December	2020	2019
	£000	£000
Holdings in collective investment schemes	57,945	74,758
Total	57,945	74,758
Current	57,945	74,758
Non-current	–	–
Total	57,945	74,758

There were no Level 2 and Level 3 assets. The amounts held in collective investment schemes at a Chesnara plc company level are purely in relation to instant access liquidity funds.

Investment in subsidiaries

Company

Year ended 31 December	2020	2019
	£000	£000
Balance at 1 January	354,720	354,720
Balance at 31 December	354,720	354,720
Current	–	–
Non-current	354,720	354,720
Total	354,720	354,720

A list of investments in subsidiaries held by the group is disclosed in Note 50.

25 Mortgage loan portfolio

Year ended 31 December	2020	2019
	£000	£000
Loans and receivables at amortised cost	344,918	32,187
Current	2,357	2,151
Non-current	342,561	30,036
Total	344,918	32,187

The mortgage loan portfolio is stated at amortised cost. During the year, the material increase in the mortgage fund was in respect of the acquisition of Argenta Assuranties N.V.

26 Insurance and other receivables**Group**

Insurance and other receivables		
31 December	2020	2019
	£000	£000
Receivables arising from insurance contracts		
Brokers	766	746
Policyholders	495	2,033
Receivables arising from investment contracts		
Other	17,776	17,459
Other receivables		
Loan to associated companies	–	665
Accrued interest income	8,554	11,527
Receivables from fund management companies	7,341	8,068
Initial margin payments on derivatives	–	3,958
Other	10,116	9,480
Total	45,048	53,936
Current	44,277	53,129
Non-current	771	807
Total	45,048	53,936

The carrying amount is a reasonable approximation of fair value.

Prepayments		
31 December	2020	2019
	£000	£000
Prepayments	13,349	8,353
Current	13,099	8,003
Non-current	250	350
Total	13,349	8,353

The carrying amount is a reasonable approximation of fair value.

27 Derivative financial instruments

The group does not hold derivatives outside the unit-linked and with-profits funds, except for an option to repay a financial reinsurance contract early, which comprises an embedded derivative.

31 December	2020		2019	
	Asset	Liability	Asset	Liability
	£000	£000	£000	£000
Interest rate swaps	–	–	–	–
Exchange-traded futures	830	(3)	2,076	(483)
Financial reinsurance embedded derivative	–	–	–	(64)
Total	830	(3)	2,076	(547)
Current	724	(3)	2,076	(500)
Non-current	106	–	–	(47)
Total	830	(3)	2,076	(547)

Derivatives within unit-linked funds

As part of its investment management strategy, the group purchases derivative financial instruments as part of its investment portfolio for unit-linked investment funds, which match the liabilities arising on its unit-linked insurance and investment business.

A variety of equity futures are part of the portfolio matching the unit-linked investment and insurance liabilities. Derivatives are used to facilitate more efficient portfolio management allowing changes in investment strategy to be reflected by futures transactions rather than a high volume of transactions in the underlying assets.

All the contracts are exchange-traded futures, with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 24.

Exchange-traded futures (by geographical investment market) 31 December	2020		2019	
	Asset £000	Liability £000	Asset £000	Liability £000
Australia	-	-	35	(29)
Switzerland	-	-	21	(18)
Europe	2	(2)	107	(13)
UK	-	-	86	(37)
Hong Kong	-	-	58	(6)
Japan	627	(1)	183	(36)
USA	50	-	1,585	(344)
Sweden	151	-	1	-
Total	830	(3)	2,076	(483)

Financial reinsurance embedded derivative

In respect of Movestic, the group has a reinsurance contract with a third party that has an element that is deemed to transfer significant insurance risk and an element that is deemed not to transfer significant insurance risk. This assessment has been determined by management based on the contractual terms of the reinsurance agreement. 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 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 rates at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out in Note 24.

Derivatives within CA (S&P with-profits funds)

As part of its investment management strategy, CA enters into a limited range of derivative instruments to manage its exposure to various risks.

CA uses equity index futures in order to economically hedge equity market risk in the with-profit funds' investments.

The change in fair value of the futures contracts is intended to offset the change in fair value of the underlying equities being hedged. CA settles the market value of the futures contracts on a daily basis by paying or receiving a variation margin. The futures contracts are not discounted as this daily settlement is equal to the change in fair value of the futures. As a result, there is no additional fair value to recognise in relation to these derivatives on the balance sheet at the period end.

CA also purchases exchange rate futures to mitigate exchange rate risk within its with-profits funds.

These contracts are exchange-traded contracts in active markets with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 24.

28 Cash and cash equivalents**Group**

31 December	2020 £000	2019 £000
Bank and cash balances	104,965	54,307
Call deposits due within 1 month	97	23,650
Call deposits due after 1 month	289	29,999
Total cash and cash equivalents	105,351	107,956
Bank overdrafts	(1,645)	(1,174)
Cash and cash equivalents in the statement of cash flows	103,706	106,782

The effective interest rate on short-term bank deposits was 0.00% (2019: 0.36%), with an average maturity of 1 day (2019: 34 days). All deposits included in cash and cash equivalents were due to mature within 3 months of their acquisition.

Included in cash and cash equivalents held by the group are balances totalling £8.1m (2019: £44.6m) held in unit-linked policyholders' funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 Cash and cash equivalents (continued)

Group (continued)

31 December						
	1 January 2020 £000	Financing cash flows £000	Foreign exchange translation differences £000	New leases £000	Other changes (ii) £000	31 December 2020 £000
Bank loan (i)	52,525	(15,376)	1,861	–	–	39,010
Financial reinsurance	35,638	(10,718)	3,025	–	–	27,945
Lease liabilities	2,527	(695)	937	16	59	2,844
Total	90,690	(26,789)	5,823	16	59	69,799

(i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and payments.

Company

31 December		
	2020 £000	2019 £000
Bank and cash balances	1,818	672
Cash deposits due within 1 month	97	97
Cash deposits maturing between greater than 1 month and less than 1 year	–	–
Total	1,915	769

31 December						
	1 January 2020 £000	Financing cash flows £000	Foreign exchange translation differences £000	New leases £000	Other changes (ii) £000	31 December 2020 £000
Bank loan (i)	52,525	(15,376)	1,861	–	–	39,010
Lease liabilities	253	(62)	–	16	9	216
Total	52,778	(15,438)	1,861	16	9	39,226

(i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and payments.

29 Capital management

(a) Regulatory context

Solvency II

The Chesnara group is required to comply with the Solvency II capital regime. Solvency II came into force on 1 January 2016 and is an EU insurance legislation that aims to unify the EU insurance market and enhance consumer protection. This regime currently remains applicable to the UK post Brexit. The Solvency II regime includes rules over the quantity and quality of capital (known as Own Funds) that insurance companies and groups need in order to meet the regime's required level of capital (known as the Solvency Capital Requirement). The Chesnara group operates exclusively within the UK and the EU and as a result the Solvency II regime applies to the group and all regulated insurance companies within the group. The regulators responsible for the supervision of the group and its subsidiaries have been shown in Section (c)(i).

The Solvency II regime has specific rules regarding how Own Funds are recognised and valued. In a number of cases, the IFRS and Solvency II value of an asset and liability are the same, but in some cases there are differences. In particular, liabilities for insurance and investment contracts are valued differently, with IFRS remaining largely based on the previous Solvency I regime. In addition, Solvency II has differing treatments for certain intangible assets. A high level reconciliation between the IFRS net assets and Solvency II Own Funds of the group and its subsidiaries has been provided in part (c)(ii) of this Note.

Regarding the Solvency Capital Requirement (SCR) of the Chesnara group and its subsidiaries, the group has elected to use the 'standard formula' approach for its calculation, which means we are applying the formulae as included in the Solvency II framework. The calculations within the standard formula have been designed such that, on the basis that an insurance company holds Own Funds that are at least equal to its SCR, it will be able to withstand a 1 in 200 year event. An alternative would have been to use an 'internal model' but this was not deemed appropriate for the size and complexity of the Chesnara group.

Company law

As well as complying with the Solvency II regime, each company within the group is required to comply with relevant company law capital and distribution rules.

(b) Objectives, policies and processes for managing capital

(i) Objectives

To manage compliance with the externally imposed capital requirements the group and its subsidiaries have established capital management policies in place. The objectives of these policies are:

- to ensure that capital is managed in a way that is consistent with the business strategy of the group and its subsidiaries, in that they:
 - promote fair customer outcomes through protecting policyholders;
 - provide protection to shareholders through ensuring that the business is adequately protected against stress events; and
 - provide a framework to support the decision making process for returns to shareholders via dividends.
- to ensure that capital of the group and its subsidiaries is managed in accordance with the board's risk appetite, in particular each board's aversion for Own Funds to fall below the SCR.

(ii) Policies

In light of the objectives for the group's and its subsidiaries' capital management policies, the following quantitative limits for managing Own Funds are applied across the group:

Region	CA	Movestic	Ward Group	Scildon	Group
Dividend paying limit: Own Funds stated as % of SCR	120%	120%	175%	175%	110%
Management actions limit: Own Funds stated as % of SCR	110%	110%	175%	175%	105%

Dividend paying limit: This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point. This limit is set by the relevant board in each division with reference to its respective risk appetite, as articulated in each divisions' capital management policy.

Management actions limit: This is the point at which, should Own Funds fall below this level, additional management actions would be considered to restore Own Funds back above this level. In essence this represents an internal 'ladder of intervention limit' that is set by the group and divisional boards.

To put the above table and definitions in context, and taking group as an example, this means that the group will not pay a dividend should the payment of the dividend take the group Own Funds to below 110% of its SCR. Should Own Funds fall below 105% of SCR additional management actions will be taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Capital management (continued)**(b) Objectives, policies and processes for managing capital (continued)****(iii) Process for management of capital**

The following key processes and procedures are in place across the group to manage adherence to the capital management policies in place:

- *Internal solvency reporting:* A number of internal reports are produced that focus on the solvency position of the group/company. These include the Own Risk & Solvency Assessment (ORSA) Report, a quarterly actuarial report and a quarterly finance report. All of these are presented to and approved by the board.
- *Production of projections:* On at least an annual basis, solvency projections are produced for the group and its subsidiaries. These projections are included in both the business plans and the ORSA Report, and show how management anticipates the solvency position to develop over time. The projections process includes assessing the impact of a number of different stress scenarios to ensure that the sensitivities of the business are understood. Both the ORSA and the business plans are presented to and approved by the board.
- *Regular review of internal limits in place:* On at least an annual basis, the limits described in (b)(ii) of this Note are reviewed and assessed, having regard to the developments of the business and any other changes that may have affected the group's/divisions' risk appetite.
- *Recovery management protocol:* A protocol for management actions has been designed which, in effect, represents an internally set 'ladder of intervention'. The protocol includes items such as solvency monitoring frequency, what level of escalations are required and what management actions need to be considered.
- *Monthly solvency monitoring:* Full solvency calculations are performed on a quarterly basis. For intra quarter months a monthly solvency estimate is produced. Where full estimation routines are not practical intra valuation solvency can be monitored through trigger monitoring and sensitivity analysis. In addition to the group level indicators, the Chesnara board will remain close to any indications of divisional solvency movements by means of divisional MI and quarterly business reviews. On at least a monthly basis specific key risk indicators are monitored against pre-defined trigger points. The trigger points are set having regard for the sensitivity of the group to certain scenarios. Trigger points and the list of risk indicators being monitored are assessed at least annually.

(iv) Compliance during year

The group, and all insurance companies within the group, held Own Funds above their respective Solvency Capital Requirements at all times during the year.

(c) Quantitative analysis**(i) Group solvency position**

The unaudited solvency position of the group and its divisions at 31 December 2020 and at 31 December 2019, has been shown in the tables below. They present a view of the solvency position which may differ to the position of the individual insurance company(ies) within that division.

31 December 2020 (unaudited)						
Region	CA £m	Movestic £m	Ward Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Own Funds (pre dividends)	166.7	234.8	51.7	152.2	(16.3)	589.1
Proposed dividend	(33.5)	(10.2)	(4.0)	–	26.3	(21.4)
Own Funds (post dividends)	133.2	224.6	47.7	152.2	10.0	567.7
SCR	102.3	142.5	10.9	85.5	22.5	363.7
Solvency surplus	30.9	82.1	36.8	66.7	n/a	204.1
Solvency ratio	130%	158%	438%	178%	n/a	156%
Dividend paying limit (% of SCR)	120%	120%	175%	175%	n/a	110%
Dividend paying limit (£)	122.8	171.0	19.1	149.6	n/a	400.1
Surplus over dividend paying limit	10.4	53.6	28.6	2.6	n/a	167.7

31 December 2019 (unaudited)						
Region	CA £m	Movestic £m	Ward Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Own Funds (pre dividends)	172.5	237.6	50.4	157.8	(6.6)	611.7
Proposed dividend	(32.0)	(6.2)	(4.9)	(7.0)	29.3	(20.8)
Own Funds (post dividends)	140.5	231.4	45.5	150.8	22.7	590.9
SCR	107.6	149.7	9.1	71.8	41.9	380.1
Solvency surplus	32.9	81.7	36.4	79.0	n/a	210.8
Solvency ratio	131%	155%	500%	210%	n/a	155%
Dividend paying limit (% of SCR)	120%	120%	185%	185%	n/a	110%
Dividend paying limit (£)	129.1	179.6	16.8	132.8	n/a	418.1
Surplus over dividend paying limit	11.4	51.8	28.7	18.0	n/a	172.8

(ii) Reconciliation between Solvency II Own Funds and IFRS net assets (unaudited)

The tables below show the key differences between the Solvency II Own Funds reported in part (c)(i) and the group's IFRS net assets.

