



ANNUAL REPORT
& ACCOUNTS

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Chesnara

WELCOME TO THE
CHESNARA ANNUAL
REPORT & ACCOUNTS

FOR YEAR ENDED 31 DECEMBER 2021

I 2021 FINANCIAL HIGHLIGHTS

IFRS PRE-TAX PROFIT

£28.8M

2020: £24.6m

COMMERCIAL CASH GENERATION†

£53.0M

2020: £27.7m

GROUP SOLVENCY

152%

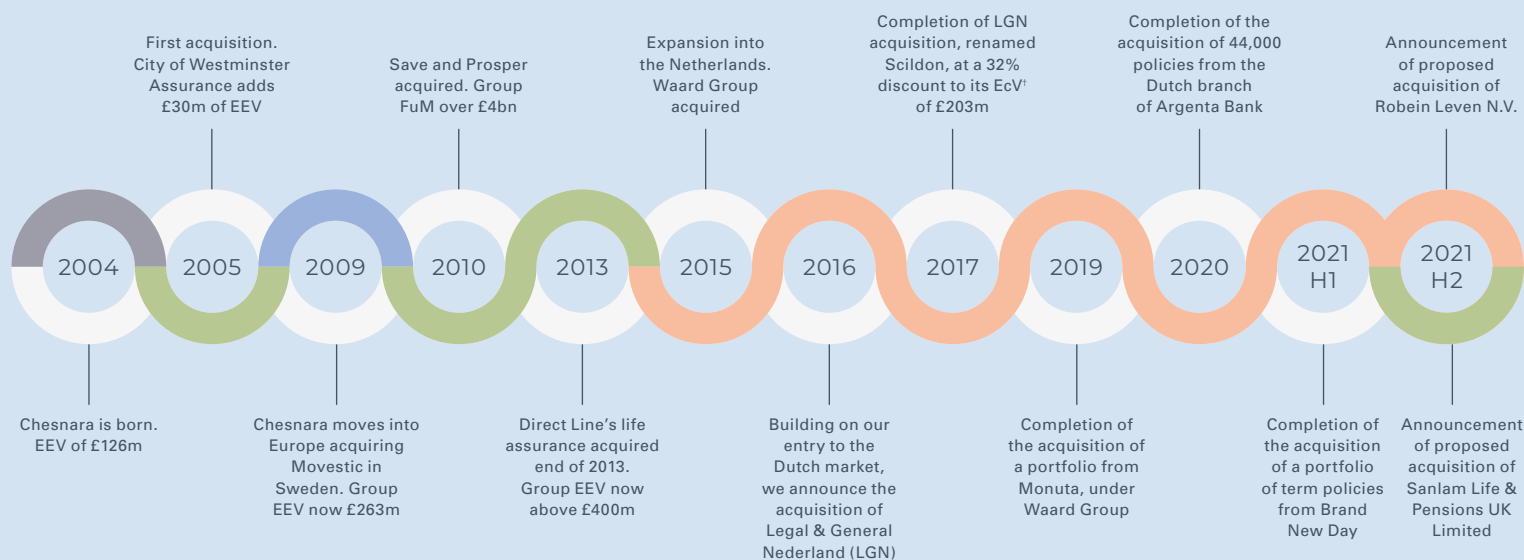
2020: 156%

FUNDS UNDER MANAGEMENT†

£9.1BN

2020: £8.5bn

COMPANY HISTORY



SYMBOL GUIDE

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

- IFRS
- Cash generation
- Economic Value
- Economic Value earnings
- Solvency
- Commercial new business
- Acquisitions
- Dividend/Total Shareholder Return
- Customers
- Operational performance
- Compliance
- Risk appetite

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

WELCOME TO THE CHESNARA ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

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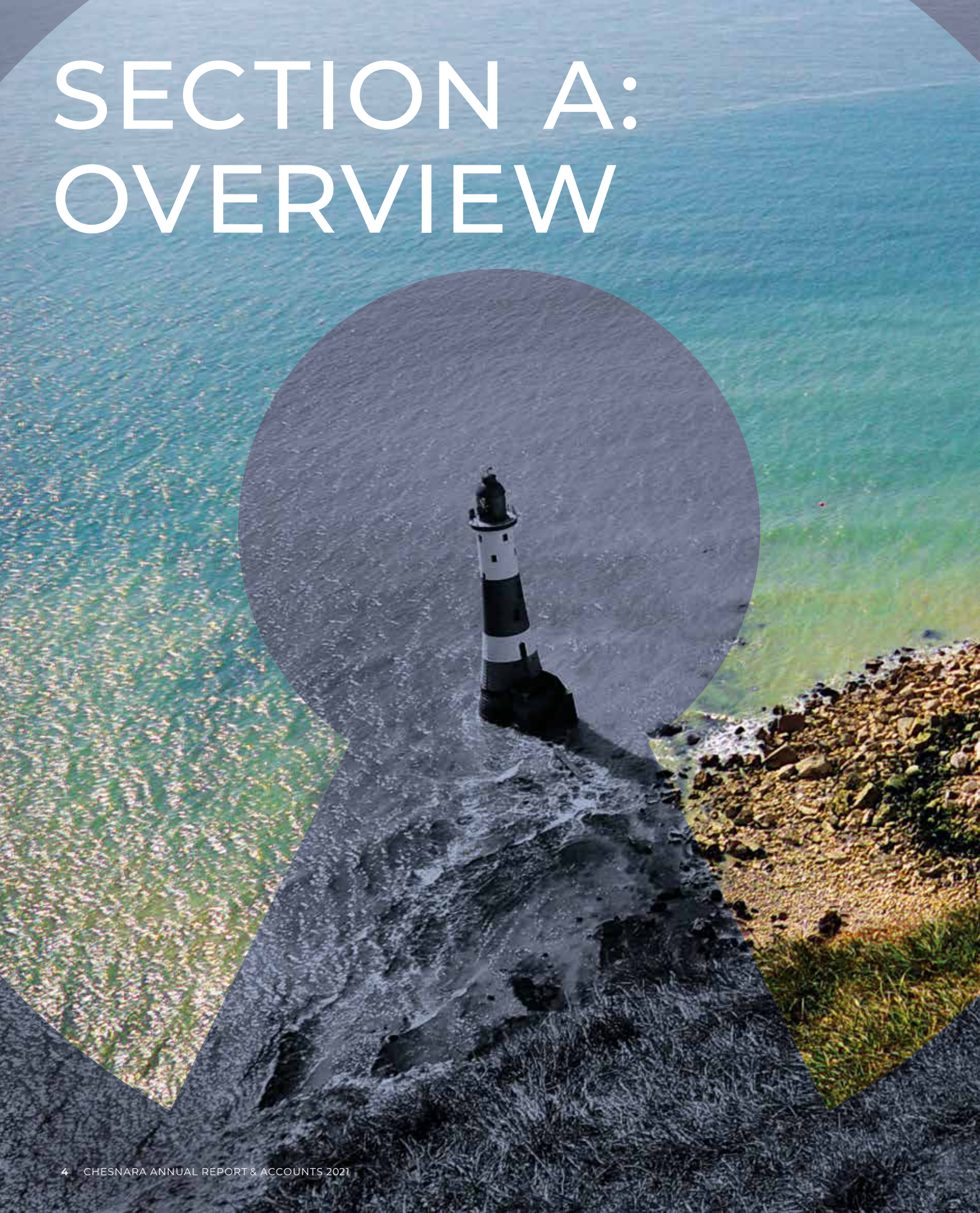
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SECTION A: OVERVIEW



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AN INTRODUCTION TO CHESNARA

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

At Chesnara, with customers at the forefront of all we do, we focus on three things:

1. The efficient management of life assurance and pension books and policies.
2. Creating value through acquiring new companies or books of business.
3. Writing new business where we are confident that conditions will ensure the products are value adding and ultimately support longer term cash generation.

This focus has enabled us to deliver strong levels of cash generation, a growing dividend and a robust and stable solvency position over the last 18 years. And we look forward with confidence in our ability to continue this delivery in the future.

WHO WE ARE AND WHERE WE CAME FROM

Chesnara plc is a responsible, profitable and well capitalised company, formed in 2004 and listed on the London Stock Exchange.

- The group comprises both open-book and closed-book operations.
- 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 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 pages 7 to 9 for further detail on our history and businesses.
- We are a carbon neutral organisation across our direct operations. Over the course of the year Chesnara has given particular focus to environmental, social and governance ('ESG') matters. In this regard our aim has been to integrate the 'triple bottom line' approach of people, profit and planet within our activities.

WHAT WE DO

- We help protect customers and their dependents through the provision of life, health and disability cover and by providing savings and pensions to enable policyholders to meet their financial needs in the future.

OUR STRATEGIC OBJECTIVES:

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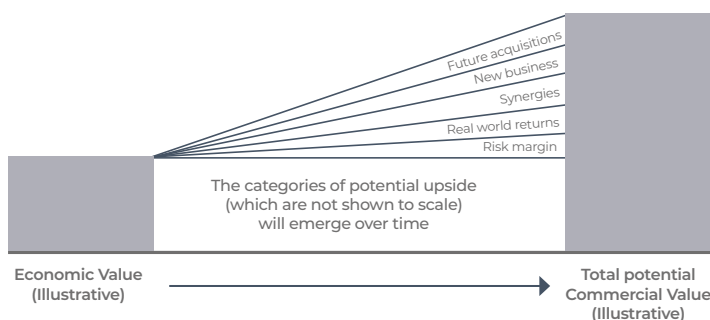
**OUR CULTURE & VALUES –
RESPONSIBLE RISK-BASED MANAGEMENT**

† 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 and Accounts.

HOW WE CREATE VALUE

Customer

- We deliver effective customer service operations with clear communication and competitive fund performance.
- Customers can also be confident in the security of their policies through the robust solvency levels we run our businesses to.
- We treat customers fairly and prioritise good investment returns and service levels. Product reviews help ensure customer fair outcomes.




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 shareholder dividend and support our wish to be a share held for the long term by our shareholders. The diagram below illustrates the primary sources of growth that contribute towards surplus emergence.
- Growth from both our proven acquisition model and from writing profitable new business in Sweden and the Netherlands has a positive impact on the Economic Value[†] of the business and supports longer-term cash generation.
- Customers are charged AMC's (annual management charge) for unit-linked products and pay premiums for insurance policies.

HOW WE OPERATE

- Chesnara has a centrally defined governance and risk management framework operating across the group and all its divisions.
- Our management teams have clear responsibilities and are accountable for the delivery of set objectives and the identification and management of risks and opportunities, including those arising from climate change.
- Our 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 form a key part of our strategy and are assessed against stringent financial criteria adopting a robust risk-based due diligence process.
- We maintain robust solvency and liquidity levels as part of our wider capital management framework.
- Chesnara's governance and risk management framework is designed to deliver long-term benefit to our customers, shareholders, employees, regulators, outsourcing partners and local communities.

UK 

FUNDS UNDER MANAGEMENT[†]
£2.3bn

POLICIES
c219,000

SWEDEN 

FUNDS UNDER MANAGEMENT
£4.4bn

POLICIES
c320,000

NETHERLANDS 

FUNDS UNDER MANAGEMENT
£2.4bn

POLICIES
c337,000



CHESNARA 

FUNDS UNDER MANAGEMENT
£9.1bn

POLICIES
c876,000

DELIVERING OUR STRATEGY • WHAT WE'VE DONE

9 successful acquisitions across 3 territories with 2 more announced.