31 December 2020 (unaudited)						
Region	CA £m	Movestic £m	Ward Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Solvency II Own Funds (post dividends)	133.2	224.6	47.7	152.2	10.0	567.7
Add Back: Ring-fenced fund surplus restrictions	1.5	–	–	–	–	1.5
Add Back: Intangible assets	1.4	91.0	6.1	37.8	–	136.3
Add Back: Foreseeable dividends	33.5	10.2	4.0	–	(26.4)	21.3
Add Back: Difference in valuation of technical provisions	(43.9)	(216.5)	(14.6)	(9.8)	49.0	(235.8)
Add Back: Difference in deferred tax	9.0	0.5	3.8	(6.9)	(9.3)	(2.9)
Add Back: Other valuation differences	0.4	0.4	(1.6)	–	(0.2)	(1.0)
IFRS Net Assets	135.1	110.2	45.4	173.3	23.1	487.1

31 December 2019 (unaudited)						
Region	CA £m	Movestic £m	Ward Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Solvency II Own Funds (post dividends)	140.5	231.5	45.5	150.8	22.6	590.9
Add Back: Ring-fenced fund surplus restrictions	10.8	–	–	–	–	10.8
Add Back: Intangible assets	4.5	83.2	2.8	64.9	1.4	156.8
Add Back: Foreseeable dividends	32.0	6.2	4.9	7.0	(29.3)	20.8
Add Back: Difference in valuation of technical provisions	(61.0)	(226.9)	(10.6)	(39.7)	35.4	(302.8)
Add Back: Difference in deferred tax	10.6	1.2	4.1	(7.2)	(7.7)	1.0
Add Back: Other valuation differences	0.3	(0.8)	(1.7)	(0.1)	0.3	(2.0)
IFRS Net Assets	137.7	94.4	45.0	175.7	22.7	475.5

Further information how the group uses Solvency II, and metrics derived from Solvency II, as alternative performance measures can be found in Section E on pages 211 to 214.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
CA	1,627,983	171,853	1,456,130	1,711,548	160,342	1,551,206
Movestic	69,702	26,234	43,468	70,761	26,291	44,470
Waard Group	385,633	2,501	383,132	92,789	2,815	89,974
Scildon	1,874,719	(3,520)	1,878,239	1,735,317	(996)	1,736,313
Total insurance contract provisions	3,958,037	197,068	3,760,969	3,610,415	188,452	3,421,963
Current	215,558	15,849	199,709	205,587	15,492	190,095
Non-current	3,742,479	181,219	3,561,260	3,404,828	172,960	3,231,868
Total	3,958,037	197,068	3,760,969	3,610,415	188,452	3,421,963

(b) Analysis of movement in insurance contract provisions

Year ended 31 December	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	3,610,415	188,452	3,421,963	3,569,014	213,369	3,355,645
Arising on portfolio acquisition	298,361	–	298,361	25,492	–	25,492
Premiums received	261,710	14,413	247,297	239,550	29,818	209,732
Fees deducted	(65,838)	(1,222)	(64,616)	(64,883)	(1,416)	(63,467)
Reserves released in respect of benefits paid	(375,715)	(34,446)	(341,269)	(389,053)	(23,921)	(365,132)
Movements in provisions for contracts sold – Movestic						
in current year	14,526	5,338	9,188	14,730	6,845	7,885
in prior years	(16,238)	(5,239)	(10,999)	(18,835)	(28,713)	9,878
Investment return	80,921	1,798	79,123	335,674	3,107	332,567
Other movements	149,895	27,974	121,921	(101,274)	(10,637)	(90,637)
Balance at 31 December	3,958,037	197,068	3,760,969	3,610,415	188,452	3,421,963

(c) Basis and assumptions for calculating insurance contract provisions

UK

(i) Basis

The process used to determine the assumptions underlying the calculation of IFRS technical provisions, which are checked to ensure that they are consistent with observed market prices or other published information, is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions which are considered include the expected number and timing of deaths, other claims and investment returns over the period of risk exposure. A reasonable allowance is made for the level of uncertainty within the contracts.

The technical provision for CA (S&P with-profits) contracts is based on the guaranteed minimum benefits and is calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised. Provision is not made for future bonuses as all bonuses are terminal bonuses.

For those classes of CA non-linked and unit-linked business where policyholders participate in profits, the liability is wholly reinsured to ReAssure. When performing the gross liability adequacy test allowance is made for expected future bonuses paid by ReAssure. This is based on the realistic liabilities of the underlying policies reinsured, as provided to CA by ReAssure.

For all other classes of unit-linked and quasi-linked business, the technical provision consists of a provision equal to the value of the matching unit-linked assets plus an additional reserve calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised.

For immediate annuities in payment the technical provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, interest rates and expenses.

For certain group business within the PL component of CA, the technical provisions are assessed on an unearned premium method considered appropriate for the nature and scale of the liabilities. For the remainder of the PL business, the technical provisions are calculated on a gross premiums basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or lapse or death if earlier. The gross premiums method makes explicit allowance for future policy maintenance costs. If the net present value of future discounted cash flows is positive no asset is recognised.

For all other classes of non-linked business the technical provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

(ii) Principal assumptions:

Mortality

A base mortality table is selected which is most appropriate for each type of contract taking into account rates charged by reinsurers. The mortality rates reflected in these tables are periodically adjusted, allowing for emerging experience and changes in reinsurer rates.

Morbidity

Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistence

In general, no allowance is made for lapses or surrenders within the valuation of insurance contract liabilities, which is a prudent assumption.

For CA (S&P) unit-linked business, when assessing additional reserves for expenses and mortality risk, allowance has been made for lapses at a prudent level of 75% of the expected level as indicated by recent experience, the rates used being:

Rate of lapse 31 December	2020		2019	
	SPI**	SPP**	SPI	SPP
Assurances:				
Regular premium plans	2.063%	3.000%	2.063%	2.625%
Single premium contracts	2.813%	3.938%	2.813%	3.750%
Linked TIC*	–	5.000%	–	5.000%

*Trustee Investment Contract (TIC), a unit-linked contract.

**SPI (CA S&P Insurance business)/SPP (S&P Pension business).

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2020 for the material product types, these lay between -0.05% and 1.45% (31 December 2019: between 0.55% and 2.15%).

The rates of interest shown above have been set after consideration of the risk of default on non-government bonds by applying the following adjustments to the earned yield:

- (i) Risk reduction of 0.1% for supranational issuers such as the European Investment Bank;
- (ii) For other issuers, a portion of the excess yield above that available on government backed bonds, where the portion varies by credit rating; and
- (iii) An overall maximum margin over the equivalent term government fixed interest security of 1.5%.

Credit rating	Aaa	Aa	A	Baa	Ba	B	Caa+
Reduction	25%	40%	45%	50%	65%	75%	80%

For many of the life insurance products the interest rate risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements.

Technical provisions for with-profits contracts are particularly sensitive to the interest rate used when discounting due to the existence of investment guarantees.

Renewal expenses and inflation

The renewal expenses assumed are based on the charges made to CA by its two third party insurance administration services providers, with appropriate margins. These are assumed to inflate at a mix of current inflation rates in the UK, being the Retail Price Index and the National Average Earnings Index. Explicit allowance is also made for those Governance expenses which are charged to CA funds.

Taxation

It has been assumed that current tax legislation and tax rates will not change.

The sensitivities of technical provisions to changes in assumptions are set out overleaf.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)****UK (continued)****(iii) Valuation of options and guarantees***Contracts with discretionary participation features*

The principal financial options and guarantees in CA (S&P) are (i) minimum benefits payable on maturity or retirement for participating business; (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; and (iv) certain insurability options offered.

Provisions for CA (S&P) contracts with discretionary participation features (DPF) provide for the present value of projected payments to policyholders based on guaranteed minimum investment returns, mainly at 5% per annum. When the insurance contract provisions established on this basis are greater than the associated policyholder asset shares, a shareholder charge for the cost of guarantees arises. The actual cost to shareholders depends principally on the future investment performance of the associated policyholders' assets and on the rate of discontinuance of policies prior to maturity.

The cost of guaranteeing a minimum investment return on participating contracts has been assessed on a market consistent basis. This has involved the use of a stochastic asset model, which is designed to establish a cost of guarantees which is consistent with prices in the market at the valuation date, for example the prices of derivative instruments. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

The following sets out the cumulative charge to shareholders for the cost of guarantees on these bases:

Year ended 31 December	2020	2019
	£000	£000
At beginning of the year	17,322	23,097
Charge/(credit) to income	1,490	(5,775)
At the end of year	18,812	17,322

The cost of guarantees are sensitive to changes in the value of investments. A 1% decrease in investment yields would decrease net profit and net equity by £4.1m. A 10% fall in equities would decrease net profit and net equity by £3.9m.

Timed Investment Funds

Certain investment funds, the 'Timed Investment Funds', carry a guarantee that the price at maturity date or death will not be less than the highest price attained between commencement and contract cessation. The cost of the guarantee can be managed by changing the investment policy adopted by each fund.

In respect of this guarantee:

- (i) a monthly charge of 1/48% of the fund value is made; and
- (ii) investment conditions were such as to require the establishment of a reserve of £1,653,000 as at 31 December 2020 (31 December 2019: £904,000).

The reserve for a given fund is derived as the discounted exposure at fund maturity date, the exposure being the difference between the guaranteed Timed Investment Fund value and the projected fund maturity value, with the latter projected value being derived assuming an immediate fall in value of equities within the fund of 20% and allowing for future investment returns, including presumed future equity investment return of 2.50% per annum.

The Timed Investment Fund reserve is sensitive to changes in the value of equities. A 10% fall in equities would decrease net profit and net equity by £0.3m.

Guaranteed Growth Fund

The Guaranteed Growth Fund (GGF) is a deposit-based contract which provides a return to policyholders that is linked to the average residential mortgage rate. However, the assets backing the contract are largely held as cash on deposit. There is, therefore, likely to be a shortfall between the return given to policyholders and the return earned on assets, and the value of this shortfall is reserved for.

Reserves for this product comprise a 'unit' reserve of the current value of the benefits held and a non-unit reserve for expenses.

The underlying fund at 31 December 2020 was £3.7m (31 December 2019: £3.8m). 426 policies invested in the fund (31 December 2019: 436), of which 25 (31 December 2019: 27) were paying premiums (for a total of approximately £8,000 per annum (31 December 2019: £8,000)).

For the valuation of contract liabilities the following are projected for each future year: – the benefit outgo from the fund;

- the investment return from the assets backing the fund; and
- the difference between these items.

These differences are then discounted and summed to establish the GGF loss reserve.

The following assumptions are used for calculating the loss reserve:

Rate of growth of liability	2.46% pa
Rate of return on cash	0.03% pa
Discount rate	0.20% pa
Retirement age	90% of business with policyholders retiring at age 65 10% of business with policyholders retiring at age 70
Terminations before retirement	3% pa

The reserve for the guarantee as at 31 December 2020 was £0.1m (31 December 2019: £0.1m).

Deferral of retirement ages

Policyholders with a Personal Retirement Account and Guaranteed Plus Retirement Plan may defer their retirement age on terms that may be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option and deferral to age 65 for Personal Retirement Account and age 70 for Guaranteed Plus Retirement Plans. The reserve for this option as at 31 December 2020 was £4.3m (31 December 2019: £3.6m).

Increase of premiums on Personal Retirement Account

Policyholders with a Personal Retirement Account may increase their regular premium contribution on terms that can be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option. The reserve for this option as at 31 December 2020 was £0.03m (31 December 2019: £0.1m).

Insurability options

Policyholders with certain contracts have the right to increase their sum assured without underwriting, in certain circumstances. The reserve for this option as at 31 December 2020 was £0.3m (31 December 2019: £0.3m).

Guaranteed annuity options

A limited number of pension plans offer guaranteed annuity options at retirement. The cost of this option is assessed assuming a prudent assessment of the take-up of the option and of the cost. The reserve for this option as at 31 December 2020 is £0.1m (31 December 2019: £0.1m).

Sweden**(i) Basis**

Group contracts are sold on an annual basis and the individual contracts include an option for Movestic to increase the premium on an ongoing basis. Therefore, for both group and individual contracts, Movestic adopts a reserving approach that is similar to that of a non-life insurance business, with claim reserves projected using an estimated loss ratio with reference to previous loss development for earlier years.

The insurance contract provisions comprise unearned premium provisions, outstanding claims and associated reinsurance recoveries. Except for the income protection and the waiver of premium benefits within the individual contracts, provisions for the insurance contracts are not discounted because of the short-term nature of the liabilities, which are generally paid by the fourth year of development for a single accident year. Income protection and waiver of premium contracts are discounted following Finansinspektionen guidelines.

Unearned premiums

Unearned premiums represent a proportion of the premium relating to policies that expire after the balance sheet date. Unearned premiums are calculated automatically by the underwriting system and are released to income on a straight-line basis over the period of the policy.

Outstanding claims

Outstanding claims include notified claims, claims incurred as at the balance sheet date but not reported and an estimate of the cost of handling the claims.

The key risk in respect of notified claims is that they are paid or handled inappropriately (for example invalid or fraudulent claims are paid). Management information is reviewed on a regular basis to identify unusual trends in the payment of claims.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of costs of settling claims already notified to Movestic, where more information about the claim event is generally available. In calculating the estimated cost of claims which have not been notified, Movestic uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The most common methods that are used are the chain ladder method and the Bornhuetter-Ferguson method. Chain ladder methods involve the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected factors are applied to cumulative claims data for each accident year that is not fully developed to provide an estimated ultimate claims cost. The Bornhuetter-Ferguson method uses a combination of an initial estimate of the expected loss ratio and an estimate based on observed claims experience. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

The use of different approaches assists in giving greater understanding of the trends inherent in the data being projected and also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the policies sold. Where deemed appropriate, an allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. Although claims reserves are considered reasonable, on the basis of information available to Movestic, the ultimate liabilities will vary as a result of subsequent information and events.

(ii) Principal assumptions:*Income protection and waiver of premium benefits within individual contracts*

For reported claims, the liabilities are reviewed on a case by case basis. A discounted cash flow model is used to determine the liabilities and the key factors used are:

- the probability of ‘recovery’ (i.e. return to work). The recovery rates depend on age, sex and length of time the claimant has been claiming the benefits;
- the mortality rate; and
- the discount rate.

For unreported claims, the claims development table is used. The development of insurance liabilities provides a measure of Movestic’s ability to estimate the ultimate value of claims. The top half of the table below illustrates how Movestic’s estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be the most appropriate for the business written by Movestic. The information is presented on both a gross and net of reinsurance basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)****Sweden (continued)****(iii) Analysis of claims development – gross**

	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000
Estimate of ultimates						
End of accident year	28,753	34,504	32,110	29,398	19,574	16,485
One year later	21,916	25,190	23,826	19,252	14,061	
Two years later	19,499	22,040	23,180	18,840		
Three years later	16,744	21,326	20,548			
Four years later	16,314	18,591				
Five years later	15,289					
Current estimate of ultimate claims	15,289	18,591	20,548	18,840	14,061	16,485
Cumulative payments	(10,752)	(12,943)	(12,469)	(9,552)	(7,884)	(3,596)
In balance sheet	4,537	5,648	8,079	9,288	6,177	12,889
Provision for prior years						20,596
Liability in balance sheet						67,214

Analysis of claims development – net

	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000
Estimate of ultimates						
End of accident year	11,012	11,061	11,337	9,661	9,632	10,653
One year later	5,957	6,920	2,052	10,497	5,403	
Two years later	5,150	5,839	11,135	10,071		
Three years later	4,432	10,322	9,695			
Four years later	7,488	8,115				
Five years later	6,639					
Current estimate of ultimate claims	6,639	8,115	9,695	10,071	5,403	10,653
Cumulative payments	(3,621)	(4,657)	(4,476)	(3,892)	(2,991)	(2,569)
In balance sheet	3,018	3,458	5,219	6,179	2,412	8,084
Provision for prior years						13,457
Liability in balance sheet						41,827

Netherlands (Waard Group)**(i) Basis**

For protection policies insurance contract provisions comprise a technical reserve for future claims and a claim reserve for those not settled to completion at the reporting date.

For general insurance contracts an unearned premium reserve reflecting the non-expired term of contract is held plus claims provision.

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts) the Insurance Contract Provision equals the value of assets held.

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach. The continued appropriateness of these assumptions are assessed by undertaking a liability adequacy test.

Claims reserves for general insurance business in Waard Schade contain assessment of those Incurred But Not Reported (IBNR) which are regularly updated reflecting analysis of recent reporting patterns.

Netherlands (Scildon)**(i) Basis**

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts), the Insurance Contract Provision equals the value of assets held.

For non-linked contracts the insurance contract provisions are calculated as the discounted value of future claims and expenses less any expected premium income. For any given policy if the net present value of future discounted cash flows is positive then no asset is recognised.

Additionally, a liability adequacy test is performed to verify the adequacy of the IFRS technical provisions. The test is carried out by comparing the carrying amount of IFRS provisions with the best-estimate provisions calculated under Solvency II regulations. If the value of best-estimate provisions is higher, then the difference is added to the total value of IFRS provisions as a LAT deficit. As at 31 December 2020 there is a LAT deficit of £10.0m (31 December 2019: £0.0m).

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach.

For the annuity portfolio mark to market interest assumptions are used. Term policies written after 2015 are reserved on best estimate market value reserves.

(d) Sensitivity to changes in assumptions**Impact on reported profits and equity to changes in key variables:****Gross of reinsurance:**

	CA		Scildon		Movestic	
	Change in net of tax profits and equity		Change in net of tax profits and equity		Change in net of tax profits and equity	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(1.9)	(1.1)	(20.8)	(32.5)	n/a	n/a
100 basis point increase in Investment return	1.0	3.1	(32.9)	(38.1)	0.3	0.4
100 basis point decrease in Investment return	(4.5)	(6.6)	4.7	42.8	(0.5)	(0.6)
10% increase in mortality/morbidity	(18.9)	(19.8)	(16.7)	(0.6)	n/a	n/a
10% increase in mortality alone	(15.3)	(15.7)	(16.7)	(0.6)	n/a	n/a
10% increase in morbidity alone	(3.6)	(4.1)	–	–	n/a	n/a
10% increase in policy maintenance expenses	(5.2)	(3.8)	(9.1)	(0.1)	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(2.6)	(2.7)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	2.6	2.7

Net of reinsurance:

	CA		Scildon		Movestic	
	Change in net of tax profits and equity		Change in net of tax profits and equity		Change in net of tax profits and equity	
	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(2.3)	(1.6)	(20.6)	(32.4)	n/a	n/a
100 basis point increase in investment return	(4.3)	(3.2)	(32.2)	(37.7)	(0.1)	(0.1)
100 basis point decrease in investment return	1.8	0.7	3.6	42.2	(0.0)	(0.0)
10% increase in mortality/morbidity	2.3	2.3	(16.6)	(0.9)	n/a	n/a
10% increase in mortality alone	2.8	2.9	(16.6)	(0.9)	n/a	n/a
10% increase in morbidity alone	(0.6)	(0.6)	–	–	n/a	n/a
10% increase in policy maintenance expenses	(4.7)	(3.5)	(9.5)	(0.3)	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(1.6)	(1.7)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	1.6	1.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(d) Sensitivity to changes in assumptions (continued)****Impact on reported profits and equity to changes in key variables (continued):****UK businesses (CA)**

Assumptions are adjusted for changes in mortality, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and market experience and price inflation.

CA re-run their valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the sensitivity of the estimates to changes in assumptions in respect of its life assurance contracts. The table presented above demonstrates the sensitivity of assets and insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The above sensitivities are calculated as an expected impact on IFRS-based profits, net of reinsurance and tax and the analysis has been prepared for a change in the stated variable, with all other assumptions remaining constant. The sensitivities to the changes in investment returns are calculated taking into account the consequential changes to valuation assumptions.

The sensitivities to mortality and morbidity (critical illness) rates shown above are calculated on the assumption that there would be no consequential change in rates to policyholders. In practice, group policy is to pass costs on to policyholders where it is contractually permitted and where it considers that the impact of the change is significant and subject to treating customers fairly.

The main expense risk is that of unforeseen changes to third party administration expenses: the impact shown above quantifies a 10% increase in those expenses.

Swedish business (Movestic)

The key sensitivities in the measurement of the group and individual contracts insurance claim reserves within Movestic are a movement in the loss ratio applied to earned premium and the foreign exchange risk arising on business written in Norway. In addition, for the income protection and the waiver of premium benefits within the individual contracts, the claims reserves are impacted by the discount rate used. The impact of these sensitivities is shown overleaf.

Dutch business (Waard Group)

The most material sensitivity within Waard Group is interest rates. Due to the fact that Waard measures its insurance contract liabilities using historical rates of interest, a rise in interest rates results in a fall in the value of fixed-interest assets with no change in the value of liabilities. The impact on net of tax profits and equity at 2020 is negative £1.9m.

Dutch business (Scildon)

Similar to Waard, Scildon measures the majority of its insurance contract liabilities using historical assumptions, which usually means that the value of IFRS provisions is fairly stable under many sensitivities. This is not the case at year-end 2020 as the liability adequacy test bites and so the IFRS provision includes a LAT deficit reflecting the excess of best-estimate Solvency II provisions above the IFRS provision. Under certain sensitivities, namely the 100 basis point decrease in investment return and the 10% increase in mortality, morbidity and maintenance expenses, the best-estimate provisions increase. This in turn causes the LAT deficit to increase further and thus results in some impacts that are comparably different from those presented at year-end 2019 where there was no LAT deficit.

31 Investment contracts at fair value through income and amounts deposited with reinsurer**Analysis by operating segment**

31 December						
	Investment contract liability £000	2020 Amount deposited with reinsurer £000	Net £000	Investment contract liability £000	2019 Amount deposited with reinsurer £000	Net £000
CA	715,276	37,026	678,250	739,819	37,330	702,489
Movestic	3,319,764	–	3,319,764	2,954,497	–	2,954,497
Total	4,035,040	37,026	3,998,014	3,694,316	37,330	3,656,986
Current	146,352	37,026	109,326	96,191	37,330	58,861
Non-current	3,888,688	–	3,888,688	3,598,125	–	3,598,125
Total	4,035,040	37,026	3,998,014	3,694,316	37,330	3,656,986

The fair values of the group's investment contract liabilities have been disclosed according to a three-level valuation hierarchy in Note 24.

32 Liabilities relating to policyholders' funds held by the group

Unit-linked		
31 December		
	2020	2019
	£000	£000
Balance at 1 January	299,375	259,836
Deposits received	41,214	62,092
Fees deducted from account balances	(2,858)	(2,672)
Investment yield	29,925	38,031
Foreign exchange translation difference	30,795	(19,204)
Other movements	(66,334)	(38,708)
Balance at 31 December	332,117	299,375
Current	7,120	3,193
Non-current	324,997	296,182
Total	332,117	299,375

The fair values of the 'Liabilities relating to Policyholders' funds held by the group' are determined according to a three-level valuation hierarchy, which is explained in Note 24.

The fair value of these liabilities is based on the aggregation of prices quoted in active markets of their associated assets (Level 1), as disclosed in Note 24.

33 Leases liabilities

The group leases several assets including office buildings, office and IT equipment and motor vehicles.

Maturity analysis							
31 December 2020							
	Carrying value	0-1 year	1-2 years	2-5 years	5-10 years	>10 years	Total
	£000	£000	£000	£000	£000	£000	£000
Non-investment property	2,597	559	1,169	1,241	89	-	3,058
Property and equipment	50	18	40	6	-	-	64
Motor vehicles	102	51	56	15	-	-	122
Hardware	93	41	88	-	-	-	129
Other	2	-	2	-	-	-	2
Total	2,844	669	1,355	1,262	89	-	3,375
Current	776						
Non-current	2,068						
Total	2,844						

Maturity analysis							
31 December 2019							
	Carrying value	0-1 year	1-2 years	2-5 years	5-10 years	>10 years	Total
	£000	£000	£000	£000	£000	£000	£000
Non-investment property	2,220	536	998	734	93	-	2,361
Property and equipment	91	19	41	34	-	-	94
Motor vehicles	158	68	60	38	-	-	166
Hardware	48	23	27	-	-	-	50
Other	10	8	2	-	-	-	10
Total	2,527	654	1,128	806	93	-	2,681
Current	1,118						
Non-current	1,409						
Total	2,527						

34 Borrowings

Group 31 December	2020 £000	2019 £000
Bank loan	39,010	52,525
Amount due in relation to financial reinsurance	27,945	35,638
Total	66,955	88,163
Current	43,347	24,024
Non-current	23,608	64,139
Total	66,955	88,163

Company 31 December	2020 £000	2019 £000
Bank loan	39,010	52,525
Current	15,402	14,849
Non-current	23,608	37,676
Total	39,010	52,525

The bank loan as at 31 December 2020 comprises the following:

- on 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower. The proceeds of this loan facility were utilised, together with existing group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- on 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower.
- in April 2018 we converted our existing debt arrangement with RBS into a syndicated facility. This will provide access to higher levels of debt financing from a wider panel of lenders, which in turn will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, without being restricted by the lending capacity of one individual institution. This facility enables Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.