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

- From value enhancing ‘bolt-on’ deals to more transformative deals
- Capability to find value in the UK, Netherlands and beyond
- Flexible and efficient deal funding solutions
- Ability to find expedient solutions to de-risk where required

We have a well-established and robust framework against which we assess M&A ensuring that activity has:

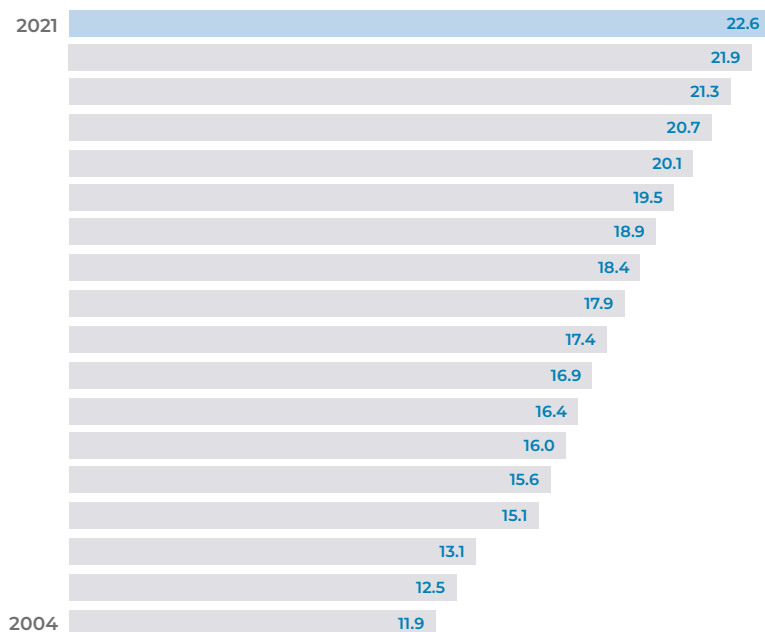
- Enhanced cash generation in the medium term
- Been within Chesnara’s risk appetite
- Been subject to appropriate due diligence
- Been either neutral or positive in terms of customer outcomes

DIVIDEND HISTORY

17 SUCCESSIVE YEARS OF DIVIDEND GROWTH

We recognise the importance of providing stable and attractive dividends to our shareholders. A full year 2021 dividend of 22.60p per share represents an increase of 3% on the prior year and is Chesnara’s seventeenth successive year of dividend growth.

Dividend per share history Pence per share

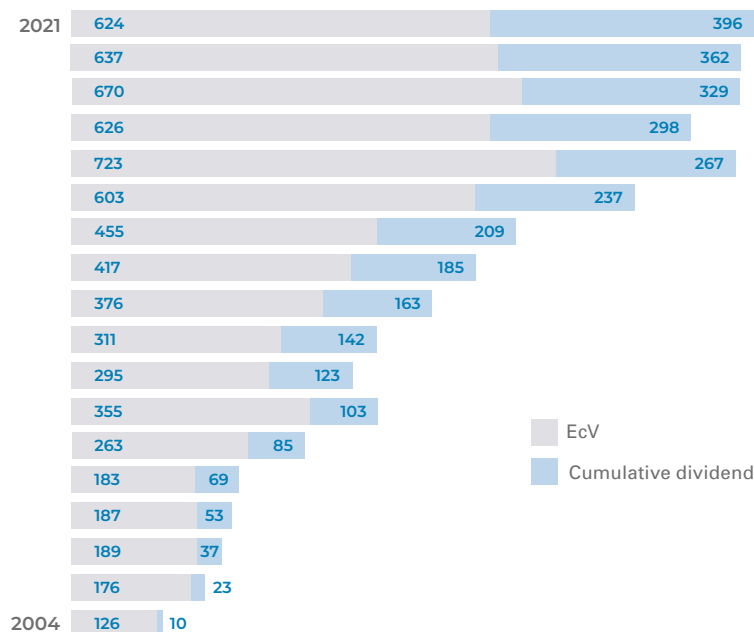


ECONOMIC VALUE[†] GROWTH

395% OF VALUE GROWTH SINCE 2004

Economic Value (EcV)[†] growth is achieved through a combination of efficient management of the existing policies, investment returns above risk free rates of return, acquisitions and writing profitable new business. The growth since incorporation includes £148m of new equity and is **net of £396m of cumulative dividend payments**. EcV growth supports longer-term cash generation.

Economic Value history £m



Focusing on our three strategic objectives has enabled us to deliver sustainable growth in cash generation over the long term. And we are confident we can continue this delivery in the future.



CASH GENERATION†

CUMULATIVE COMMERCIAL CASH GENERATION† OF £211M HAS EXCEEDED OUR DIVIDENDS BY 33% OVER THE LAST 5 YEARS

The group generates cash to service its dividends and reinvest in the business including through acquisitions. We define cash generation as the movement in the group's surplus Own Funds above the group's internally required capital. Our commercial cash generation metric looks through the impact of technical components like the symmetric adjustment to show the group's view of the surplus being generated. Cumulative commercial cash generation over the last five years represents 133% of the total dividends over the same period.



CUSTOMERS

OUR PRIMARY RESPONSIBILITIES REMAIN TO OUR CUSTOMERS

- Customers and their advisors 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.

† 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 and Accounts.

2021 HIGHLIGHTS

 CASH GENERATION

£20.3M GROUP CASH GENERATION⁷

2020 £27.7m

Group cash generation of £20.3m (2020: £27.7m) has been suppressed by a number of technical items including a temporary increase in capital requirements as a direct consequence of the symmetric adjustment (which requires more capital following periods of good equity growth). Looking through such technical matters we report a strong commercial cash generation of £53.0m (2020: £27.7m). [Financial review p48](#)

£53.0M COMMERCIAL CASH GENERATION⁹

2020 £27.7m

 SOLVENCY

152% GROUP SOLVENCY

2020 156%

We are well capitalised at both group and subsidiary level under Solvency II. Our group solvency has remained robust and stable through a wide range of market conditions over the last few years. [Capital management p44](#)

 FuM

£9.1BN FUNDS UNDER MANAGEMENT³

2020 £8.5bn

2021 saw strong equity market growth, which supported an increase in our Funds Under Management (FuM).

[Financial statements p135](#)

 ECONOMIC VALUE

£624.2M ECONOMIC VALUE⁴

2020 £636.8m

EcV earnings of £57.8m were offset by the impact of dividend distributions of £33.3m (2020: £32.3m) and a foreign exchange loss of £37.1m (2020: gain of £36.7m). [Financial review p51](#)

£57.8M ECONOMIC VALUE EARNINGS⁵

2020 £(37.6)m

The year-on-year swing is predominantly due to changing economic conditions. [Financial review p50](#)

 COMMERCIAL NEW BUSINESS PROFIT

£9.6M COMMERCIAL NEW BUSINESS PROFIT⁶

2020 £10.5m

Profits of £9.6m provide c30% coverage of the dividend payments in the year, as a result of new business written during 2021. The results remain somewhat impacted by COVID-19 conditions and we retain an expectation of post COVID-19 recovery. Despite market challenges new business has created £21.9m of incremental future cash flow expectations (2020: £21.9m).

[Business review pages 38 to 41](#)

 IFRS

£28.8M IFRS PRE-TAX PROFIT

2020 £24.6m

This includes profits arising from operating activities² of £40.7m (2020: £30.6m). The 2020 results included an intangible asset impairment charge of £27.6m.

£3.8M TOTAL COMPREHENSIVE INCOME

2020 £43.3m

The 2021 result includes a foreign exchange loss of £23.9m (2020: gain of £22.6m). [Financial review p52](#)

DIVIDEND

FULL YEAR DIVIDEND INCREASED FOR THE 17TH CONSECUTIVE YEAR

Total dividends for the year increased by 3% to 22.60p per share (7.88p interim and 14.72p proposed final). This compares with 21.94p in 2020 (7.65p interim and 14.29p final).

ECONOMIC BACKDROP

EQUITY MARKET GROWTH DELIVERS ECONOMIC RETURNS, OFFSETTING THE NEGATIVE IMPACT OF STERLING STRENGTHENING

The 'post-pandemic' market recovery continued with further growth across most indices throughout 2021, resulting in a solid year of investment returns. Equity market growth, alongside rising interest rates and bond yields, have supported strong economic returns in each of the operating divisions. Sterling appreciation against the euro and Swedish krona over the year has led to material foreign exchange translation losses, reversing similar scale gains in 2020. The results fully reflect the impact of inflationary pressure up to the end of 2021. Since the year end, we have seen downward pressure on equities, yield increases and further increases to inflation. In line with our sensitivities, we would expect a continued stable solvency position, albeit the Economic Value will have reduced.

GROWTH AND ACQUISITIONS

THE GROUP CONTINUES TO EXPAND THROUGH M&A

During 2021 we announced two further acquisitions. The acquisition of Sanlam Life & Pensions UK, which is expected to complete in the first half of 2022 and will add c£3bn of FuM. Growth in the Netherlands also continued within the Waard Group, with the completion of the Brand New Day portfolio acquisition. The announcement of the acquisition of Robein Leven NV, also due to complete in 2022, will bring Waard's total policy count to c133,000, representing a 142% increase compared to the policies in force on entry to the Dutch market. We remain optimistic about the outlook for future deals.

OPERATIONAL GROWTH DELIVERED IN POLICIES AND FuM

Despite two of our divisions being closed to new business, at a consolidated level the group has delivered operational growth with increases in both policies and FuM. Pro-forma the impact of the announced acquisitions, 3-year policy growth will be 9%, while FuM have increased 59% over the same period, a rise of £4.5bn.

Notes: Items 1 to 9 below are Alternative Performance Measures (APMs) used by the group to supplement the required statutory disclosures under IFRS and Solvency II, providing additional information to enhance the understanding of financial performance. Further information on these APMs can be found on page 12, throughout the Financial Review and in the APM appendix on pages 224 and 225.

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

MEASURING OUR PERFORMANCE

Throughout our Report and 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.

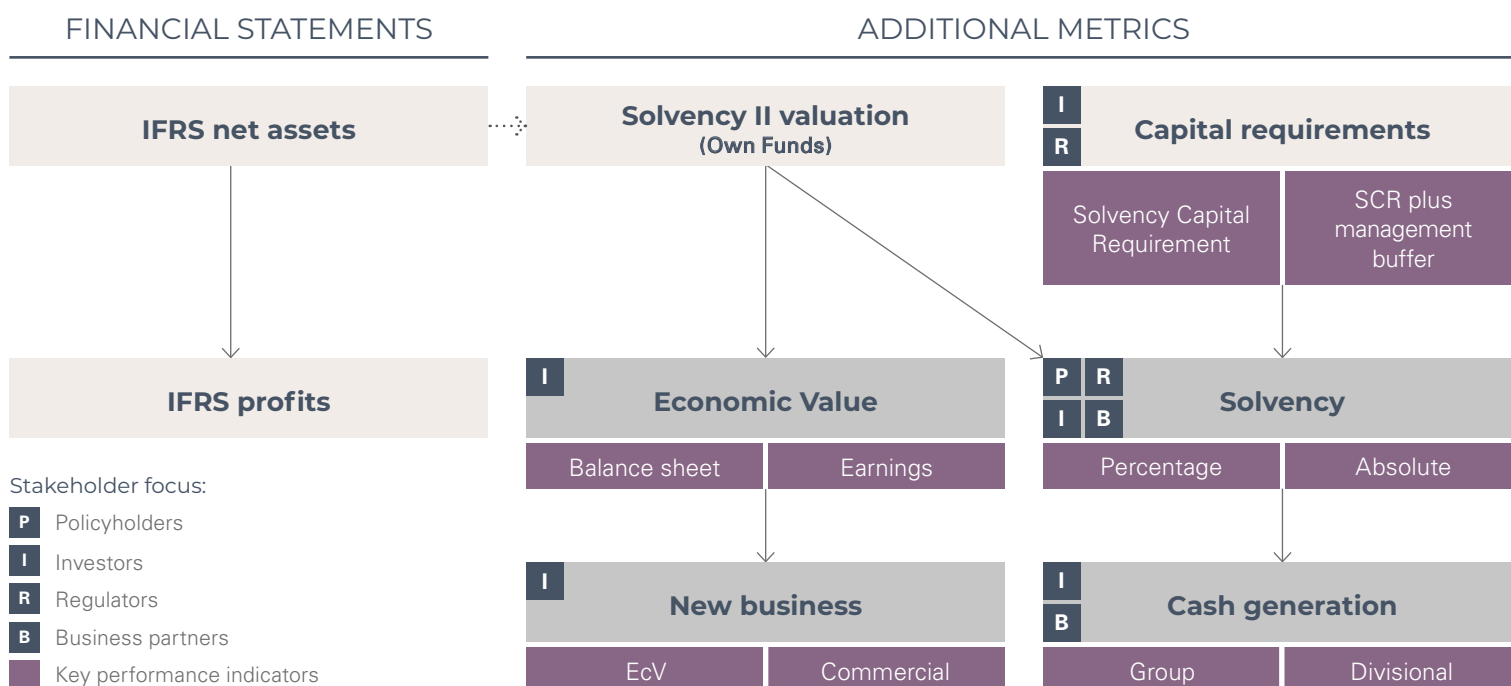
FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

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

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

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

Further detail on APMs can be found in the appendix on pages 224 and 225.



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 43 to 45 & 226 to 227.