The fair value of the sterling denominated bank loan at 31 December 2020 was £15.0m (31 December 2019: £21.0m).

The fair value of the euro denominated bank loan at 31 December 2020 was £24.1m (31 December 2019: £31.7m).

The fair value of amounts due in relation to financial reinsurance was £27.5m (31 December 2019: £37.5m).

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

35 Defined benefit obligations

Scildon operated a defined Benefit Pension Scheme (Scheme) for the benefit of its present and past employees. This Scheme was closed during 2019 and transferred into a defined contribution scheme. From 1 October 2019, Scildon no longer bears any risks relating to the funding of the plan and all pension assets were transferred to another administrator during 2020. Until that point, Scildon continued to bear only the fund administration costs. A summary of the defined Benefit Pension Scheme assets and liabilities as at the balance sheet date and the movements in the period are provided below.

The amount included in the balance sheet arising from the obligations in respect of the Scheme is as follows:

As at period ended	2020 £000	2019 £000
Present value of defined benefit obligations	-	-
Fair value of plan assets	-	75
Surplus	-	75
Effect of asset ceiling test	-	-
Net liability arising from defined benefit obligation	-	75

As at 31 December 2019, there was no surplus in the Pension Fund due to the closure and transfer of the Scheme. The remaining liability within the Scheme is in relation to the remaining fund administration costs. The Scheme was accounted for under the provisions of IAS 19. As such, pension surplus assets were not recognisable on the face of the balance sheet and as a consequence were subject to an asset ceiling test, which effectively reduces the asset value to nil. Scildon was unable to recognise the surplus position in terms of potential refunds of past contributions made or through lower future contributions to the Scheme.

Amounts recognised in income in respect of the Scheme are as follows:

	2020 £000	2019 £000
Service cost:		
Current service cost	-	1,422
Past service cost	-	-
Net interest income	-	(21)
Special event – past service cost	-	117
Components of defined benefit costs recognised in profit or loss	-	1,518

The costs charged to the income statement are recorded under operating expenses as personnel costs.

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2020 £000	2019 £000
The return on plan assets (excluding amounts included in net interest expense)	-	6,796
Actuarial gains and losses arising from changes in assumptions	-	(936)
Actuarial gains and losses arising from experience adjustments	-	(577)
Adjustment for the effect of asset ceiling test	-	103
Plan amendments, impact on asset ceiling	-	(5,385)
Foreign exchange translation	-	(1)
Total profit for the year not recognised in income	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Defined benefit obligations (continued)

Movements in the present value of defined benefit obligations in the period were as follows:

	2020 £000	2019 £000
Balance 1 January	–	50,781
Current service cost	–	1,434
Interest cost	–	267
Contributions from the plan participants	–	673
Actuarial gains and losses arising from changes in assumptions	–	936
Actuarial gains and losses arising from experience adjustments	–	577
Benefits paid	–	(397)
Expected defined benefit obligation end of period	–	(9)
Past service pension costs	–	5,271
Transfer out of the defined benefit scheme	–	(58,395)
Foreign exchange translation	–	(1,138)
Balance at 31 December	–	–

Movements in the fair value of plan assets in the period were as follows:

	2020 £000	2019 £000
Balance 1 January	–	50,886
Benefits paid	–	(397)
Contributions from the employer	–	1,221
Contributions from the plan participants	–	267
Settlement	–	(58,395)
Interest income	–	694
Other costs	–	(9)
The return on plan assets (excluding amounts included in net interest expense)	–	6,796
Foreign exchange translation	–	(1,138)
Balance at 31 December	–	(75)

The cost of defined benefit pension amounts:

	2020 £000	2019 £000
Pension costs		
Current service pension costs	–	1,422
Total pension costs	–	1,422
Net interest		
Interest cost on the present value of promised retirement benefits	–	673
Interest income on assets	–	(694)
Net interest on the net liability defined benefit	–	(21)
Special event – past service cost	–	117
Total charged to profit and loss account	–	1,518

The principal actuarial assumptions applied to the Scheme valuation are as follows:

	31 December 2020	31 December 2019
Discount rate	–	1.25%
Interest income on assets	–	2.00%
General salary increases	–	2.00%
Deferred pension increases	–	0.00%
Inflation	–	2.00%

Distribution of plan assets:

	31 December 2020 £000	31 December 2019 £000
Other	–	(75)
Total	–	(75)

Period ended 31 December	2020			2019		
	Total £000	Not quoted	Quoted market price in an active market £000	Total £000	Not quoted	Quoted market price in an active market £000
Other	–	–	–	(75)	–	(75)
Total	–	–	–	(75)	–	(75)

The plan assets do not include investments that are issued by Scildon and do not include assets used by Scildon.

	2020 £000	2019 £000
Actual return on plan assets	–	7,261

The employer contribution expected to be paid in respect of 2020 is £nil (2019: £1.2m).

36 Deferred tax assets and liabilities

Deferred tax liabilities comprise:

31 December	2020 £000	2019 £000
Net deferred tax liabilities:		
CA and other group activities	(339)	(1,113)
Movestic	(206)	(195)
Waard Group	357	700
Scildon	(18,898)	(21,892)
Total	(19,086)	(22,500)
Current	(1,489)	(706)
Non-current	(17,597)	(21,794)
Total	(19,086)	(22,500)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

CA and other group activities

(a) Recognised deferred tax assets and liabilities

31 December	2019 Assets/ (liabilities) £000	Credit/ (charge) in year £000	2020 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(598)	162	(436)
Deferred acquisition costs	(260)	30	(230)
Deferred income	514	(44)	470
Acquired value in-force	(1,290)	527	(763)
Unrealised and deferred investment gains	(731)	(3,363)	(4,094)
Excess expenses of management	731	3,363	4,094
Share-based payments	517	103	620
Right of use-assets/lease liabilities	4	(4)	–
Total	(1,113)	774	(339)
Comprising:			
Net deferred tax liabilities	(1,113)	774	(339)
Total	(1,113)	774	(339)

31 December	2018 Assets/ (liabilities) £000	Credit/ (charge) in year £000	2019 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(806)	208	(598)
Deferred acquisition costs	(322)	62	(260)
Deferred income	616	(102)	514
Acquired value in-force	(1,872)	582	(1,290)
Unrealised and deferred investment gains	(11,477)	10,746	(731)
Excess expenses of management	11,477	(10,746)	731
Share-based payments	388	129	517
Right of use-assets/lease liabilities	–	4	4
Total	(1,996)	883	(1,113)
Comprising:			
Net deferred tax liabilities	(1,996)	883	(1,113)
Total	(1,996)	883	(1,113)

On 3 March 2021, the Chancellor announced plans to increase the corporation tax rate from 19% to 25% with effect from 1 April 2023. The main corporation tax rate has not yet been substantively enacted. The effect of the rate change on the recognised balance is not expected to be material.

Note (i) The deferred tax credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December	2020 £000	2019 £000
Income tax credit	774	883

(b) Items for which no deferred tax asset is recognised

31 December	2020 £000	2019 £000
BLAGAB transitional amounts	955	1,430
Unrelieved expenses	78,318	82,197
Total	79,273	83,627

A deferred tax asset has not been recognised in respect of unrelieved expenses, because it is not probable that there will be a sufficient level of taxable income arising from income and gains on financial assets, so that the group can utilise the benefits therefrom. The movement in this balance reflects an increase in deferred deemed gains on Collective Investment Schemes in the period, which has decreased the unrelieved expenses at the balance sheet date.

There are no aggregate temporary differences arising on the acquisition of subsidiaries or associated undertakings, for which deferred tax has not been recognised.

Movestic

(c) **Recognised deferred tax assets and liabilities**

As at the balance sheet date, Movestic had a recognised deferred tax liability of £0.2m (31 December 2019: £0.2m), in respect of fair value adjustments arising upon acquisition. Unrecognised deferred tax assets were nil at the balance sheet date in respect of corporation tax recoverable (31 December 2019: nil).

Ward Group

(d) **Recognised deferred tax assets and liabilities**

31 December	2019 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Foreign exchange translation difference £000	2020 Assets/ (liabilities) £000
Intangible assets				
Fair value adjustment on acquisition	(788)	68	(45)	(765)
Valuation differences	1,488	(446)	80	1,122
Total	700	(378)	35	357
Comprising:				
Net deferred tax asset	700	(378)	35	357
Total	700	(378)	35	357

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

Scildon

(e) Recognised deferred tax assets and liabilities

31 December	2019 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Recognised through equity £000	Foreign exchange translation difference £000	2020 Assets/ (liabilities) £000
Fair value adjustment on acquisition	(13,549)	7,229	–	(703)	(7,023)
Deferred acquisition costs	4,016	27	–	234	4,277
LAT reserve	–	2,474	–	29	2,503
Defined benefit pension scheme obligations	–	(11)	–	–	(11)
Revaluation of buildings and investment properties	(568)	99	–	(31)	(500)
Valuation differences on technical provisions	(7,900)	(774)	–	(469)	(9,143)
Valuation differences on investments at fair value through profit and loss	(3,891)	(4,844)	–	(266)	(9,001)
Total	(21,892)	4,200	–	(1,206)	(18,898)
Comprising:					
Net deferred tax liabilities	(21,892)	4,200	–	(1,206)	(18,898)
Total	(21,892)	4,200	–	(1,206)	(18,898)

37 Reinsurance payables

Payable to reinsurers 31 December	2020 £000	2019 £000
Payables in respect of insurance contracts	2,676	2,998
Payables in respect of investment contracts	13	13
Reinsurers' share of deferred acquisition costs and claims deposits	174	196
Total	2,863	3,207
Current	2,863	3,207
Non-current	–	–
Total	2,863	3,207

The carrying value of payables to reinsurers is a reasonable approximation of fair value.

38 Payables related to direct insurance and investment contracts

31 December	Gross £000	2020 Reinsurance £000	Net £000	Gross £000	2019 Reinsurance £000	Net £000
Accrued claims	72,593	12,716	59,877	65,330	14,132	51,198
Intermediaries' liabilities	1,309	–	1,309	1,313	–	1,313
Policyholder liabilities	20,129	–	20,129	19,029	–	19,029
Other	2,306	–	2,306	1,464	–	1,464
Total	96,337	12,716	83,621	87,136	14,132	73,004
Current	96,337	12,716	83,621	87,136	14,132	73,004
Non-current	–	–	–	–	–	–
Total	96,337	12,716	83,621	87,136	14,132	73,004

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value.

39 Deferred income

31 December	2020	2019
	£000	£000
Balance at 1 January	3,907	3,948
Additions	–	646
Release to income	(589)	(687)
Foreign exchange translation difference	37	–
Balance at 31 December	3,355	3,907
Current	390	376
Non-current	2,965	3,531
Total	3,355	3,907

The release to income is included in fees and commission income (see Note 8).

40 Other payables

Group		
31 December	2020	2019
	£000	£000
Accrued expenses	10,041	9,768
VAT	42	64
Employee tax	3,455	2,813
Other	36,569	29,083
Total	50,107	41,728
Current	50,107	41,728
Non-current	–	–
Total	50,107	41,728

Company		
31 December	2020	2019
	£000	£000
Accrued expenses	1,501	3,347
Other	358	843
Total	1,859	4,190
Current	1,859	4,190
Non-current	–	–
Total	1,859	4,190

The carrying value of other payables is a reasonable approximation of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Share capital and share premium

Group 31 December	2020		2019	
	Number of shares issued	Share capital £000	Number of shares issued	Share capital £000
Share capital	150,065,457	43,768	150,061,567	43,767
		Share premium £000		Share premium £000
		142,085		142,053

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2019: nil).

Share capital for the group includes the impact of 'reverse acquisition accounting' associated with Chesnara plc's acquisition of Countrywide Assured Life Holdings Ltd (CALH) from Countrywide plc (Countrywide) on 24 May 2004. As a result of this, included within share capital of the group is £41.5m, which represents the amount of issued share capital of Countrywide Assured Life Holding (the legal subsidiary) immediately before the acquisition. As a result of this accounting treatment the group share capital differs from the Chesnara plc company position, which is set out below.