ECONOMIC VALUE

Economic Value (EcV) is deemed to be a more meaningful measure of the long-term value of the group than Own Funds. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations of long-term policies.

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

An element of the EcV earnings each period is the Economic Value of new business. By factoring in real-world investment returns and removing the impact of risk margins, the group determines the value of new business on a commercial basis.

Further details on pages 50 to 51 & 224 to 225.

CASH GENERATION

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

Group cash generation is calculated as the movement in the group’s surplus Own Funds above the group’s internally required capital, as determined by applying the group’s Capital Management Policy, which has Solvency II rules at its heart.

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

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

Further details on pages 48 to 49 & 224 to 227.

OPERATIONAL AND OTHER PERFORMANCE MEASURES

In addition to the financial performance measures this Report and 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 and 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 and Accounts refer to a number of indicators of customer service levels.	36-41
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 and Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	38-41
Policy investment performance					This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating, and options available to invest in funds that focus on environmental, social and governance factors.	36-41
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.	36-41
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.	53
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'.	38-41
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.	38-41
Gearing ratio					The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources (defined as debt divided by debt plus equity). The appropriate use of debt is an efficient source of funding.	53
Knowledge, skills and experience of the board of directors					This is a key measure given our view that the quality, balance and effectiveness of the board of directors has a direct bearing on delivering positive outcomes to all stakeholders. This includes holding the management teams accountable for the delivery of set objectives and the proper assessment of known and emerging risks and opportunities, e.g., those arising from climate change.	78-79

KEY Primary interest Secondary interest

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

CHAIR'S STATEMENT



'Despite the general level of uncertainty and challenges that have prevailed over much of 2021, we have achieved a huge amount during the year. This, coupled with the successful debt raise at the start of 2022, leaves me confident about the continued success of the Chesnara group.'

LUKE SAVAGE, CHAIR

CASH EMERGENCE, DIVIDEND AND FINANCIAL STABILITY

Chesnara has a strong track record over its history of delivering cash generation across a variety of market conditions. 2021 has been no different and this delivery has supported 17 years of continued dividend growth for our shareholders.

Financial stability is at the heart of the Chesnara business and its financial model. First and foremost, it is fundamental to providing financial security to our customers. Strong and stable solvency is also critical to the investment case for both equity and debt investors. In light of this, I am pleased to report the continuation of our stable solvency track record.

The closing Solvency II ratio of 152% (which does not adopt any of the temporary benefits available from Solvency II transitional arrangements) is well within our target operating range. The ratio is underpinned by a well diversified business model, a focus on responsible risk-based management and resilient and reliable cash flows from businesses. These factors have again enabled our divisions to propose dividends to the group sufficient to support a continuation of our attractive shareholder dividend.

PEOPLE

Operating conditions remained difficult in 2021 with continued COVID-19 related restrictions. The fact that we have continued to operate so effectively is testament to the professionalism, flexibility and diligence of staff across all of our territories. I would like to take this opportunity to again thank every member of our team for their remarkable level of resilience. We intend to continue our hybrid working model in 2022 and this will provide staff with the undoubted benefits of face-to-face team interaction and will also provide an increased level of flexibility which will help with work/life balance.

During the year, John Deane announced his retirement as CEO. During John's time at Chesnara, we continued the uninterrupted dividend growth track record and the post dividend Economic Value[†] increased by 50%. Perhaps just as importantly, John navigated the group through a challenging period of regulatory change and review and of course the huge challenges brought by the COVID-19 pandemic. John leaves the group with solid foundations for Steve Murray, our new CEO, to lead Chesnara through the next stage of its development. Steve's background and track record in delivering successful M&A activity gives me confidence that there is a promising future ahead for Chesnara.

We have also had changes in our non-executive team with Veronica Oak retiring in January 2022. Veronica, who was also Chair of the Remuneration Committee, served nine years as a director of the group and has been a fundamental part of the Chesnara success story over that period.

My fellow directors and I sincerely thank John and Veronica for their dedication and contribution to the group. We wish them both a long, enjoyable and happy retirement.

Replacing Veronica, we have appointed two new independent non-executive directors, Carol Hagh and Karin Bergstein, bringing a wealth of experience to the group. We are delighted to have attracted two highly talented individuals with such diverse expertise and experience. Their insight and skills, particularly from an international perspective, will be of significant benefit to the group as we continue to execute our ambitious strategy and deliver value to our policyholders and shareholders.

PURPOSE

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

We have always managed our business in a responsible way and have a strong sense of acting in a fair manner, giving full regard to the relative interests of all stakeholders.

Our equity investors are a key stakeholder, and I am pleased that we have been able to propose a 3% increase in total dividend.

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

Over recent years we have increased our focus on environmental matters. We have reduced our operational carbon footprint to net neutral and continue to identify areas to reduce this further. All residual direct carbon usage is fully offset. We have started the journey regarding transitioning assets to support a net zero outcome. In particular, in Sweden, which has the largest proportion of our assets, we have commenced a shift to a more sustainable investment profile. We are however hugely aware of the need to do more and it is increasingly recognised that the financial services industry has an incredibly important role to play in the fight against climate change. At Chesnara, not only do we commit to increasing the formality and visibility of ESG matters, we aim to ensure we deliver the necessary real-world change in the way we operate and the assets we manage.

OUTLOOK

Like many others around the world, we have watched the unfolding events in Ukraine with shock and horror. We hope the conflict can be ended quickly but recognise that however quickly the immediate situation is resolved it will take years for those impacted to rebuild their lives. To help those impacted by the troubles, the group has made donations totalling £50,000 predominantly to the Disaster Emergency Committee's Ukraine Appeal.

We have no shareholder assets invested in Russia and have confirmed that our major partners and suppliers also have no material exposure to Russia. None of our customers are subject to sanctions imposed on the back of the invasion of Ukraine.

For as long as the conflict and associated sanctions persist, we expect markets to be more volatile. Our 2021 results yet again demonstrate the continued ability of the business to generate cash across a variety of market conditions to fund shareholder dividends and interest payments. The line of sight for future cash generation is strong.

Upon completion of the acquisitions announced in 2021, the Chesnara group will have grown significantly in terms of both Funds Under Management[†] and policies in force compared to the position at the start of the year.

Sources of future growth also remain strong. In particular, the outlook for acquisitions is positive. We expect the market to be active and we have taken actions to enhance our opportunity to participate in that market. Our new CEO, Steve Murray, has strong M&A credentials and the appointment of Sam Perowne into a new Head of Strategic Development & Investor Relations role brings further experience, with his previous role being Head of Corporate Strategy and M&A at Phoenix.

Since the year end, we have completed our inaugural Tier 2 debt raise, raising £200m with a 10.5-year term at a competitive coupon of 4.75%. The strengthening of the team from an M&A perspective, alongside the increased funding capacity, creates an increased level of confidence that we can enhance the growth potential from our existing businesses with additional growth through acquisitions.



Luke Savage
Chair
30 March 2022

[†] 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 and Accounts.

CHIEF EXECUTIVE OFFICER'S REPORT



'It's been another good year of performance at Chesnara with strong commercial cash generation supported by strong and stable solvency. Looking forward, we have clear line of sight to future sources of cash generation and remain positive about the outlook for acquisitions.'

STEVE MURRAY, CEO

INTRODUCTION & RESULTS

I am delighted to introduce my first CEO report since joining last year. I wanted to start with what we focus on strategically every day here at Chesnara through our teams and partners across the UK and Europe.

We do three things:

1. We run in-force insurance and pensions books efficiently and effectively. We look after c876,000 policyholders and customers who have c£9.1bn of their assets with us;
2. We seek out and deliver value enhancing M&A opportunities. Nine acquisitions over our history so far, with two further deals announced in the second half of 2021. These deals once completed will add a further £3.2bn of Funds Under Management in the UK, increasing total group assets by 35%, and 90,000 policyholders (c10% increase) to the group. Our Tier 2 debt raise of £200m (in February 2022) provides further financial flexibility to support further acquisitions; and
3. We write focused, profitable new business where we are satisfied an appropriate return can be made. Our medium-term aim is to cover c50% of the total dividend from new business profits.

Remaining focused on these areas in 2021 has resulted in another good year of delivery at Chesnara, with IFRS pre-tax profits of £28.8m (2020: £24.6m), and presents us with positive growth opportunities as we look further forward. Looking at our key performance metrics in turn:

CONTINUED DELIVERY OF RESILIENT CASH GENERATION AND STABLE SOLVENCY

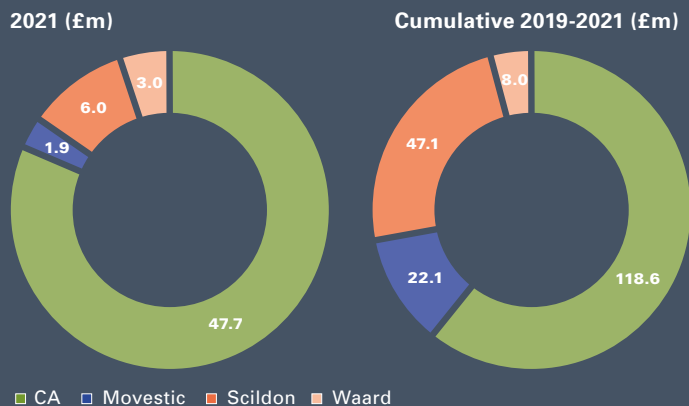
At the heart of the Chesnara financial model and investment case is resilient cash generation and stable solvency.

RESILIENT CASH GENERATION

We yet again delivered positive group cash generation in 2021 of £20.3m (2020: £27.7m). As a reminder, we define cash as the movement in the group's surplus Own Funds above the group's internally required capital. This surplus can be impacted by equity markets and currency movements in the near term. In 2021, group cash generation was adversely impacted by £26.1m by factors such as the symmetric adjustment (SA), a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth which we have seen this year. And we also experienced a £14.3m negative impact from foreign exchange (FX) movements (2020: £14.1m gain), primarily as a result of sterling strengthening against both the Swedish krona and the euro.

To get a better sense of the inherent cash generation in Chesnara, our alternative commercial cash metric looks through the SA and FX translation impacts, along with other less material technical impacts (see the financial review section for more detailed cash generation analysis). All divisions have delivered material levels of commercial cash with total commercial cash generation of £53.0m (2020: £27.7m), well above the dividend and interest funding cash cost in 2021 of £34.3m. This continues to illustrate the ongoing inherent cash generative nature of the businesses, a key feature of Chesnara over the last 17 years.

Commercial cash generation by division:



Based on this cash generation and despite the symmetric adjustment strain, the divisions have proposed aggregate dividends of £38.6m against a dividend payment to shareholders of £33.9m.

COMMERCIAL CASH GENERATION IN 2021 REPRESENTS 156% COVERAGE OF THE TOTAL DIVIDEND

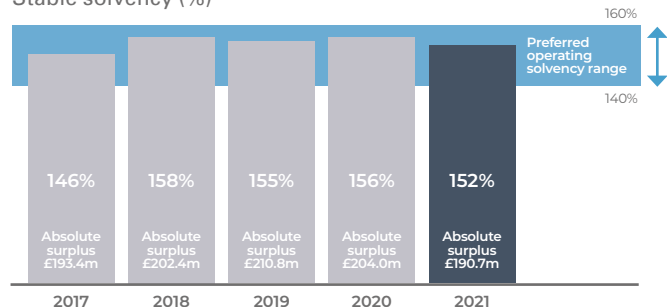
The Chesnara parent company cash and instant access liquidity fund balance at 31 December remains healthy at £46.1m, and further supports the sustainability of the funding of the group dividend. Cash reserves have increased further as a result of the post year-end Tier 2 debt raise.

Looking forward, we have strong line of sight to future cash generation from the unwind of risk margin and SCR, investment returns above risk free rates, wider synergies, management actions and potential acquisition activity.

STABLE AND ROBUST SOLVENCY

The strong and stable track record for solvency has continued through 2021.

Stable solvency (%)

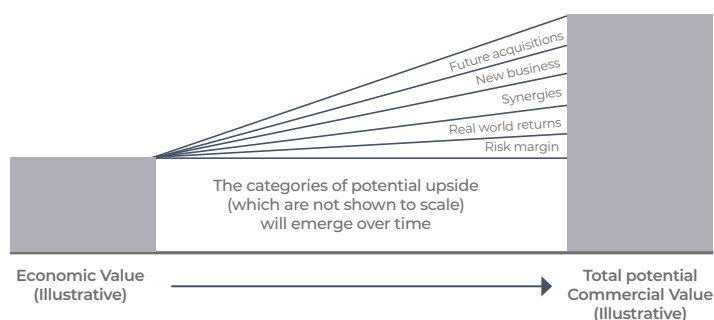


The closing headline solvency ratio of 152% remains comfortably within our target operating range of between 140% and 160%. This solvency ratio does not adopt any of the temporary benefits available from Solvency II transitional arrangements. Conversely, the ratio is impacted by the symmetric adjustment; a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth. The adjusted solvency, looking through the symmetric adjustment (which is expected to reverse over time) is 160%.

Looking forward, during the second quarter of 2022, we expect to complete the acquisition of Sanlam Life & Pensions and Robein Leven. In addition, in February we raised £200m of Tier 2 debt at a coupon of 4.75%. The estimated solvency ratio including the impact of these post balance sheet events is estimated to be in excess of 180%. This will not be the new long-term position as we expect to utilise this additional capital surplus when we take value adding actions, which should result in the ratio reverting back within the robust and stable 140% to 160% historical range.

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

As illustrated below in the Chesnara 'fan', we stand to benefit from several sources of future value and growth potential:



† 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 and Accounts.

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

A key element of the growth model is real-world investment returns. The reported EcV[†] of the group assumes risk free returns on shareholder and policyholder assets. Over time, as we have seen historically, we expect average returns in excess of risk free. In 2021 this represented growth of c£110m. Valuing the group assuming relatively conservative returns above risk free, for example an average 5% equity returns per annum, would add significantly upwards of £150m of incremental EcV.

FOCUSED WRITING OF NEW BUSINESS

Writing new business is the third area of focus in the Chesnara strategy. Not only is new business value adding in its own right but importantly it adds scale which in turn enhances operational effectiveness and improves the sustainability of the financial model. Even under the current difficult conditions, we have seen commercial new business profits of c£10m. New business has also been a key component in the overall 22% increase in Movestic's FuM and new business volumes have driven a 7% growth in policy numbers in Scildon.

Over time, we expect improvements to operational effectiveness to be a source of value creation, be that through M&A synergies, scale or other positive management actions. Over recent years, including 2021, we have suffered some operational losses particularly relating to investments made in systems (especially in Scildon), some regulatory changes, and higher than expected pension transfer outflows in Sweden.

The outflows in Sweden are fully recognised in the closing figures; and further changes in transfer regulations are anticipated to come into force in July 2022. These are expected to have a positive impact on the Movestic transfer ratio with books that were not previously open to transfers becoming open. All of Movestic's existing unit-linked books are already open to transfers. Along with COVID-19 impacts on broker behaviour, we know a large driver of the higher recent outflows was more aggressive pricing from a competitor. The competitor has retracted their special offer pricing from 1 January 2022, and early indications support our confidence of a material rebalance to the transfer ratio in 2022.

EACH DIVISION HAS DELIVERED EcV GROWTH

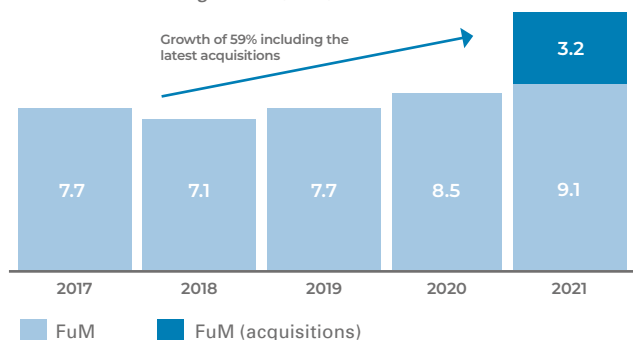
All divisions delivered positive growth during the year, with a total growth in divisional EcV[†] (before dividends and FX movements) of £62.3m (2020: £19.6m loss) and a total growth in group EcV before dividend and FX movements of £57.8m (2020: £37.6m loss). The acquisitions that were announced during 2021, which are expected to complete in the first half of 2022, are expected to add approximately £13m of EcV on completion and importantly will also enhance longer-term cash and value creation prospects from the sources of growth detailed above.

We have also grown our Funds Under Management (FuM) in 2021 with positive equity markets providing positive support here. We expect FuM post completion of Sanlam and Robein Leven to be over £12bn for the first time in Chesnara's history.

OVER £203M OF EcV GROWTH, EXCLUDING DIVIDEND PAYMENTS AND FOREX MOVEMENTS, SINCE 2016

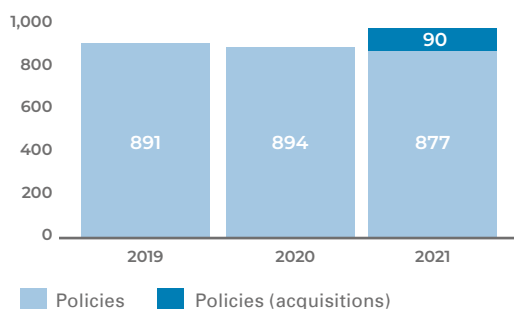
Growth in FuM*

Funds Under Management (£bn)



Growth in policies in force

Policies '000



Note: acquisitions included in the charts above were announced in 2021 and expected to complete in 2022.

AN INCREASED FOCUS ON ACQUISITION ACTIVITY

The primary purpose of Chesnara when it was formed back in 2004 was to acquire other closed-book businesses. Acquisition activity has been a core component of our historical EcV growth. They create growth through any price to EcV discount and also improve the future growth outlook by enhancing the potential from the other elements for the 'value growth source fan' (see page 17).

Successful acquisitions have been key to Chesnara's development and will remain so in the future. During 2021, we announced two acquisitions, Robein Leven in the Netherlands and Sanlam Life & Pensions in the UK. Robein Leven will add further scale to the Dutch closed-book operations and Sanlam will increase the UK Funds Under Management[†] by £2.9bn (128% increase). Together they are expected to add Economic Value[†] of c£13m on completion and additional steady cash generation potential of c£6m per annum.

Looking back at historic deals and the value we have created from them provides us with further confidence in our ability to add value through acquisitions in current and new territories.

**CASE STUDY 1
ENTERING THE DUTCH CLOSED-BOOK MARKET**

We entered the Dutch closed-book market with the purchase of Waard in 2015 for £50.1m. We have subsequently acquired and successfully consolidated three further closed books which have been self-funded by capital residing in Waard. Despite the natural run-off of a closed book, we expect to have over 133k policies in force on completion of Robein Leven acquisition compared to 56k policies in force in 2015. If we add back the total dividend payments made by Waard since acquisition, we have a closing EcV of £110m which represents an 220% return on the initial investment.

**CASE STUDY 2
ENTERING THE SWEDISH MARKET**

Chesnara paid £22.1m¹ in 2009 for Movestic when it had £962m² of Funds Under Management and an Embedded Value of £91m². When adjusted for capital injections and dividends paid, as at the end of 2021, Movestic has an adjusted EcV of £255m and £4.4bn of Funds Under Management. This demonstrates a 10-fold return on the initial investment.

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

We remain optimistic about the prospect of future acquisitions and believe that we can deliver more transformational deals looking forward. Equally smaller deals, especially if well-priced, can and do have a material positive cumulative impact as the case studies above show.

2021 saw an active M&A market across European insurance with sources of capital (particularly through private equity firms) readily available to support transactions, large international insurance groups refocusing their strategies away from legacy businesses and management teams that actively managed their business portfolios getting rewarded by shareholders.

Whilst events in Ukraine may dampen the M&A market in the short term, we expect the high activity levels we have seen in insurance M&A to continue. A market with plenty of activity provides lots of opportunity for Chesnara as a consolidator. We continue to believe there is also likely to be a little less competition in the sub £500m valuation deal end of the market that we currently participate in.

[†] 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 and Accounts.
¹ The purchase prices include the purchase of Moderna and Aspis.
² The Embedded Value and Funds under Management of Movestic is taken as the 31 December 2009 position.

We have taken further steps to enhance our ability to execute M&A. The recent appointment of a new Head of Strategic Development & Investor Relations, Sam Perowne, who starts with us in April will provide us with further experience in this area. We have also raised £200m of Tier 2 debt which, after paying down existing debt and funding the Sanlam Life & Pensions UK deal, gives us capacity in terms of liquidity and solvency to fund deals of c£100m directly from our own balance sheet. Our revolving credit facility that sits alongside the longer-term debt creates an additional level of working capital flexibility. For more transformational deals, we retain the ability to raise equity and are mindful of the potential benefits from other funding arrangements such as joint ventures or vendor part-ownership.

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

MORE TO DO ON ESG

We believe that positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. Our Section 172 reporting (see pages 28 to 35) demonstrates how we actively consider a broad range of stakeholder outcomes when making key decisions.

Looking at our current position on ESG, we believe we start from a relatively positive position with regards to our carbon footprint (direct and indirect). And we can point to positive progress in a number of areas of our business on environmental matters, for example, further development of our 'green' funds in Movestic and enhanced reporting on ESG matters through our UK fund management partner Schroders. Equally we are increasingly aware that we need to drive further change to support the just transition we all need to make and that the change has to be meaningful in relatively short order.

More formality is required around some of our processes and disclosures to make sure we inform and educate our stakeholders about what we are doing well and to validate our opinion that, at least for now, our environmental credentials are sound. We also need to enhance our disclosures and, more importantly, we need to better define meaningful and transparent action plans with clear targets to demonstrate how we are delivering those plans and the impacts they are having. In 2022, we have established a group-wide programme of work to accelerate our efforts in this area.

We recognise that the financial services sector has to play a significant role in addressing climate change and are fully committed to playing our part (see our TCFD report within the CSR section).

OUTLOOK

Chesnara has a fantastic track record of sustainable long-term cash generation over its history through recessions, pandemics, global financial crisis and other variable market conditions. 2021 has seen us continue this impressive record of cash generation.

It is impossible to look forward and not reflect on what is happening in Ukraine. Trying to explain to my three young children with any logic or sense how a war of this nature is being waged in this modern age is a futile exercise. Our thoughts and prayers are with the people of Ukraine at this difficult time. As Luke highlighted in his report, we have made a donation to the DEC for the people of Ukraine and assured ourselves that our assets, operations and partners are not exposed directly to Russia. We will continue to actively manage and monitor this position and have offered further support for our people with family in Ukraine.

The war in Ukraine has played a large role in the volatile start to the year we have seen across global markets. The Chesnara business model has delivered cash generation in uncertain markets before, and we have confidence it will do so going forward. The strong line of sight we have to future cash generation is even more important in the current environment as do the variety of value levers we continue to have at our disposal.