Company 31 December	2020		2019	
	Number of shares	Share capital £000	Number of shares	Share capital £000
Authorised:				
Ordinary shares of 5p each	201,000,000	10,050	201,000,000	10,050
Issued:				
Ordinary shares of 5p each	150,065,457	7,496	150,061,567	7,495
		Share premium £000		Share premium £000
		142,085		142,053

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2019: nil).

42 Other reserves

Group 31 December	2020	2019
	£000	£000
Capital redemption reserve	50	50
Foreign exchange translation reserve	30,722	8,568
Balance at 31 December	30,772	8,618

Company 31 December	2020	2019
	£000	£000
Capital redemption reserve	50	50

43 Retained earnings

Group		
31 December	2020	2019
	£000	£000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	281,053	232,638
Profit for the year	21,191	79,142
Share based payment	492	593
Dividends		
Final approved and paid for 2018	–	(20,178)
Interim approved and paid for 2019	–	(11,142)
Final approved and paid for 2019	(20,814)	–
Interim approved and paid for 2020	(11,480)	–
Balance at 31 December	270,442	281,053

The interim dividend in respect of 2019, approved and paid in 2019 was paid at the rate of 7.43p per share. The final dividend in respect of 2019, approved and paid in 2020, was paid at the rate of 13.87p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2019 was made at the rate of 21.30p per share.

The interim dividend in respect of 2020, approved and paid in 2020, was paid at the rate of 7.65p per share to equity shareholders of the parent company registered at the close of business on 9 October 2020, the dividend record date.

A final dividend of 14.29p per share in respect of the year ended 31 December 2020 payable on 24 May 2021 to equity shareholders of the parent company registered at the close of business on 9 April 2021, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £21.4m has not been provided for in these financial statements and there are no income tax consequences.

The following summarises dividends per share in respect of the year ended 31 December 2019 and 31 December 2020:

Year ended 31 December	2020	2019
	p	p
Interim – approved and paid	7.65	7.43
Final – proposed/paid	14.29	13.87
Total	21.94	21.30

Company		
Year ended 31 December	2020	2019
	£000	£000
Balance at 1 January	227,760	193,548
Profit for the year	32,692	64,939
Share based payment	492	593
Dividends paid		
Final approved and paid for 2018	–	(20,178)
Interim approved and paid for 2019	–	(11,142)
Final approved and paid for 2019	(20,814)	–
Interim approved and paid for 2020	(11,480)	–
Balance at 31 December	228,650	227,760

Details of dividends, approved and paid, are set out in the 'group' section above.

44 Employee benefit expense, including directors

Year ended 31 December							
	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	2020 £000	2019 £000
Wages and salaries	2,408	7,177	1,204	11,072	3,068	24,929	24,461
Social security costs	291	2,774	147	1,189	371	4,772	5,430
Pension costs-defined contribution plans	176	1,513	133	1,228	225	3,275	2,012
Pension costs-defined benefit plans	-	-	-	-	-	-	1,515
Total	2,875	11,464	1,484	13,489	3,664	32,976	33,418
Monthly average number of employees							
Company						35	36
Subsidiaries						270	280
Total						305	316

Directors

The Directors' Remuneration Report and Note 45 provides detail of compensation to directors of the company.

UK

UK-based employees are all employed by Chesnara plc.

At the end of May 2005, the group allowed eligible employees to enter a pension scheme known as the Chesnara plc Stakeholder Scheme, on a basis where employer contributions are made to the Scheme at the same rate as would be payable had their membership of their predecessor scheme continued, provided that employee contributions also continued to be made at the same rate. The employee may opt to request the company to pay employer contributions into a personal pension plan, in which instance, employer contributions will be made on the same terms as for the Chesnara plc Stakeholder Scheme.

The group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

The group has established frameworks for approved and unapproved discretionary share option plans which may, at the discretion of the Remuneration Committee, be utilised for granting options to executive directors and to other group employees. Options have been granted to executive directors in the period, in relation to the share-based payment components of the new executive incentive schemes that was introduced under the 2014 terms. Further details can be found in the Directors' Remuneration Report section and in Note 45 – share based payments on page 193.

Waard

The Waard business participates in a defined contribution scheme.

Scildon

Scildon operated a defined benefit pension scheme for the benefit of its present and past employees. This Scheme was closed during 2019 and transferred into a defined contribution scheme. From 1 October 2019, Scildon no longer bears any risks relating to the funding of the plan and all pension assets will be transferred to another administrator during 2020. Until that point, Scildon continues to bear only the fund administration costs. Further details are provided in Note 35.

Under the company's new defined contribution scheme, Scildon pays a contribution to the Scheme and subsequently has no further financial obligations with respect to this part of the Scheme. This contribution is recognised as an expense when paid.

Movestic

The Swedish business participates in a combined defined benefit and defined contribution scheme operated by Försäkringsbranschens Pensionskassa, 'FPK'. (the Scheme). The Scheme is a multi-employer scheme with participants including other Swedish insurance companies not related to the group. The Scheme provides, for those born in 1971 or earlier, benefits to employees which are linked to their final salary and to the amount of time working for companies which are members of the Scheme. For those employees born in 1972 or later, the Scheme operates on a defined contribution basis.

Assets and liabilities are held on a pooled basis and are not allocated by the Trustee to any individual company. Consequently, reliable information is not available to account for the Scheme as a defined benefit scheme and therefore, in accordance with IAS 19 Employee Benefits, the Scheme is accounted for as a defined contribution scheme.

Contributions to the Scheme are based on the funding recommendations of the independent qualified actuary: the contributions paid to the Scheme subsequent to the acquisition of the Swedish business on 23 July 2009 and up to 31 December 2018, totalled £4.9m.

During 2020 further contributions of £0.3m were made.

The employers within the Scheme are collectively responsible for the funding of the Scheme as a whole and therefore in the event that other employers exit from the Scheme, remaining employers would be responsible for the ongoing funding. The collective nature of the Scheme results in all participating entities sharing the actuarial risk associated with the Scheme.

Försäkringsbranschens Pensionskassa, 'FPK', issues an audited Annual Report (under Swedish law-limited IFRS) each year. The last available published report was as at 31 December 2019.

The Annual Report states that the Scheme's surplus is £201.5m as at 31 December 2019 (£143.6m as at 31 December 2018).

As at 31 December 2019, the fund had assets under management of £1.5bn (£1.4bn as at 31 December 2018). During 2019 there have been 108 (31 December 2018: 116) employer insurance companies participating in the Scheme and 26,000 (31 December 2018: 26,000) insured individuals.

From the available information, it cannot be determined with certainty as to whether there would be a change in the required employer funding rate, although there is currently no deficit in the Scheme.

45 Share-based payments

The group issues equity-settled share-based payments to the two executive directors based on the 2014 terms. Equity settled share-based payments are measured at fair value at the date of the grant, and expensed on a straight-line over the vesting period, based on the group's estimate of shares that will eventually vest. The executive bonus scheme consists of two components:

(a) Short-Term Incentive (STI) Scheme

(b) Long-Term Incentive (LTI) Scheme

The STI Scheme is based upon a 1 year performance period measured against cash generation, EcV earnings and strategic group objectives. In relation to 2020, upon meeting the necessary performance targets, the company granted an award in the form of a right to receive a cash amount of up to 100% of the gross salary. In the event that the gross cash payment due is greater than £20,000, a mandatory 35% of the cash award was deferred into shares, which had a vesting period of 3 years. Therefore the award was 65% settled in cash and 35% settled by a share option award, which cannot be exercised for 3 years.

Under the LTI Scheme, options are granted with a vesting period of 3 years. These awards are subject to performance conditions tied to the company's financial performance in respect of growth in EcV and total shareholder return (TSR).

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. Fair value of the options is measured by use of the Monte Carlo model at the issuing date.

The LTI Scheme also contains a target of EcV growth. As this is a non-market performance condition, the number of options expected to vest is recalculated at each balance sheet date based on expectations of performance against target. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the group before options vest and is deemed to be a 'Bad Leaver'.

(a) 2020 award under the Short-Term Incentive (STI) Scheme

Details of the short-term incentive awards made in the year are as follows:

2020 Short-Term Incentive Scheme Awards made in year	2020 £000	2019 £000
Amount paid as cash bonus through the income statement (65%)	255	451
Amount deferred into shares for 3 years and subject to forfeiture (35%)	137	242
Total bonus award for the year	392	693
Amount of deferred expense recorded in the current year	59	57

The deferred share award will be made following the end of the performance period by the Remuneration Committee. The deferred amount will be divided by the share price on the award date and the number of share awards will be awarded. The share awards will be accounted for per IFRS 2, under Equity Settled share-based payments.

45 Share-based payments (continued)**(b) 2020 award made under the Long-Term Incentive (LTI) Scheme**

In April 2020, the group granted 224,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in economic value and total shareholder return (TSR).

The fair value of the non-market base condition was determined to be 323.50p, which was the share price as at 28 April 2020, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2020 Long-Term Incentive Scheme	2020	
	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	–	–
Granted during the year	224	–
Outstanding at the end of the year	224	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	323.50
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	184.04
Expected volatility	28.51
Expected life	3 years
Risk free rate	0.42%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £119,000 related to equity-settled share-based payments transactions in 2020

(c) 2019 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £57,000 with regards to the 35% element that has been deferred over the vesting period.

(d) 2019 award made under the Long-Term Incentive (LTI) Scheme

In April 2019, the group granted 196,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in economic value and total shareholder return (TSR).

The fair value of the non-market base condition was determined to be 358.50p, which was the share price as at 28 April 2019, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2019 Long-Term Incentive Scheme	2020		2019	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	196	–	–	–
Granted during the year	–	–	196	–
Outstanding at the end of the year	196	–	196	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	358.50
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	202.74
Expected volatility	25.35
Expected life	3 years
Risk free rate	1.110%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £66,000 related to equity-settled share-based payments transactions in 2020.

(e) 2018 award under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £18,000 with regards to the 35% element that has been deferred over the vesting period.

(f) 2018 award made under the Long-Term Incentive (LTI) Scheme

In April 2018, the group granted 168,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 410.00p, which was the share price as at 28 April 2018, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2018 Long-Term Incentive Scheme	2020		2019	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	168	–	168	–
Granted during the year	–	–	–	–
Outstanding at the end of the year	168	–	168	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	410.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	229.78
Expected volatility	25.77
Expected life	3 years
Risk free rate	1.190%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £64,000 related to equity-settled share-based payments transactions in 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Share-based payments (continued)**(g) 2017 award under the Short-Term Incentive (STI) Scheme**

The group has recorded an expense of £48,000 with regards to the 35% element that has been deferred over the vesting period.

(h) 2017 award made under the Long-Term Incentive (LTI) Scheme

In April 2017, the group granted 174,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 382.75p, which was the share price as at 28 April 2017, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2017 Long-Term Incentive Scheme	2020		2019	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	174	–	174	–
Lapsed during the year	(133)	–	–	–
Outstanding at the end of the year	41	–	174	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	382.75
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	211.73
Expected volatility	26.97
Expected life	3 years
Risk free rate	0.70%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £37,000 related to equity-settled share-based payments transactions in 2020.

(i) 2016 award under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £17,000 with regards to the 35% element that has been deferred over the vesting period.

(j) 2016 award made under the Long-Term Incentive (LTI) Scheme

In April 2016, the group granted 255,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 312.00p, which was the share price as at 28 April 2016, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2016 Long-Term Incentive Scheme	2020		2019	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	90	–	204	–
Exercised during the year	–	–	(48)	3.715
Lapsed during the year	–	–	(65)	–
Exercisable at the end of the year	90	–	90	–
Outstanding at the end of the year	–	–	–	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	312.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	179.72
Expected volatility	28.07
Expected life	3 years
Risk free rate	0.86%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £nil related to equity-settled share-based payments transactions in 2020.

(k) 2015 award made under the Long-Term Incentive (LTI) Scheme

In April 2015, the group granted 181,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 319.00p, which was the share price as at 28 April 2015, the grant date of the options.

There were no share options outstanding during at either balance sheet date.

The group recognised no expense related to equity-settled share-based payments transactions in 2019 and 2020.

46 Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2020	2019
Profit for the year attributable to shareholders (£000)	21,191	79,142
Weighted average number of ordinary shares	150,062,807	149,972,471
Basic earnings per share	14.12p	52.77p
Diluted earnings per share	14.03p	52.47p

The weighted average number of ordinary shares in respect of the year ended 31 December 2020 is based upon 150,065,457 shares. No shares were held in treasury.

There were 1,026,664 share options outstanding at 31 December 2020 (2019: 859,641). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2019 and 2020.