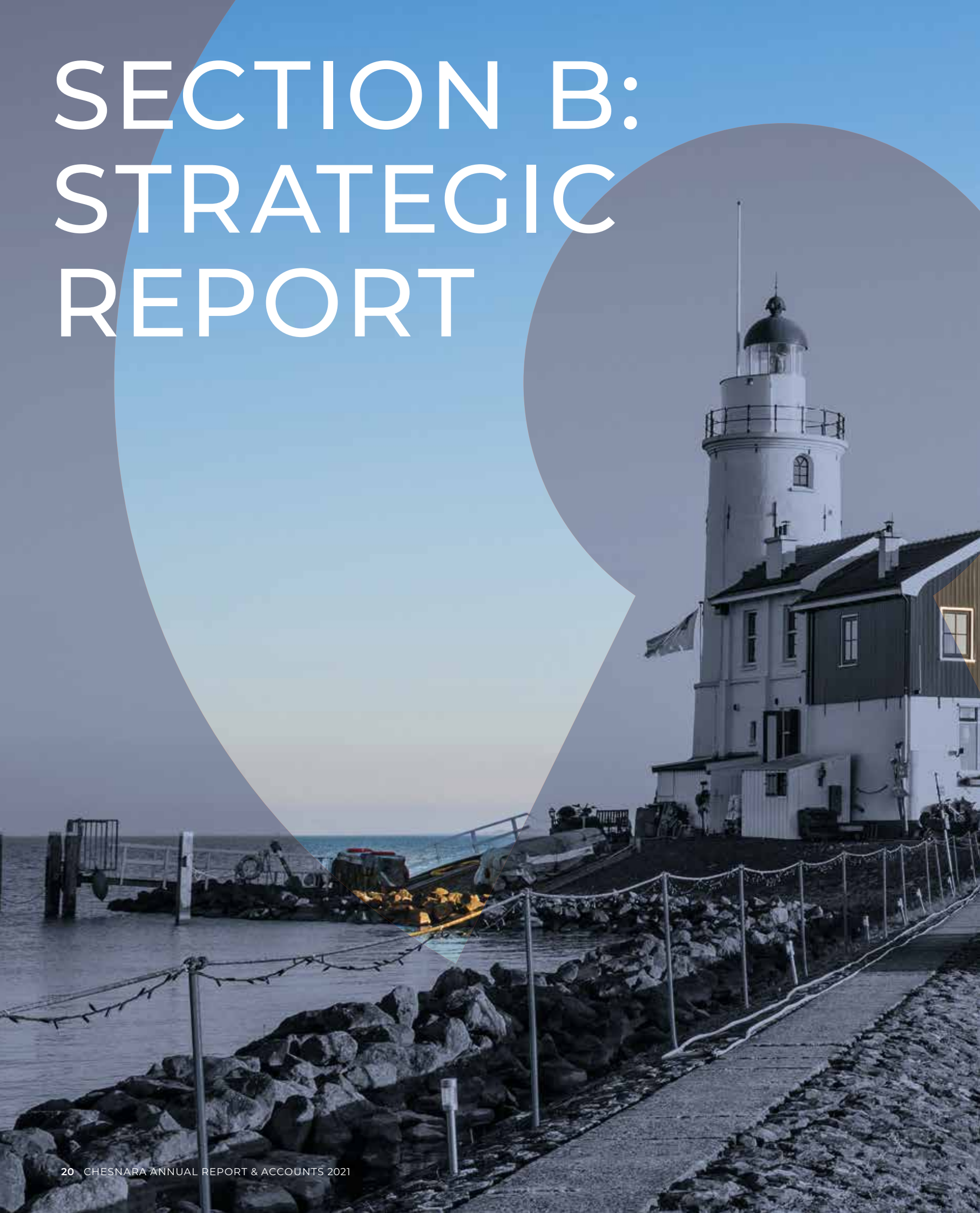
We have ambitious plans to grow the business and I have been delighted to hear that our people across the group share an ambition to grow further, particularly through acquisitions, and continue our impressive record of cash generation.

I want to thank them for all their remarkable efforts during what has been another tough and troubling period. And with their continued drive and determination, I have every confidence that the future remains bright for Chesnara.



Steve Murray
Chief Executive Officer
30 March 2022

SECTION B: STRATEGIC REPORT



- 22** Overview of our strategy, business model, culture & values
- 24** Our strategy
- 26** Our culture & values
- 28** Section 172 reporting
- 36** Business review
- 43** Capital management
- 46** Financial review
- 53** Financial management
- 55** Risk management
- 63** Corporate and social responsibility

OVERVIEW OF OUR STRATEGY, BUSINESS MODEL, CULTURE & VALUES

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

OUR STRATEGY

STRATEGIC OBJECTIVES		
<p>01</p> <p>MAXIMISE THE VALUE FROM EXISTING BUSINESS</p> <p>Managing our existing customers fairly and efficiently is core to delivering our overall strategic aims.</p>	<p>02</p> <p>ACQUIRE LIFE AND PENSIONS BUSINESSES</p> <p>Acquiring and integrating companies into our business model is key to continuing our growth journey.</p>	<p>03</p> <p>ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS</p> <p>Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book.</p>
<p>KPIs</p> <p>Cash generation EcV earnings Customer outcomes</p> <p>Read more on p25</p>	<p>KPIs</p> <p>Cash generation EcV growth Customer outcomes Risk appetite</p> <p>Read more on p25</p>	<p>KPIs</p> <p>EcV growth Customer outcomes</p> <p>Read more on p25</p>

HOW WE ORGANISE OURSELVES

DIVISION	UK 	NETHERLANDS 	SWEDEN 
OPERATING COMPANY	COUNTRYWIDE ASSURED	WAARD GROUP SCILDON	MOVESTIC
STRATEGIC OBJECTIVES	<p>01 02</p> <p>Read more on p36</p>	<p>01 02 01 03</p> <p>Read more on p40</p>	<p>01 03</p> <p>Read more on p38</p>
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	c219,000	c119,000 c218,000	c320,000
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

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

OUR BUSINESS MODEL

STAKEHOLDERS

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

Chesnara

OUR CULTURE AND VALUES

RESPONSIBLE RISK-BASED MANAGEMENT FOR THE BENEFIT OF ALL OUR STAKEHOLDERS	FAIR TREATMENT OF CUSTOMERS	MAINTAIN ADEQUATE FINANCIAL RESOURCES	PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS	ROBUST REGULATORY COMPLIANCE
STAKEHOLDERS				
<ul style="list-style-type: none"> - SHAREHOLDERS - STAFF - SUPPLIERS AND PARTNERS - NATURAL ENVIRONMENT - CUSTOMERS 	- CUSTOMERS	<ul style="list-style-type: none"> - CUSTOMERS - REGULATOR - STAFF 	- SHAREHOLDERS	<ul style="list-style-type: none"> - SHAREHOLDERS - CUSTOMERS - REGULATOR - NATURAL ENVIRONMENT

† 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 and Accounts.

OUR STRATEGY

Our core strategy focuses on the efficient management of our existing business and the creation of value through acquisitions and writing profitable new business.

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 future Economic Value[†] and cash generation[†] and are 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. Operational execution 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.

We create value and generate cash through:

- running our in-force books of business efficiently and effectively;
- executing management actions that create value and/or generate cash;
- optimising the risk/reward balance in how we invest our assets and hence generate future returns;
- accessing broader group synergies; and
- ensuring our customer processes remain robust and in line with customer expectations, which in turn supports stronger persistency.

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 advisors and industry associates.
- We assess deals by applying well established criteria which consider the impact on cash generation and Economic Value under best estimate and stressed scenarios.
- We work cooperatively with regulators.
- The financial benefits are viewed in the context of the impact the deal will have on the enlarged group's risk profile.
- Transaction risk is 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 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.
- When writing new business we retain a keen focus on ensuring the business is profitable.

03

PRINCIPAL RISKS: FOR FURTHER INFORMATION SEE PAGES 55 TO 62

HOW WE MEASURE DELIVERY

RISKS:
WHAT CAN STOP US
MEETING THIS OBJECTIVERISKS:
WHAT CAN WE DO
ABOUT THIS

UPDATE

Cash generation†

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 Value† 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.

- **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.

- 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.

UK

Pages 36-37

**Sweden**

Pages 38-39

**Netherlands**

Pages 40-41

**Cash generation**

Collectively our future acquisitions must be suitably cash generative to support the funding of the Chesnara dividend.

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 PR9** 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 42

EcV enhancement

We measure the amount of Economic Value added through selling new contracts.

- **PR8** The attractiveness of products can be influenced by economic conditions, politics and the media.
- **PR6 PR8 PR9** 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-consumer 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 38-39

**Netherlands**

Pages 40-41



† 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 and Accounts.

OUR CULTURE & VALUES

Our long established and proven culture and 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 43 to 45.

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

In managing the business, it is essential that our decision making assesses the risk impact of the decision. We achieve this by understanding the key risk drivers of the business plan and strategy and by making sure we monitor these risks across our whole range of 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

- With the global pandemic resulting in restricted working conditions during the year and consequently a large proportion of our staff having to work remotely for extended periods, our main focus has been to ensure that we have continued to service our customers with minimal disruption.
- **Sweden** – over the course of 2021, Movestic has seen an increased demand for digital processes, so has increased its efforts to create services for both customers and brokers that meet this need. The division successfully achieved an 'Article 8' classification for its unit-linked products, which means they promote environmental or social characteristics by customers choosing to invest their capital in funds with such focus.
- **UK** – the division continued its work on the operational resilience programme which focuses on ensuring that we continue to govern the business in line with expectations of our regulators and the wider operating environment. CA has also continued to deliver its customer strategy programme to ensure we do what is reasonably expected of us to stay in contact with customers. This is coupled with further activity to reunite customers with unclaimed assets. The UK's administrative outsource service partners are held to stringent service level requirements.
- **Netherlands** – Scildon has launched its group pensions portal after completing the migration and digitalisation of its policy administration system. The division is currently assessing the costs and benefits associated with digitalisation within its other product ranges. Waard has successfully integrated the portfolio of policies from Brand New Day, with minimal disruption to customers.
- 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 course of the year, including the ongoing impact of COVID-19.
- Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review.
- We have agreed with the Dutch regulator, the DNB, to reduce the internal capital management buffer for the Waard Group from 75% to 35% and a dividend eligibility buffer of 50%.
- In the UK business we have implemented a refinement to our asset mix that backs our non-linked liabilities and concurrently implemented the volatility adjustment when determining our solvency position.

- Continued our track record 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 growth.
- Announced two value adding acquisitions during the year, Robein Leven in the Netherlands and Sanlam Life & Pensions in the UK. Further to this we completed the Brand New Day acquisition in the Netherlands that was announced during 2020.

- 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 environmental, social and governance (ESG) strategy.
- Delivered against the group's IFRS 17 project plans.
- Demonstrated our operational resilience through how we have continued to operate whilst living with 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 despite restricted working conditions over the course of the year. Any claims, including COVID-19 claims, have been paid in line with business as usual expectations.

- Robust solvency over the course of the year.
- Ongoing constructive dialogue with regulators across the different territories in which the group operates.

- Dividend track record continues, with 3% dividend growth in 2021.
- Over the past five years, £158.6m of dividends have been paid.
- Further growth potential in both the UK and the Netherlands as a result of the acquisition activity during the year.

- Ongoing constructive relationships with UK, Swedish and Dutch regulators.
- Continued adherence to internal governance policies and principles.
- IFRS 17 project remains on track.

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 2021. 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 Chair

As described on page 82 within the Corporate Governance Report, it is the role of the Chair 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 strategic planning, including any associated feedback to the operating divisions, 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 2021 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.

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.

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
- Providing a competitive return to our shareholders
- Robust regulatory compliance
- Maintaining adequate financial resources

These are described in more detail on pages 23 to 27.

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 30 to 32.

As referred to above, business plans are supported by associated financial budgets and projections. This helps to ensure that both the shorter-term 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.

Key financial metrics in the business planning process:



ECONOMIC VALUE[†]



CASH GENERATION[†]



SOLVENCY



IFRS PROFITS



DIVISIONAL AND GROUP DIVIDENDS



EXPENSES



NEW BUSINESS PROFIT EXPECTATIONS[†]

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-specific 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, employees 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.

[†] 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 and 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. It provides 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 a management information (MI) pack at each board meeting. 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 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 may be of significant interest to our shareholders. If either of those elements are put under pressure, it could 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>
STAFF	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.	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>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 63 to 66 provides further information.</p>	<p>Staff surveys</p> <p>Feedback from employee forums</p> <p>Feedback from appointed NED</p> <p>Staff turnover</p>

SUPPLIERS AND PARTNERS

DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
<p>Key suppliers and partners include our bankers, outsourcers, intermediaries and professional services providers. We depend on these for delivering various aspects of our business model, covering:</p> <ul style="list-style-type: none"> – <i>Bankers</i>: Access to ongoing lending to support our business. – <i>Outsourcers</i>: Supporting the day-to-day policy administration, customer contact and associated accounting of our business, primarily in the UK. – <i>Intermediaries</i>: Distributing our products in Sweden and the Netherlands. – <i>Suppliers</i>: Support and advice from our key suppliers, including professional services. 	<p>Our various suppliers and partners are impacted by Chesnara as follows:</p> <ul style="list-style-type: none"> – <i>Bankers</i>: They earn a return on the facilities they provide and take a keen interest in ensuring we manage our finances and strategy in a way that minimises their risk of loss. – <i>Outsourcers</i>: 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 they provide continue to be paid for by Chesnara. – <i>Intermediaries</i>: Selling our products will be a source of immediate and ongoing revenue for our intermediaries. When dealing with the end customer, intermediaries will rely on quality information being provided by us in a timely manner. – <i>Suppliers</i>: 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 interest to our suppliers. 	<p><i>Bankers</i>: 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> <p><i>Outsourcers</i>: 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><i>Intermediaries</i>: 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 hosts 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><i>Suppliers</i>: 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. The group ensures that it adheres to supplier payment terms.</p>	<p>Gearing ratio[†]</p> <p>EcV position[†]</p> <p>Solvency</p> <p>Key intermediary KPIs, including sales volumes, profitability and customer complaints</p> <p>Service levels</p> <p>Adherence to timescales</p> <p>Level of overruns</p> <p>Quality of service</p>

[†] 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 and Accounts.

SECTION 172 • KEY STAKEHOLDERS (CONTINUED)

REGULATORS

DEPENDENCIES OF BUSINESS ON STAKEHOLDER

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.

IMPACT OF BUSINESS ON STAKEHOLDER

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.

HOW WE ENGAGE WITH STAKEHOLDER

Our engagement with regulators generally takes the following forms:

- 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.

KPIs monitored relating to stakeholder

Relationship with supervisory team
Formal feedback from regulators

ENVIRONMENT

Changes in the environment and the effect of global warming can potentially affect the way we operate our businesses, and also the returns to our customers and shareholders. We are committed to applying ESG-informed investment decision making across the group.

The main emissions from our operations fall within two categories: business travel and employee commuting.

The impact of our investment decisions and the investment choices made by our customers are more wide-ranging and will continue to be a key focus area as further ESG data and analysis becomes available.

Chesnara’s business units are taking practical steps to reduce our carbon footprint and minimise the impact that our operations have on the environment by reducing, re-using and recycling materials, as described on pages 73 to 75.

Climate change is recognised as a risk and is monitored as part of our risk identification and assessment processes (see pages 56 and 67 to 75).

For policyholders who choose where they wish to invest, we provide access to a range of ESG focused funds and we continue to provide relevant material so that they can make informed decisions. Our corporate and social responsibility statement is set out on pages 63 to 75.

In line with our support for the UNSDGs and our commitment to invest responsibly, our business units are working closely with their respective fund managers to fully embed ESG within our own investment decision making criteria.

CO₂ emissions
Energy consumption
Water usage
Sustainable investment analysis from ISS Ethix and Oekom Research to benchmark ESG risk scores to their portfolios

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 table below lists the key decisions made by the board during 2021 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

ESG POLICY STATEMENT

- **Overview:** In January 2021 the Chesnara board set out its ESG Policy Statement to reiterate that long-term shareholder and customer value creation is best delivered through the embedded consideration of ESG issues. Subsequently the Group CEO initiated a project, which amongst other things, focused on ensuring that appropriate processes were in place to identify and assess the impact of climate change, and make mandatory disclosures aligned to the Taskforce on Climate-Related Financial Disclosures ('TCFD') recommendations.
- **Key considerations and decision:** A structured approach was taken to log prior year ESG disclosures and to conduct a gap analysis, which then lead to the enhancement of our climate change risk management process and the development of guidance for the business units for the climate-related risk and opportunity assessment. Chesnara's first TCFD report set out disclosures at the intermediate level outlined in the TCFD maturity map and work is ongoing to fully implement the remaining recommendations.
- **Primary beneficiaries:**
 - *Shareholders:* As it improves the sustainability of investment returns.
 - *Regulators:* Confirms our commitment to meet our regulatory obligations and comply with the disclosure requirements.
 - *Employees:* Takes due account of the welfare of our colleagues and raises awareness of the relevance of ESG factors in our day-to-day operations.
 - *Customers:* Developing our ESG product offerings directly impacts our new business generation for policyholders looking for ESG investment opportunities and improves the sustainability of investment returns where we are responsible for investment decisions.
- **Other stakeholder considerations:**
 - *Suppliers and outsourcers:* ESG criteria forms part of our supplier selection process and during 2021 we conducted a desk-based review of the annual reports published by the top six suppliers to our UK division so as to understand how they are addressing their ESG responsibilities.

APPOINTMENT OF NEW GROUP CEO

- **Overview:** During the year the board approved the appointment of Steve Murray to the position of Group Chief Executive Officer following the announcement that John Deane had decided to retire from his role as current CEO.
- **Key considerations and decision:** As noted in its report, the Nominations & Governance Committee oversaw the appointment of Steve to the board as successor to John Deane. The board engaged the services of Warren Partners as independent external recruitment consultants for this exercise and they provided candidates from a diverse range of backgrounds who were deemed suitable based on merit and against objective criteria. The committee reviewed a shortlist of suitable candidates against the criteria and put forward preferred candidates for interview by the board. Following selection, Steve went through the fit and proper process as outlined in the FCA Senior Managers & Certification Regime (SMCR). In addition, and as set out in the report of the Remuneration Committee, it determined the appropriate remuneration terms for Steve's appointment in line with the Remuneration Policy approved by shareholders at the 2020 AGM including compensating him for awards forfeited on leaving his previous employer. Prior to board appointment of any business units, approval has been secured from the relevant regulators overseeing those territories.
- **Primary beneficiaries:** The appointment of an appropriately skilled and experienced chief executive is in the interest of all our stakeholders.
- **Other stakeholder considerations:** Steve quickly took the opportunity to offer the option for major shareholders to meet with him and, as noted, regulatory approval was sought.

DECISIONS IMPACTING SALES VOLUMES IN MOVESTIC

- **Overview:** Our Swedish business, Movestic, has witnessed higher than usual levels of transfers out during 2021, which is largely attributed to a competitor in the market offering competitive transfers.
- **Key considerations and decision:** The board has decided that it will not seek to match the pricing that was being offered by the competitor.
- **Primary beneficiary:**
 - *Shareholders:* Ultimately the view is that not seeking to compete with selling products that are not commercially viable is more beneficial to our Economic Value than dramatically changing our charging structure, with our view that our pricing remains appropriate.
- **Other stakeholder considerations:**
 - *Regulator and policyholders:* Our view is that this decision is also the most prudent approach to managing our regulatory solvency position, and hence ensuring our policyholders remain well-protected.

SECTION 172 • SIGNIFICANT DECISIONS (CONTINUED)

SIGNIFICANT DECISION DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

ACQUISITIONS
ANNOUNCED 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:** In September 2021 the board approved the acquisition of Sanlam Life & Pensions UK Limited, a specialist provider of insurance and long-term savings products in the UK. Additionally, in November 2021, the board approved entering into an agreement with Monument Re Group to acquire Robein Leven, a specialist provider of traditional and linked savings products, mortgages and annuities in the Netherlands. These combined transactions further the group's acquisition and consolidation strategy in both the UK and the Netherlands. Both acquisitions are expected to complete during the first half of 2022.
- **Primary beneficiary:**
 - *Shareholders:* The transactions are expected to deliver modest day 1 EcV[†] gains on completion, as well as enhancing the group's future cash generation potential.
- **Other stakeholder considerations:**
 - *Regulators:* These transactions require approval by the UK and Dutch regulators, the Prudential Regulatory Authority (PRA) and De Nederlandsche Bank (DNB) respectively, who need to ensure that the transactions do not cause any prudential or conduct issues.
 - *Customers:* The customers of the entities being acquired will be interested in ensuring that their policies continue to be administered in line with expectations, and that they continue to be prudently managed.
 - *Staff:* The decision is of interest to the staff of our existing group given the integration plans underpinning the announcements, as well as the staff of the acquired companies.

DECISION TO
SECURE TIER 2
DEBT AND GAIN
A FITCH RATING

- **Overview:** During 2021 the board approved the decision to prepare for and commence a subordinated, Tier 2 debt raise, which was completed in February 2022. This included approval of the process to obtain a public Fitch credit rating.
- **Key considerations and decision:** The board considered the merits of raising subordinated debt for funding general corporate activity, including acquisitions. This took account of the ongoing finance servicing cost, the impact of the solvency of the group and the leverage within the business, as well as the positioning of the business when considering future acquisition activity. Based on this assessment the board decided to approve the debt raise.
- **Primary beneficiaries:**
 - *Debt holders:* The raise has introduced a new stakeholder group to Chesnara during February 2022, being the new debt holders of the instrument. This group will benefit from the return on the debt (being the interest coupon) and will also be interested in ensuring that their initial investment remains secure over the duration of the debt. Chesnara will take into account the considerations of the debt holders on an ongoing basis.
 - *Shareholders:* The debt raise provides a relatively low cost and solvency beneficial funding approach to finance announced and potential future acquisitions, and positions Chesnara positively when discussing future acquisition activity. This improves Chesnara's ability to continue to acquire commercially beneficial businesses.
 - *Regulators:* The debt raise materially improves Chesnara's solvency position removing the strain associated with acquiring businesses over recent years.
- **Other stakeholder considerations:**
 - *Rating agencies:* As part of the process Chesnara became a rated insurer. This process means that we have a new stakeholder of rating agencies, in this case Fitch. Chesnara will take into account the considerations of Fitch on an ongoing basis.

THE CHESNARA
GROUP HEDGING
STRATEGY

- **Overview:** We have historically not sought to hedge exposure to market movements on shareholders assets. This is on the basis that it was not felt to be the optimal use of funds to spend cash to mitigate isolated elements of risk in a complex suite of market risk dynamics. It was also felt that our business with its diversified, multinational, long-term business model provides natural hedges to market volatility over the medium and long term. This strategy has been clearly articulated and communicated to investors.
- **Key considerations and decision:** This approach is regularly reviewed and challenged through our annual review and attestation of the group's investment policies. During the year, we paid additional focus to our approach to currency risk, particularly in relation to the retranslation of divisional net assets and solvency surplus. We considered which of our key metrics we would look to hedge alongside the benefits and drawbacks of hedging using derivative financial instruments versus internal, natural hedges. Based on the capital benefits versus the ongoing real cost, it was concluded that our existing strategy remained appropriate but that we would continue to assess this as the business evolves.
- **Primary beneficiary:** The primary beneficiary of decisions in relation to hedging strategy are our shareholders.

[†] 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 and Accounts.

SIGNIFICANT DECISION DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

SCILDON'S INVESTMENT IN A NEW POLICY ADMINISTRATION SYSTEM FOR PENSION BUSINESS

- **Overview:** As noted in the 2020 Group Annual Report and Accounts, the group continues to invest in its IT infrastructure. This includes replacing the previous pension product policyholder administration system in Scildon. Work has continued on this in 2021 with the initial release of the new system going live during the year.
- **Key considerations and decision:** The board continued to consider the pros and cons of the 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 support Scildon's implementation of the pension platform and for Scildon to retain its existing platform for its remaining products.
- **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 digitalised service, increasing speed, optionality and efficiency to the brokers and end customers.
- **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.

REINSURANCE TREATIES ENTERED INTO AND RENEGOTIATED DURING THE YEAR

- **Overview:** The board is required to approve any new material reinsurance treaties or proposed changes to existing reinsurance arrangements that are material in nature. In the UK, the board approved the proposal for CA to enter into a new annuity reinsurance arrangement, which seeks to cover the vast majority of future annuity claims. In the Netherlands, the Scildon board approved the renegotiation of an existing reinsurance arrangement in relation to proportional individual and group life cover, as well as a new catastrophe risk reinsurance arrangement. Movestic entered into a new mass lapse reinsurance arrangement in the year.
- **Key considerations and decision:** In reaching their decisions, the boards considered the business case for entering into the reinsurance arrangements, which included consideration of the financial impact (including impacts upon solvency) and the impact on the operations of the respective businesses.
- **Primary beneficiary:**
 - *Shareholders:* The main stakeholder group to benefit from the new reinsurance arrangements will be the shareholder through the impact that these arrangements have on the cash generation profile of the group.
- **Other stakeholder considerations:**
 - *Reinsurers:* The reinsurer counterparties are an additional key stakeholder to these arrangements. Between the group and the reinsurance counterparties involved a key focus will be on ensuring that the new treaties are appropriately managed in accordance with their requirements. In addition, the group will take a keen interest in the reinsurer's ongoing financial strength and ability to continue to provide its future risk cover obligations.
 - *Customers:* These were considered by the board in the context of ensuring that the reinsurance treaties are structured and appropriately managed from an operational and risk perspective, to ensure that the company is able to continue making payments to its customers as they fall due.

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 120 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 Ukraine situation, including the potential for further investment market disruption. During 2021 the board approved the year-end 2020 final dividend, amounting to 14.29p per share, and the interim 2021 dividend of 7.88p 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.

BUSINESS REVIEW UK

The UK division principally consists of the insurance company Countrywide Assured plc. The company manages c219,000 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.