47 Contingencies**Past sales**

The group has made provision for the estimated cost of settling complaints in respect of past sales of endowment mortgages. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management, including future regulatory actions.

48 Capital commitments

There were no capital commitments as at 31 December 2020 or as at 31 December 2019.

49 Related parties**(a) Identity of related parties**

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

The company has related party relationships with:

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

(b) Related party transactions*(i) Transactions with key management personnel.*

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

	2020 £000	2019 £000
Short-term employee benefits	1,198	1,495
Post-employment benefits	70	70
Share-based payments	492	598
Total	1,760	2,163

The share-based payments charge comprises £0.2m (2019: £0.2m) of Short-Term Incentive (STI) Scheme, and £0.3m (2019: £0.4m) related to Long-Term Incentive (LTI) Scheme, which is determined in accordance with IFRS 2 'Share-based Payment'. Further details on the share-based payment are disclosed in Note 45.

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

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

	2020	2019
	£000	£000
Annual bonus scheme (included in the short-term employee benefits above)	392	694

These amounts have been included in Accrued Expenses as disclosed in Note 40. The amounts payable under the annual bonus scheme were payable within 1 year. The terms and conditions attached to the annual bonus scheme can be found in the remuneration section of these accounts on page 92.

(ii) Transactions with subsidiaries

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

Year ended 31 December	2020	2019
	£000	£000
Recovery of expenses	3,684	3,533

(iii) Transactions with associate

Movestic Livförsäkring AB and its associate Modernac SA

Year ended 31 December	2020	2019
	£000	£000
Reinsurance premiums paid	–	(68)
Reinsurance recoveries received	–	2,071
Reinsurance commission received	–	(42)
	–	1,961
Amounts outstanding as at balance sheet date	–	–

Movestic Livförsäkring AB had the no amounts outstanding at the balance sheet date following the liquidation of Modernac.

(iv) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Group entities

Control of the group

The issued share capital of Chesnara plc, the group parent company, is widely held, with no single party able to control 20% or more of such capital or of the rights which such ownership confers.

Group subsidiary companies

Name	Country of incorporation	Ownership interest 31 December 2020	Ownership interest 31 December 2019	Functional Currency
Countrywide Assured plc	United Kingdom	100% of all share capital (1)	100% of all share capital (1)	Sterling
Countrywide Assured Life Holdings Limited	United Kingdom	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Services Limited	United Kingdom	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Trustee Company Limited	United Kingdom	100% of all share capital	100% of all share capital	Sterling
Registered address 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, Lancashire PR1 8UY				
Movestic Livförsäkring AB	Sweden	100% of all share capital	100% of all share capital	Swedish krona
Movestic Balanserad	Sweden	100% of all share capital (7)	–	Swedish krona
Movestic Försiktig	Sweden	100% of all share capital (7)	–	Swedish krona
Movestic Global ESG	Sweden	100% of all share capital (7)	–	Swedish krona
Movestic Offensiv	Sweden	100% of all share capital (7)	–	Swedish krona
Movestic Global	Sweden	100% of all share capital (7)	–	Swedish krona
Movestic Kapitalförvaltning AB	Sweden	100% of all share capital (2)	100% of all share capital (2)	Swedish krona
Registered address Box 7853, S-103 99 Stockholm, Sweden				
Movestic Fund Management S.A.	Luxembourg	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Registered address 12 Rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg				
Modernac S.A.	Luxembourg	49% of all share capital (8)	49% of all share capital (8)	Swedish krona
Registered address BP 593 L-2015 Luxemburg, Luxembourg				
Chesnara Holdings B.V.	Netherlands	100% of all share capital (3)	100% of all share capital (3)	Euro
Waard Leven N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Waard Schade N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Waard Verzekering	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Registered address Geert Scholtenslaan II 1687 CL Wognum, Netherlands				
Scildon N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Registered address Laapersveld 68 Hilversum, Netherlands				

(1) Held indirectly through Countrywide Assured Life Holdings Limited.

(2) Held indirectly through Movestic Livförsäkring AB.

(3) Company formed on 25 November 2014.

(4) Held indirectly through Chesnara Holdings B.V.

(5) Held indirectly through Waard Leven N.V.

(6) Company formed on 6 March 2017. It has been put into liquidation during the year.

(7) Investment funds held indirectly by Movestic Livförsäkring AB.

(8) Held indirectly through Movestic Livförsäkring AB. Liquidated on 2 April 2020.

51 Portfolio acquisition

On 21 November 2019, Waard completed a deal to acquire a portfolio of term life insurance policies (TLI) and saving mortgages insurance policies (SMI) from Belgian insurance provider Argenta Assuranties N.V. (Aras). The SMI portfolio was accompanied by supporting financial assets via unit-linked investments in a client mortgage fund. Waard obtained control at the date of completion, which was 31 August 2020. The portfolios were successfully migrated on 5 September 2020 (27,664 TLI and 12,551 SMI in total policies 40,185).

The transaction has given rise to a post completion gain on acquisition of £0.4m calculated as follows:

Fair value	£000
Assets	
Client mortgage fund	319,641
Acquired value in-force	2,296
Deferred tax asset	5,815
Total assets	327,752
Liabilities	
Insurance contract provisions	300,697
Deferred tax liabilities	5,819
Total liabilities	306,516
Net assets	21,236
Net assets acquired	21,236
Total consideration, paid in cash	20,848
Post completion gain on portfolio acquisition	388

Gain on acquisition: A post-completion gain of £0.4m was recognised in relation to this acquisition and has been reported on the face of the statement of comprehensive income.

Acquisition-related costs: The portfolio was acquired for base a purchase price £25.4m as of 1 July 2019. For the period between cut-off date until the completion date of 31 August 2020, a roll-forward period was agreed. The purchase price as at 31 August 2020 was £20.8m. No advisory expenses directly related to the deal were accounted for by Waard. These expenses were borne by affiliated companies Chesnara plc and Chesnara Holdings B.V. As a result, no addition to the consideration was paid.

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

Pythonbrug, Amsterdam, Netherlands

A photograph of the Pythonbrug bridge in Amsterdam, Netherlands, featuring a modern, curved metal structure with a grid-like pattern. The bridge is set against a backdrop of a modern building with large windows and a clear sky. The image is overlaid with a large, semi-transparent red shape that frames the scene. The text 'SECTION E: ADDITIONAL INFORMATION' is prominently displayed in white, bold, sans-serif font across the lower half of the image.

SECTION E: ADDITIONAL INFORMATION



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General Meeting

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the notice of the Annual
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measures

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FINANCIAL CALENDAR

30 March 2021

Results for the year ended
31 December 2020 announced

08 April 2021

Ex-dividend date

09 April 2021

Dividend record date

23 April 2021

Last date for dividend reinvestment
plan elections

18 May 2021

Annual General Meeting

24 May 2021

Dividend payment date

26 August 2021

Half year results for the 6 months
ending 30 June 2021 announced

KEY CONTACTS

Registered and Head Office

2nd Floor, Building 4
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West Strand Road
Preston
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PR1 8UY

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www.chesnara.co.uk

Advisors

Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

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

Auditor

Deloitte LLP
Statutory Auditor
The Hanover Building
Corporation Street
Manchester
M4 4AH

Registrars

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

**Joint Stockbrokers and
Corporate Advisors**

Panmure Gordon
One New Change
London
EC4M 9AF

Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Bankers

National Westminster Bank plc
135 Bishopsgate
London
EC2M 3UR

The Royal Bank of Scotland
8th Floor, 135 Bishopsgate
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Lloyds Bank plc
3rd Floor, Black Horse House
Medway Wharf Road
Tonbridge
Kent
TN9 1QS

Public Relations Consultants

FWD
145 Leadenhall Street
London
EC3V 4QT

NOTICE OF THE ANNUAL GENERAL MEETING

This document is important and requires your immediate attention

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial advisor.

If you have sold or otherwise transferred all of your shares in Chesnara plc, please pass this document (together with the accompanying proxy form) as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Chesnara plc has a policy of not paying to have access to governance and sustainability analysts' databases on which voting recommendations and reports are produced. We encourage early, open and timely engagement to ensure the accuracy of the information contained in any analysis and reports issued in respect of Chesnara plc.

Company No. 4947166

Notice is given that the 2021 Annual General Meeting of Chesnara plc will be held at the offices of Chesnara plc, West Strand Business Park, West Strand Road, Preston, PR1 8UY on 18 May 2021 at 11am, for the business set out below. In light of the continuing Coronavirus (COVID-19) pandemic and resultant social distancing measures in place at the time of writing, shareholders will not be able to attend the AGM in person. Only the business of the AGM will be held at that time.

Resolutions 1 to 14 inclusive will be proposed as ordinary resolutions and resolutions 15 to 18 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2020, together with the reports of the directors and auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2020.
3. To declare a final dividend of 14.29 pence per ordinary share for the financial year ended 31 December 2020.
4. To re-elect John Deane as a director.
5. To re-elect David Rimmington as a director.
6. To re-elect Jane Dale as a director.
7. To re-elect Luke Savage as a director.
8. To re-elect Veronica Oak as a director.
9. To re-elect Mark Hesketh as a director.
10. To elect Eamonn Flanagan as a director.
11. To reappoint Deloitte LLP as auditor of the company to hold office until the conclusion of the next general meeting of the company at which accounts are laid before shareholders.
12. To authorise the directors to determine the auditor's remuneration.
13. That, from the passing of this resolution 13 until the earlier of the close of business on 30 June 2022 and the conclusion of the company's next Annual General Meeting, the company and all companies which are its subsidiaries at any time during such period are authorised:
 - (a) to make donations to political parties or independent election candidates;
 - (b) to make donations to political organisations other than political parties; and
 - (c) to incur political expenditure up to an aggregate total amount of £50,000, with the individual amount authorised for each of (a) to (c) above being limited to £50,000. Any such amounts may comprise sums paid or incurred in one or more currencies. Any sum paid or incurred in a currency other than sterling shall be converted into sterling at such rate as the board may decide is appropriate. Terms used in this resolution have, where applicable, the meanings that they have in Part 14 of the Companies Act 2006.
14. That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the Act), to exercise all the powers of the company, to allot shares in the company and/or to grant rights to subscribe for or to convert any security into shares in the company (Allotment Rights):
 - (a) up to an aggregate nominal amount of £2,501,249 such amount to be reduced by the aggregate nominal amount of any equity securities allotted pursuant to the authority in paragraph (b) below in excess of £2,501,249; and
 - (b) up to an aggregate nominal amount of £5,002,499 (such amount to be reduced by the nominal aggregate amount of any shares allotted or rights granted pursuant to the authority in paragraph (a) above) in connection with an offer by way of a rights issue:
 - i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the company, expire at the conclusion of the company's next Annual General Meeting (or, if earlier, at the close of business on 30 June 2022) save that the company may, before such expiry, make offers or agreements which would or might require securities to be allotted or Allotment Rights to be granted after such expiry and the directors may allot securities or grant Allotment Rights in pursuance of such offer or agreement notwithstanding the expiry of the authority conferred by this resolution.

NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

15. That, subject to the passing of resolution 15 in this notice, the directors be and are hereby empowered pursuant to Section 570 of the Companies Act 2006 (the Act) to allot equity securities (as defined in Section 560 of the Act) for cash, pursuant to the authority conferred on them by resolution 15 of this notice or by way of a sale of treasury shares as if Section 561 of the Act did not apply to any such allotment, provided that this power is limited to:

- (a) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the Financial Conduct Authority's listing rules) or any other pre-emptive offer that is open for acceptance for a period determined by the directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
- (b) the allotment of equity securities (other than pursuant to paragraph (a) above) with an aggregate nominal value of £375,187

and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 14 of this notice, save that, before the expiry of this power, the company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under any such offer or agreement as if the power had not expired.

16. That, subject to the passing of resolution 14 of this notice and, in addition to the power contained in resolution 15 of this notice, the directors be and are hereby empowered pursuant to Section 570 of the Companies Act 2006 (the Act) to allot equity securities (as defined in Section 560 of the Act) for cash, pursuant to the authority conferred on them by resolution 14 of this notice or by way of sale of treasury shares as if Section 561 of the Act did not apply to any such allotment, provided that this power is:

- (a) limited to the allotment of equity securities up to an aggregate nominal value of £375,187; and
- (b) used only for the purposes of financing (or refinancing, if the power is to be exercised within 6 months after the date of the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of the notice of this meeting,

and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 14 of this notice save that, before the expiry of this power, the company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under any such offer or agreement as if the power had not expired.