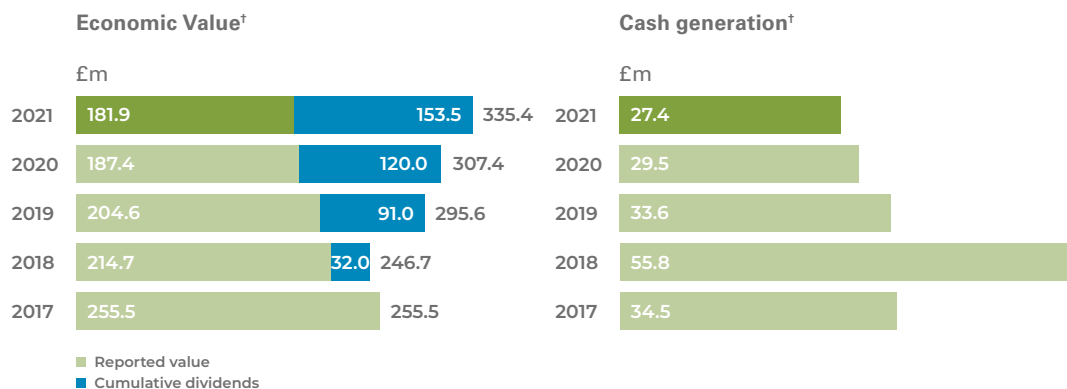
INITIATIVES & PROGRESS IN 2021

- Entered into a new arrangement during year to reinsure the vast majority of its annuity liabilities, which has reduced the division's exposure to longevity risk. The immediate impact of this arrangement was to increase the solvency surplus of the division by £3.5m.
- Implemented a refinement to its investment approach for assets backing some of its non-linked policies. This has sought to improve the return on investments whilst maintaining an appropriate level of risk. In conjunction with this, the division has implemented the Volatility Adjustment (VA) when calculating its solvency position, following approval by the PRA that was granted during the year. Implementing both at the same time reduces short-term solvency volatility that can arise from movements in credit spreads.
- Applied to the new industry rules of using the Sterling Overnight Interbank Average Rate (SONIA) to discount its regulatory liabilities rather than the London Interbank Offered Rate (LIBOR). This impact was a decrease in solvency surplus by £5.4m.
- Approved the plan to transfer actuarial services currently provided by Capita to Willis Towers Watson, who currently service the rest of the UK book. This is planned to be delivered in time for half year 2022 reporting.
- The Economic Value[†] of the division, excluding the impact of dividend distributions, has increased by £28.0m since the start of the year.
- Supported our shareholder in the acquisition process for Sanlam Life & Pensions, whilst also ensuring that the existing division continues to be appropriately governed.

- A key priority for the year has been to continue to ensure we meet the needs of our customers during the ongoing pandemic.
- The operational resilience programme continued to be progressed throughout 2021. This has enabled us to meet the first regulatory deadline of 31 March 2022.
- Work to ensure we do what is reasonably expected of us to stay in contact with customers continues, together with activity to reunite customers with unclaimed assets. Focus will remain on these activities during 2022.

- The governance oversight team and a large portion of the outsourced staff have needed to continue to work remotely over the majority of 2021.
- Successfully delivered against 2021 plans regarding the group's multi-year IFRS 17 programme. The calculation engine went live for user acceptance testing and the division completed a dry run during the second half of the year. We have continued to work with our auditors on the technical decisions underpinning the implementation.

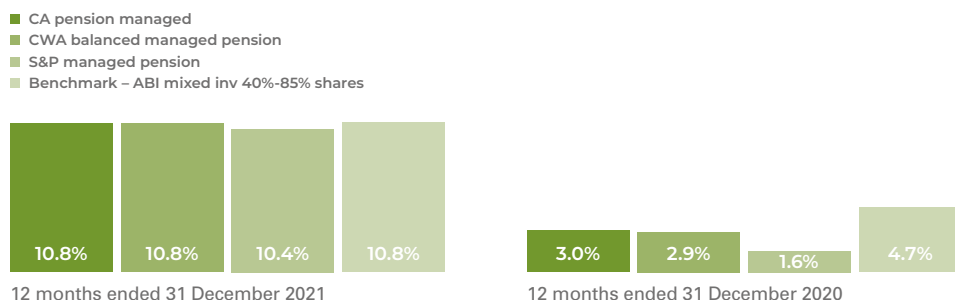
KPIs



FUTURE PRIORITIES

- Once the acquisition has completed, bring the Sanlam business into the wider UK division in an efficient manner, and continue the planning for delivering the longer-term operating model.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Continue to support Chesnara in identifying and delivering UK acquisitions and to reverse the transfer ratio seen in 2021.

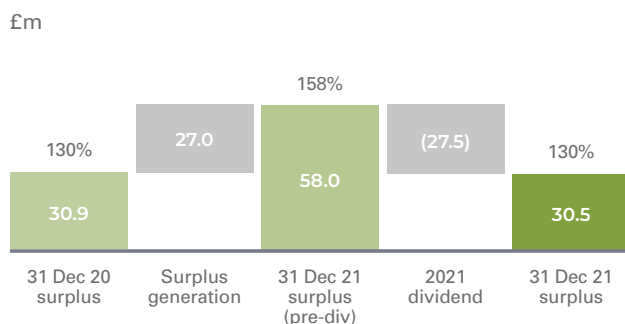
Policyholder fund performance



- The operational resilience programme is a multi-year project and will continue to be a key priority to ensure we meet the final regulatory deadline of 31 March 2025.
- Following the acquisition of Sanlam Life & Pensions, work will commence on transition of the business to CA and our standard operating model.
- In February 2022, the FCA published its second consultation paper on Consumer Duty, with the final policy statement expected in July 2022. A gap analysis is being performed and we will complete any actions required to ensure we meet the FCA's expectations.

Throughout the year our main managed funds performed well and in line with industry benchmarks.

SOLVENCY RATIO: 158%



Surplus generated in the year increases solvency ratio from 130% to 158%. After the dividend, due to be paid in 2022, the ratio is 130%.

- Oversee the completion of the Sanlam acquisition and its integration into the division. Whilst initially the operating models will be relatively independent, initial focus will be on ensuring appropriate oversight over the business and aligning our systems of governance and corporate responsibilities map.
- From an IFRS 17 point of view, 2022 is a critical year. Activity will focus on calculating the opening balance sheet position at 1 January 2022 as well as continuing with the operational implementation at both head office and within our outsourcers.

† 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 and 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.

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 attractive dividend. Movestic has a clear sales focus and targets a market share of 6%-10% of the advised occupational pension market. This focus ensures we are able to adopt a profitable pricing strategy.

INITIATIVES & PROGRESS IN 2021

- Investment markets were characterised by a strong upward trend on global stock exchanges, while interest rates remained historically low during 2021.
- The favourable developments on the stock market were reflected in the returns on the policyholders' investment assets.
- During 2021, Movestic has continued to diversify its distribution channels and business model through strengthening its offer and distribution within the custodian business and extended cooperation has been entered into with custody institutions in the Swedish market. The business volume has grown significantly, with FuM having increased by 22% to a total of £4.4bn.
- Policyholder transfers continue to be a feature of the business due to new regulations that limit the amount that can be charged when transferring policies and the competitive Swedish market. The negative trend for the transfer ratio has continued, with an impact on EcV, but the net client cashflows remain positive. The company has continued its focus on business retention activity.
- 2021 has continued to be marked by the COVID-19 pandemic and the business has reserved for the uncertainties of future development and the effect on employee absence and longer or more severe sickness claims due to postponed operations.

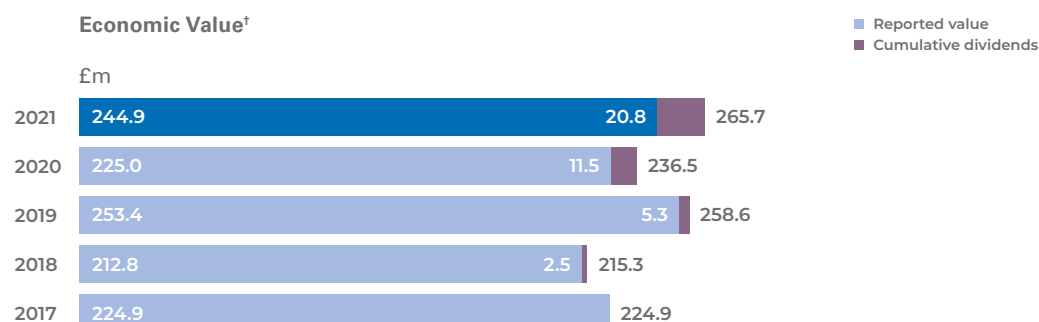
- Policyholder average investment returns were 23.3% (2020: 2.7%) arising from investments in equity, interest bearing securities and hedge funds.
- Broker and customer servicing have been a key focus during the pandemic. The company has continued the efforts to ensure effective servicing during the remote working environment.
- Increased demands on digital processes and availability have also led to the division increasing efforts to create services, such as customised advice, for both customers and brokers.
- The allocation of funds away from equity seen in 2020 was reversed during the year showing a renewed confidence in equity markets.
- During the year, the company's unit-linked products were classified as 'Article 8' products under the EU regulation on sustainability disclosure, i.e., they promote environmental or social characteristics by customers choosing to invest their capital in funds with such focus.

- Dealing with the impact of COVID-19 has continued to be a key management focus.
- The company has ensured that it is operating in line with local government guidelines, which have been working from home, if possible, for part of 2021. However, restrictions have eased during parts of the year and the company has established a more permanent way of working and considered the new experience and insights gained because of the pandemic.
- Sustainability Reporting has been a major focus area and the Disclosure Regulation was applied in March 2021. The company has made all relevant actions to be compliant and to improve the communication and value proposition to customers and brokers.
- The implementation of IFRS 17 for group purposes has continued during 2021 and the company has analysed the scope and impact of IFRS 17 on its product portfolio, actuarial models, systems, and overall financial statements.

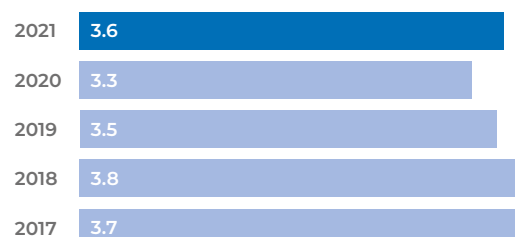
- Movestic reported commercial new business profit of £4.3m (2020: £1.6m) which consists largely of sales volumes within custodian business but also from increased sales, and increased increments and spontaneous premiums, due to inter alia salary and bonus processes being postponed from 2020 to 2021.
- Sales activities were higher across the market during 2021 and Movestic sales volumes were more than 100% above 2020. The high growth was mainly generated through the new partnership with Carnegie within the custodian business, as opposed to our more traditional broker led occupational pension products. Movestic will continue to develop its offering to increase competitiveness and build customer loyalty for the future.

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2021 EXCHANGE RATES)

Economic Value†



Broker assessment rating



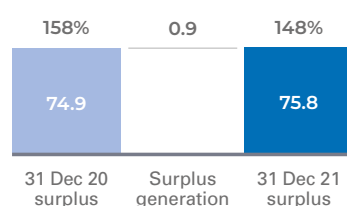
POLICYHOLDER AVERAGE INVESTMENT RETURN:

23.3%

Following the broker assessment review we have conducted our own satisfaction surveys. These surveys gave a more positive result in 2021 than in 2020, and constructive feedback helped identify further actions as we continue to work on improving broker satisfaction.

SOLVENCY RATIO: 148%

£m

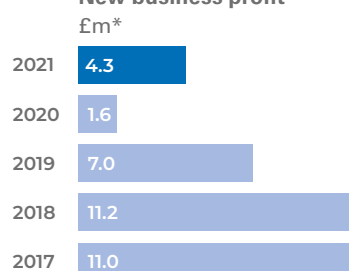


SOLVENCY REMAINS STRONG.

Occupational pension market share %



New business profit



† 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 and Accounts.

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 customised customer propositions and experience.
- Strengthen capabilities and distribution capacity within custodian and direct business, as a complement to the broker channel.
- Increased focus on retention and to reverse the transfer ratio seen in 2021.

- 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.
- Pursue a broader distribution with brokers within risk product and custodian business.
- Broaden product and service offering to match relevant customer segments.

- The COVID-19 situation will continue to be monitored closely, with a return to office working in 2022, though arrangements will remain under continuous review.
- Continue delivering the IFRS 17 implementation programme.

- Continued focus on sales activities and competitive offerings in the broker channel.
- Strengthen capabilities and distribution capacity within custodian and direct business.
- Ongoing development of the products and digital services for relevant customer segments and delivery of new functionality on web platforms to improve customer and broker experience.
- Capitalise on the opportunities expected when transfer back barriers are removed during the year.

*New business figures from 2018 onwards represent commercial new business, as detailed on page 225. Values prior to this are retained at that which they were previously reported.