17. That the company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 (the Act) to make one or more market purchases (as defined in Section 693(4) of the Act) of ordinary shares in the capital of the company, provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15,007,496;
- (b) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is its nominal value;
- (c) the maximum price (exclusive of expenses) which may be paid for such ordinary shares is the maximum price permitted under the Financial Conduct Authority's listing rules or, in the case of a tender offer (as referred to in those rules), 5% above the average of the middle market quotations for those shares (as derived from the Daily Official. List of London Stock Exchange plc) for the 5 business days immediately preceding the date on which the terms of the tender offer are announced;
- (d) the authority hereby conferred shall expire at the conclusion of the company's next Annual General Meeting (or, if earlier, at the close of business on 30 June 2022); and
- (e) the company may enter into contracts or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

18. That a general meeting of the company (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

By order of the board



Alastair Lonie
Company Secretary

2nd Floor, Building 4
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY

29 March 2021

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

Impact of the Coronavirus pandemic on the AGM

The company has continued to closely monitor the situation in respect of the Coronavirus pandemic and the restrictions and precautionary measures still being taken across the country. As a result of these restrictions as they stand at the time of writing, the AGM will be held as a closed meeting with only a limited number of directors (in their capacity as shareholders or proxies appointed by shareholders), who will abide by social distancing recommendations, being present in person in order to form the quorum for a valid meeting. Physical attendance at the AGM by shareholders (other than the small number of directors required to form a quorum) will, regrettably, not be possible this year. The company will continue to update shareholders in the usual way, via the Regulatory News System (RNS), should the arrangements for the AGM change at short notice. There will as a result be no presentation given on business progress at this year's AGM and nor will refreshments be provided.

Given the current circumstances, the company strongly encourages shareholders to vote electronically. Instructions on voting are attached to the Notice of AGM sent out to shareholders and can also be found on the company's website. Shareholders may also wish to submit questions in advance via e-mail to info@chesnara.co.uk. We will endeavour to respond to questions raised directly, or by publishing responses on our website.

1. Any member who is entitled to attend and vote at this Annual General Meeting is entitled to appoint another person, or two or more persons in respect of different shares held by the shareholder, as their proxy to exercise all or any of their rights to attend and to speak and to vote at the Annual General Meeting. Members who wish to appoint a proxy should appoint the Chairman of the meeting as their proxy. As the AGM is being held as a closed meeting due to the Coronavirus pandemic, no other person appointed as a proxy will be permitted to attend the meeting in person (and any member who purports to appoint any person other than the Chairman as their proxy will be treated as having appointed the Chairman, who will vote in accordance with their instructions, in order to ensure that their vote is counted). Members are strongly encouraged to vote electronically.
2. You will not receive a form of proxy for the AGM in the post. Instead, you will receive instructions to enable you to vote electronically and how to register to do so. You may request a physical copy proxy form directly from the registrars, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL (telephone number: 0371 664 0300). If you request a physical copy proxy form, it must be completed in accordance with the instructions that accompany it and then delivered (together with any power of attorney or other authority under which it is signed, or a certified copy of such item) to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL so as to be received by 11am on Friday 14 May 2021.
3. Any member wishing to vote at the Annual General Meeting without attending in person or (in the case of a corporation) through its duly appointed representative, which is unfortunately not permitted at the time of writing in line with government measures to protect public health, must appoint a proxy to do so. A proxy need not be a member of the company, but as noted above members should appoint the Chairman of the meeting as their proxy as no other person appointed as a proxy will be permitted to attend the meeting in person. Members may appoint a proxy online by following the instructions for the electronic appointment of a proxy at www.signalshares.com by entering the company name 'Chesnara plc' and following the on-screen instructions. To be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by 11am on Friday 14 May 2021. Members who hold their shares in uncertificated form may also use the 'CREST' voting service to appoint a proxy electronically, as explained right.
4. CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in 'the CREST voting service' section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a 'CREST proxy appointment instruction') must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited ('Euroclear'), and must contain all the relevant information required by the CREST Manual. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Link Group (ID RA10), by 11am on Friday 14 May 2021, which is acting as the company's 'issuer's agent'. After this time, any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) the issuer's agent is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service providers should take into account the provisions of the CREST Manual concerning timings as well as its section on 'Practical limitations of the system'. In certain circumstances, the company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

5. Copies of directors' service contracts and letters of appointment are available for inspection at the registered office of the company during normal business hours each business day subject to prevailing public health measures. They will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.
6. The time by which a person must be entered on the register of members in order to have the right to vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast) is close of business on Friday 14 May 2021. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Annual General Meeting.
7. The right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006; as such rights can only be exercised by the member concerned. Any person nominated to enjoy information rights under Section 146 of the Companies Act 2006 who has been sent a copy of this notice of Annual General Meeting is hereby informed, in accordance with Section 149(2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Annual General Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
8. As at 23 March 2021 (being the last practicable date prior to the publication of this document), the company's issued share capital consisted of 150,074,957 ordinary shares, carrying one vote each. No shares were held by the company in treasury. Therefore, the total voting rights in the company as at 23 March 2021 (being the last practicable date prior to the publication of this document) were 150,074,957.
9. Information regarding this Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available at www.chesnara.co.uk Any electronic address provided either in this notice or any related documents may not be used to communicate with the company for any purposes other than those expressly stated.
10. In accordance with Section 319A of the Companies Act 2006, any member attending the Annual General Meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the Annual General Meeting, but no such answer need be given if (a) to do so would interfere unduly with the preparations for the Annual General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the company or the good order of the Annual General Meeting that the question be answered. As shareholders will be unable to attend this year's AGM due to the restrictions and public health measures introduced by the government in response to the Coronavirus pandemic, the company encourages shareholders to submit their questions electronically in advance of the meeting via info@chesnara.co.uk
11. Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement in accordance with Section 528 of the Companies Act 2006 setting out any matter relating to (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or (ii) any circumstances connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the company has been required under Section 527 of the Companies Act 2006 to publish on a website.
12. Members meeting the threshold requirements in Sections 338 and 338A of the Companies Act 2006 have the right to require the company (i) to give to members entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or (as applicable) the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the company not later than 11am on Tuesday 06 April 2021, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The notes on the following pages give an explanation of the proposed resolutions:

Resolution 1

Report & Accounts

The Companies Act 2006 requires the directors of a public company to lay its Annual Report & Accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report & Accounts comprise the audited Financial Statements, the Auditor's Report, the Directors' Report, the Directors' Remuneration Report, and the Directors' Strategic Report.

Resolutions 2

Approval of the Directors' Remuneration Report

In accordance with the Companies Act 2006, the company proposes ordinary resolution 2 to approve the Directors' Remuneration Report for the financial year ended 31 December 2020. The Directors' Remuneration Report can be found on pages 80 to 97 of the 2020 Report & Accounts and, for the purposes of this resolution, does not include the parts of the Directors' Remuneration Report containing the Directors' Remuneration Policy as set out on pages 91 to 97. The vote on this resolution is advisory only and the directors' entitlement to remuneration is not conditional on it being passed. The Companies Act 2006 requires the Directors' Remuneration Policy to be put to shareholders for approval annually unless the approved policy remains unchanged, in which case it need only be put to shareholders for approval at least every 3 years. The company is not proposing any changes to the Directors' Remuneration Policy approved at the Annual General Meeting in 2020.

Resolution 3

Final dividend

The declaration of the final dividend requires the approval of shareholders in general meeting. If the 2021 Annual General Meeting approves resolution 3, the final dividend of 14.29 pence per share will be paid on 24 May 2021 to ordinary shareholders who are on the register of members at the close of business on 09 April 2021 in respect of each ordinary share.

Resolutions 4 – 10 inclusive

Election and Re-election of directors

The company's Articles of Association provide that any director who has not been elected or re-elected by the shareholders at either of the two preceding Annual General Meetings is required to retire at the next Annual General Meeting. Additionally, the Articles of Association require such further directors to retire at the Annual General Meeting as would bring the total number of directors retiring up to one-third of their number.

Notwithstanding the provisions of the company's Articles of Association, the board of directors has determined that all the directors shall retire from office at this year's Annual General Meeting in line with the best practice recommendations of the UK Corporate Governance Code 2018 (the Code). Each of the directors intends to stand for re-election by the shareholders. Eamonn Flanagan was appointed to act as a director by the Board in July 2020 and, in line with the company's Articles of Association, Eamonn is retiring and seeking election by the shareholders. Biographical details of each director can be found on pages 68 and 69 of this document. The Chairman confirms that each of the directors proposed continues to make an effective and valuable contribution and demonstrates commitment to their responsibilities. This is supported by the annual performance evaluation that was undertaken recently. The board unanimously recommend that each of these directors be re-elected as a director of the company.

In accordance with the Code, the board has reviewed the independence of its non-executive directors and has determined that they remain fully independent of management.

Resolutions 11 and 12

Re-appointment and remuneration of auditor

The company is required to appoint an auditor, at each general meeting before which accounts are laid, to hold office until the end of the next such meeting. The Audit & Risk Committee has recommended the re-appointment of Deloitte LLP and has confirmed that such recommendation is free from influence by a third party and that no restrictive contractual terms have been imposed on the company. Deloitte LLP has indicated that it is willing to continue to act as the company's auditor.

Resolution 11, therefore, proposes Deloitte's reappointment as auditor to hold office until the next general meeting at which the company's accounts are laid before shareholders. Resolution 12 authorises the directors to determine the auditor's remuneration.

Resolution 13

Political donations

It has always been the company's policy that it does not make political donations. This remains the company's policy.

Part 14 of the Companies Act 2006 (the Act) imposes restrictions on companies making political donations to any political party or other political organisation or to any independent election candidate unless they have been authorised to make donations at a general meeting of the company. Whilst the company has no intention of making such political donations, the Act includes broad and ambiguous definitions of the terms 'political donation' and 'political expenditure' which may apply to some normal business activities which would not generally be considered to be political in nature.

The directors therefore consider that, as a purely precautionary measure, it would be prudent to obtain the approval of the shareholders to make donations to political parties, political organisations and independent election candidates and to incur political expenditure up to the specified limit. The directors intend to seek renewal of this approval at future Annual General Meetings but wish to emphasise that the proposed resolution is a precautionary measure for the above reason and that they have no intention of making any political donations or entering into party political activities.

Resolution 14**Power to allot shares**

The Companies Act 2006 provides that the directors may only allot shares if authorised by shareholders to do so. The directors' current allotment authority is due to lapse at the 2021 Annual General Meeting. The board is, therefore, seeking to renew its authority over shares having an aggregate nominal amount of £2,501,249, representing approximately one-third of the issued ordinary share capital of the company (excluding treasury shares) as at 23 March 2021 (being the latest practicable date prior to the publication of this document). The board is also seeking authority to allot shares having an aggregate nominal amount of £5,002,499, representing approximately two-thirds of the issued share capital of the company (excluding treasury shares) as at 23 March 2021 by way of a rights issue.

The allotment authority sought is in line with the Share Capital Management guidelines issued by the Investment Association. For the avoidance of doubt, the authority sought pursuant to this resolution will give the directors the ability to allot shares (or grant rights to shares) up to a maximum aggregate nominal amount of £5,002,499.

As at 23 March 2021, the company held no treasury shares.

The authority will expire at the earlier of the conclusion of the company's next Annual General Meeting and the close of business on 30 June 2022.

Passing resolution 14 will ensure that the directors have flexibility to take advantage of any appropriate opportunities that may arise. At present the directors have no intention of exercising this authority.

Resolutions 15 and 16**Disapplication of statutory pre-emption rights**

The directors are currently authorised, subject to certain limitations, to issue shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That authority will expire at the conclusion of the 2021 Annual General Meeting and, in accordance with the Statement of Principles issued by the Pre-Emption Group, resolutions 15 and 16 (which will be proposed as special resolutions) seek to renew the directors' authority to disapply pre-emption rights as referenced below.

Resolution 15, if passed, will allow the directors to (a) allot shares in the company for cash in connection with a rights issue or other pre-emptive offer; and (b) otherwise allot shares in the company for cash up to a maximum aggregate nominal value of £375,187, in each case as if the pre-emption rights of Section 561 of the Companies Act 2006 did not apply. This aggregate nominal amount equates to approximately 5% of the issued ordinary share capital of the company (excluding treasury shares) as at 23 March 2021 (being the latest practicable date prior to the publication of this notice of Annual General Meeting).

Resolution 16 is proposed as a separate special resolution. In line with the Pre-Emption Group's Statement of Principles, the company is seeking authority, to issue up to an additional 5% of its issued ordinary share capital for cash without pre-emption rights applying. In accordance with the Statement of Principles, the company will only allot shares under this additional authority in connection with an acquisition or specific capital investment (within the meaning given in the Statement of Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding 6 month period and is disclosed in the announcement of the allotment.

The board also confirms its intention to follow the provisions of the Statement of Principles regarding cumulative usage of authorities within a rolling 3 year period. Those provisions provide that no more than 7.5% of the issued share capital will be issued for cash on a non-pre-emptive basis during any rolling 3 year period, other than to existing shareholders, without prior consultation with shareholders. This limit excludes any ordinary shares issued pursuant to a general disapplication of pre-emption rights in connection with an acquisition or specified capital investment.

Resolution 17**Authority to purchase own shares**

This resolution, which will be proposed as a special resolution, seeks to renew the company's authority to purchase its own shares. It specifies the maximum number of shares which may be acquired as 10% of the company's issued ordinary share capital (excluding treasury shares) as at 23 March 2021, being the latest practicable date prior to the publication of this document, and specifies the minimum and maximum prices at which shares may be bought.

The directors will only use this authority if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be (where such shares are to be purchased for cancellation) to increase earnings per share, and that taking into account other investment opportunities, purchases will be in the best interests of the shareholders generally. Any shares purchased in accordance with this authority will be cancelled or held in treasury for subsequent transfer to an employee share scheme. The directors have no present intention of exercising this authority, which will expire at the earlier of the conclusion of the company's next Annual General Meeting and the close of business on 30 June 2022.

The company has options and awards outstanding under existing share schemes over an aggregate of 1,026,664 ordinary 5p shares, representing 0.68% of the company's issued ordinary share capital (excluding treasury shares) as at 23 March 2021 (the latest practicable date prior to the publication of this document). This would represent approximately 0.76% of the company's issued share capital (excluding treasury shares) if the proposed authority being sought at the Annual General Meeting to buy back 15,007,496 ordinary shares was exercised in full (and all the repurchased ordinary shares were cancelled).

Resolution 18**Notice of general meetings**

The Companies Act 2006 requires the notice period for general meetings of the company to be at least 21 days, but, as a result of a resolution which was passed by the company's shareholders at last year's Annual General Meeting, the company is currently able to call general meetings (other than an Annual General Meeting) on not less than 14 clear days' notice. In order to preserve this ability, shareholders must once again approve the calling of meetings on not less than 14 clear days' notice. Resolution 18 seeks such approval. The approval will be effective until the company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The company will also need to meet the statutory requirements for electronic voting before it can call a general meeting on less than 21 days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Directors' recommendation







The directors recommend all shareholders to vote in favour of all of the above resolutions, as the directors intend to do in respect of their own shares (save in respect of those matters in which they are interested), and consider that all resolutions are in the best interests of the company and its shareholders as a whole.

ALTERNATIVE PERFORMANCE MEASURES








Throughout our Report & Accounts 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 Overview (Section A), with detailed reference within the Financial Review (pages 44 to 49).

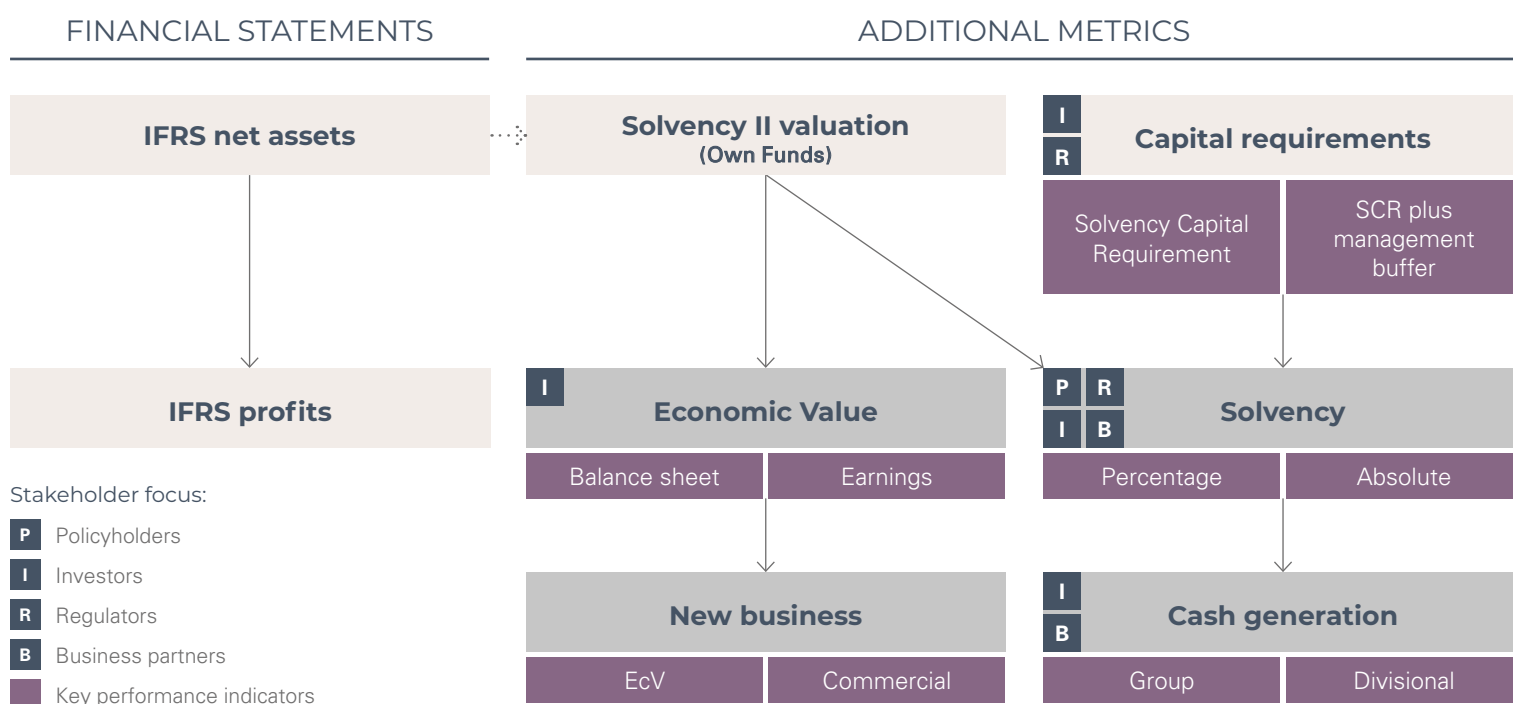
APM	WHAT IS IT?	WHY DO WE USE IT?	REF
Economic Value (EcV)	 <p>EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.</p> <p>We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.</p>	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 49
Economic Value (EcV) earnings	 <p>The principal underlying components of the Economic Value earnings are:</p> <ul style="list-style-type: none"> – The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force); – Value added by the writing of new business; – Variations in actual experience from that assumed in the opening valuation; – The impact of restating assumptions underlying the determination of expected cash flows; and – The impact of acquisitions. 	By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. Economic Value earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The Economic Value earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives.	See EcV earnings analysis on page 48
EcV operating earnings	 <p>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.</p>	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 48
EcV underlying operating earnings	 <p>EcV operating earnings (see above) exclusive of any individually material (positive or negative) items of an exceptional or non-recurring nature, that would not fall under normal business as usual operations.</p>	This helps management and investors identify the underlying performance of the business as usual operations of the company.	See EcV earnings analysis on page 48
EcV economic earnings	 <p>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.</p>	EcV economic earnings are important in order to measure the additional value generated from investment market factors.	See EcV earnings analysis on page 48
Commercial new business profit	 <p>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.</p>	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 36 to 39

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

APM		WHAT IS IT?	WHY DO WE USE IT?	REF
Group cash generation		<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Group cash generation is calculated as the movement in the group's surplus Own Funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart.</p>	<p>Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'.</p>	See cash generation on page 46 and reconciliation on page 214
Divisional cash generation		<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.</p>	<p>It is an important indicator of the underlying operating performance of the business before the impact of group level operations and consolidation adjustments.</p>	See cash generation on page 46
Commercial cash generation		<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Commercial cash generation excludes the impact of technical adjustments, modelling changes and exceptional corporate activity; representing the underlying commercial cash generated by the business.</p>	<p>Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to technical complexities or exceptional items. The result is deemed to better reflect the underlying commercial performance, show key drivers within that.</p>	See cash generation on page 47
Funds under management (FuM)		<p>FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.</p>	<p>FuM are important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.</p>	See Consolidated Balance Sheet on page 119
Operating profit, excluding AVIF impairment		<p>A measure of the pre-tax profit earned from the company's ongoing business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.</p>	<p>Operating earnings are important as they provide an indication of the underlying profitability of the business. It can help identify profitable activities and also inefficient processes and potential management actions.</p>	Reconciliation to pre-tax profit can be found on page 50
Economic profit, excluding AVIF impairment		<p>A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.</p>	<p>Economic earnings are important in order to measure the surplus generated from investment market factors.</p>	Reconciliation to pre-tax profit can be found on page 50
Acquisition value gain (incremental value)		<p>Acquisition value gains reflect the incremental Economic Value added by a transaction, exclusive of any additional risk margin associated with absorbing the additional business.</p>	<p>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.</p>	See acquire life & pensions businesses on page 40
Leverage/gearing		<p>A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as bank debt divided by bank debt plus equity, as measured under IFRS.</p>	<p>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.</p>	See Financial Management on page 51

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	31 Dec 2020	31 Dec 2019	Rationale
Group IFRS net assets	487.1	478.2	
Removal of intangible assets; AVIF, DAC and DIL	(137.7)	(157.5)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	8,082.0	7,375.9	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	(7,856.1)	(7,076.1)	
Other valuation differences	10.9	2.0	Other immaterial valuation differences.
Deferred tax valuation differences	4.4	–	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(21.4)	(20.8)	Under Solvency II rules, future ‘foreseeable dividends’ are required to be recognised within Own Funds. Under IFRS rules, dividends are recognised when paid.
Ring-fenced surpluses	(1.5)	(10.8)	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	567.7	590.9	

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

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

RECONCILIATION OF METRICS (CONTINUED)

Solvency II position

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

A summary of the solvency position of the group at 31 December 2020 and 31 December 2019 is as follows:

£m	31 Dec 2020	31 Dec 2019
Group SII Own Funds (OF)	567.7	590.9
Solvency Capital Requirement (SCR)	363.7	380.1
Solvency surplus	204.0	210.8
Solvency ratio	156%	155%

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 212 and the Financial Review section.

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

	£m
Opening Solvency II surplus, including management buffer of 10%:	
Own Funds – 31 Dec 2019	590.9
SCR – 31 Dec 2019	380.1
Management buffer (10% of SCR)	38.0
Surplus available for distribution – 31 Dec 2019	172.8
Closing Solvency II surplus, including management buffer of 10%:	
Own Funds – 31 Dec 2020	567.7
SCR – 31 Dec 2020	363.7
Management buffer (10% of SCR)	36.4
Surplus available for distribution – 31 Dec 2020	167.6

The closing Solvency II position at 31 December 2020 reflects the payment of an interim dividend of £11.5m paid during the year and reflects a foreseeable dividend of £21.4m due to be paid in 2021. As these are distributions to shareholders, akin to IFRS profit reporting, these do not form part of the cash generation metric and should be excluded. Consequently, group cash generation can be derived as follows:

	£m
Closing surplus available for distribution less opening available surplus for distribution	(5.2)
Add back: Interim dividend paid	11.5
Add back: Foreseeable year end dividend	21.4
Group cash generation	27.7

GLOSSARY

AGM	Annual General Meeting.	IFA	Independent Financial Adviser.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	KPI	Key Performance Indicator.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	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.
CA	Countrywide Assured plc.	London Stock Exchange	London Stock Exchange plc.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	LTI	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.
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.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
Commercial cash generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the underlying commercial cash generated by the business.	Official List	The Official List of the Financial Conduct Authority.
Divisional cash generation	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.	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).
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	Ordinary shares	Ordinary shares of 5 pence each in the capital of the company.
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.	ORSA	Own Risk and Solvency Assessment.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	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.
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).	PRA	Prudential Regulation Authority.
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.	QRT	Quantitative Reporting Template.
FCA	Financial Conduct Authority.	ReAssure	ReAssure Limited.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
Form of proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	RMF	Risk Management Framework.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	Scildon	Scildon N.V.
Group	The company and its existing subsidiary undertakings.	Shareholder(s)	Holder(s) of Ordinary Shares.
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.	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 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.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
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.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors' short-term performance.
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.	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.
HCL	HCL Insurance BPO Services Limited.	Swedish business	Movestic and its subsidiaries and associated companies.
IFRS	International Financial Reporting Standards.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
		TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
		TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
		UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
		UK Business	CA and S&P.
		VA	The Volatility Adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.
		Waard	The Waard Group.

NOTE ON TERMINOLOGY

As explained in Note 7 to the IFRS financial statements, the principal reporting segments of the group are:

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; S&P which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December; and Protection Life Company Limited which was acquired by the group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
Movestic	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	which was acquired on 19 May 2015 and comprises two insurance companies; Waard Leven N.V. and Waard Schade N.V.; and a service company, Waard Verzekeringen; and
Scildon	which was acquired on 5 April 2017; and
Other group activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

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