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

01

CAPITAL & VALUE MANAGEMENT

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

- Waard is in run-off and has the benefit that the capital requirements reduce in-line with the attrition of the book.
- As an 'open business', Scildon's capital position does not benefit from book run-off. It therefore adds value and creates surplus capital through writing new business and by efficient operational management and capital optimisation.

CUSTOMER OUTCOMES

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

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

GOVERNANCE

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

MAXIMISE VALUE FROM EXISTING BUSINESS

03

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.

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

INITIATIVES & PROGRESS IN 2020

- Waard completed the acquisition of a portfolio of policies from Brand New Day and has migrated them onto its systems.
- Waard has also entered into an agreement, subject to regulatory approval, to acquire Robein Leven, a specialist provider of traditional and linked savings products, mortgages and annuities.
- Both businesses continue to report strong solvency positions. Scildon remains strong at 192%. Waard continued to maintain significant solvency levels, the ratio ending the year at 399%.
- Scildon entered into a new catastrophe risk reinsurance contract and renegotiated its reinsurance for the term assurance business, with the benefit of improving the capital efficiency of the division.
- Following agreement from the DNB and reflective of the strong solvency position of the company, we have reduced the solvency buffer in Waard to 150% for dividend eligibility purposes.

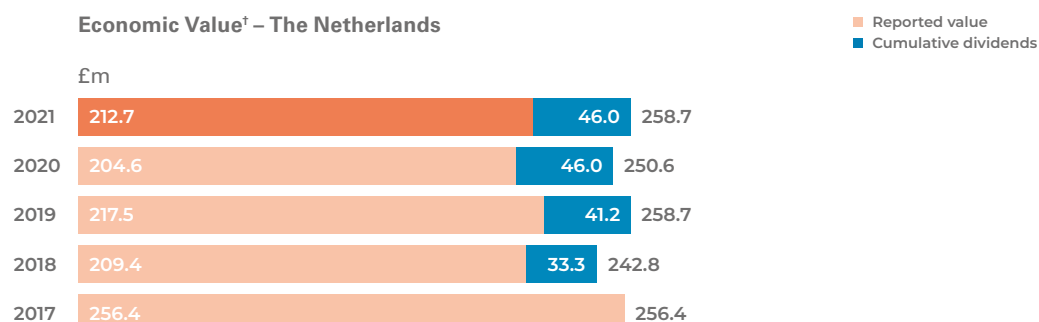
- A key focus during the year has been ensuring that we provide flexible solutions and offerings to our clients and our people to ensure we continue to meet the needs of our customers during the ongoing COVID-19 pandemic.
- Scildon has launched its group pensions portal during 2021 following the migration and digitalisation of its policy administration system. This work will continue during 2022 for which the expected costs are included within the 2021 year-end position. The remaining products will remain on existing platforms with further digitalisation and improvements to the customer offering being assessed.

- We have engaged with the regulator throughout the year and the business continued its enhanced monitoring of key measures, such as claims and customer service, to ensure performance levels were maintained during the pandemic.
- In line with auditor rotation requirements, Waard and Scildon have completed an audit tender process and have appointed EY to replace Deloitte for the 2022 audit.
- The IFRS 17 and IFRS 9 programme has continued to progress in line with plans.

- Despite a tough and uncertain market, we continue to generate commercial new business profits, with £5.2m earned in the year. The market remains challenging but we have a solid base from which to take advantage.
- Underpinning this, Scildon APE and policy count continue to increase, now with in excess of 218,00 policies. Also, whilst in a reduced market size, the term market share for Scildon has increased to 16.1% (2020: 14.2%).
- We continue to grow our portfolio through our white labelling relationship with Dazure (a distribution partner), demonstrating a positive additional route to market to enable us to service more policyholders.

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2021 EXCHANGE RATES)

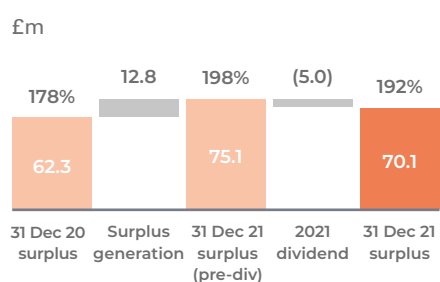
Economic Value[†] – The Netherlands



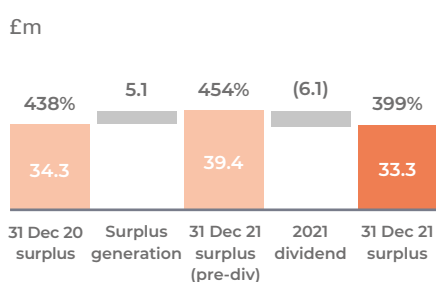
Client satisfaction rating



SOLVENCY RATIO SCILDON: 192%

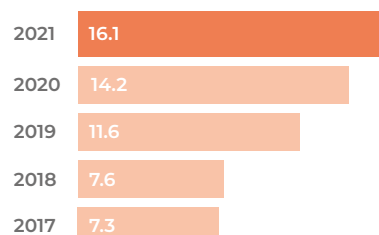


SOLVENCY RATIO WAARD: 399%

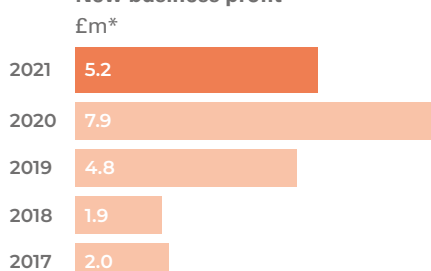


Solvency is robust in both businesses, with post-dividend solvency ratios of 192% and 399% for Scildon and Waard respectively.

Term assurance market share %



New business profit[†]



FUTURE PRIORITIES

- Integrate the new acquisition into the Waard business and continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Effective management of the closed-book run-off in Waard to enable ongoing dividend payments to Chesnara.
- Continue to deliver the ongoing IT development programme in Scildon.

- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences in Scildon.

- For IFRS 17, 2022 is a year that will see us finalising technical and operational changes and perform dry runs of the group's numbers.

- 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 page 225. Values prior to this are retained at that which they were previously reported.

[†] 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 and Accounts.





BUSINESS REVIEW ACQUIRE LIFE & PENSIONS BUSINESSES

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 advisors and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in the UK and Netherlands, although will consider other territories should the opportunity arise and this is supportive of our strategic objectives.
- 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 reduced through stringent risk-based due diligence procedures and the senior management team's acquisition experience and positive track record.
- We fund deals with a combination of debt, equity or cash depending on the size and cash flows of each opportunity and commercial considerations.

HOW WE ASSESS DEALS

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

INITIATIVES AND PROGRESS IN 2021

During 2021, Chesnara has been successful in its two key markets. With two deals in the Netherlands (Brand New Day completed on 15 April 2021 and Robein Leven announced on 25 November 2021) and a further transaction in UK (Sanlam Life & Pensions announced on 13 September 2021).

In total these three transactions were reported to increase Chesnara EcV[†] by c£17m, with further value that is not captured within EcV expected, and our expectation is an increase of cash generation of c£7m p.a. under steady state conditions. These demonstrate that Chesnara is able to source transactions, is seen within the market as an attractive buyer of life and pension businesses, and is able to acquire on terms that provide financially beneficial outcomes to Chesnara.

We continue to see an attractive pipeline within our key territories. To support our ability to continue to acquire businesses, we announced on 2 February 2022 the successful inaugural Tier 2 subordinated debt raise of £200m. This improves Chesnara's position in three ways:

- Chesnara, post repayment of existing debt and consideration of the Sanlam transaction, has capital available to deploy quickly for transactions;
- Chesnara strengthens its solvency position, which creates capacity for further transactions;
- Allows Chesnara to develop a relationship with debt investors and create optionality for future financing of transactions.

ACQUISITION OUTLOOK

- Despite the COVID-19 restrictions, we have continued to see a healthy flow of acquisition activity in the year across European insurance including UK and the Netherlands. Sources of capital particularly from private equity have remained high.
- We recognise that the consolidation markets in these countries are mature but the key general drivers for the owners of portfolios to offload business continue to remain relevant and create a strong pipeline. These include better uses of capital (e.g. return to investors or supporting other business lines), operational challenges (e.g. end of life systems), management distraction, regulatory challenges, business change (e.g. IFRS 17) and wider business and strategic needs.
- Our expectation is that portfolio transactions become more likely; a number came to market in 2021. Our strong expertise and knowledge in the markets, good regulatory relationships and the flexibility of our operating model means that Chesnara is very well placed to manage the additional complexity associated with these portfolio transfers and provide beneficial outcomes for all stakeholders. These transactions may not be suitable for all potential consolidators, in particular those who do not have existing licences in these territories.
- Chesnara will continue its robust acquisition assessment model which takes into account: (a) the price compared to the EcV; (b) the cash generation capability; (c) the strategic fit; and (d) the risks within the target. We will also continue to assess the long-term commercial value of acquisitions as part of our objective to maximise the value from in-force business.
- The subordinated debt raise in February 2022 as well as the £100m Revolving Credit Facility arrangement, with a £50m accordion option entered into in July 2021, provide funding capability on commercially attractive terms and enable us to provide strong returns to investors. We will continue to explore how we can increase our funding capability further, including consideration of partnerships.
- Our good network of contacts in the advisor community, who understand the Chesnara acquisition model, supported by our engagement activity with potential targets, 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 2021	152%	£190.7m
31 Dec 2020	156%	£204.0m

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

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

How do Own Funds change?

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

A review of the UK's application of Solvency II is currently underway, led by HM Treasury. To support this the PRA oversaw a Quantitative Impact Study (QIS) in 2021, which will inform a potential 'comprehensive package of reforms', expected to be issued for consultation during 2022. Consequently, the Solvency II regime as applied in the UK may diverge from the EU's approach going forward. We are monitoring this closely and future financial statements will report on the UK specific application of Solvency II. 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.

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 (MCR)

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

How does the SCR change?

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

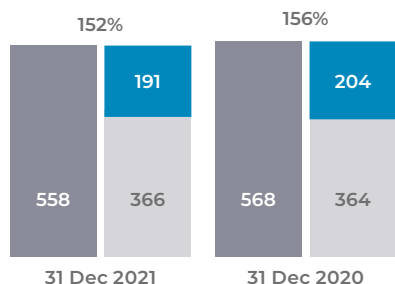
[†] Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

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 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

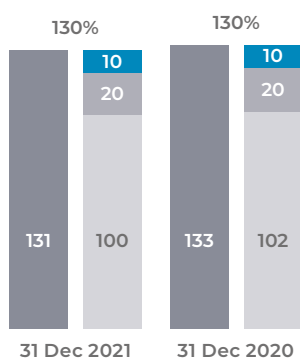


Surplus: The group has £191m of solvency surplus (2020: £204m). The group solvency ratio has reduced from 156% to 152%, but remains comfortably within our target range. Solvency surplus has fallen due to a reduction in Own Funds (after the proposed dividend is taken into account) and a small rise in SCR.

Dividends: The closing solvency position is stated after deducting the £22.1m proposed dividend (31 December 2020: £21.4m) and reflects the payment of an interim dividend of £11.8m.

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 2020 figures have been restated using 31 December 2021 exchange rates in order to aid comparison at a divisional level.

UK £m



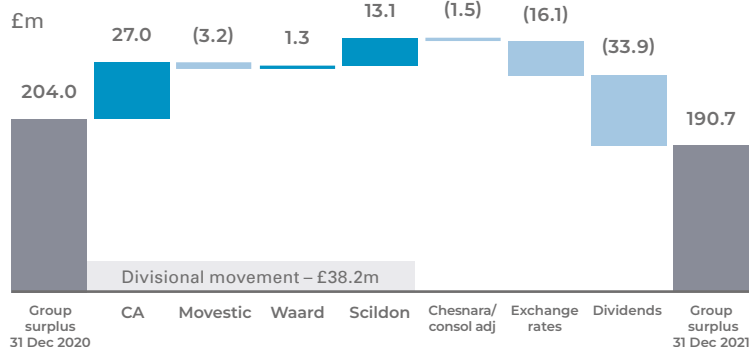
Surplus: £10.4m above board's Capital Management Policy.

Dividends: Solvency position stated after £27.5m proposed dividend (2020: £33.5m).

Own Funds: Risen by £25.1m (pre-dividend) including the benefits of rising yields, equity growth, VA implementation, annuity reinsurance and improvements to modelling of guarantees.

SCR: Fallen by £1.9m, driven by fall in longevity and counterparty default risk capital, offset by a rise in market risk.

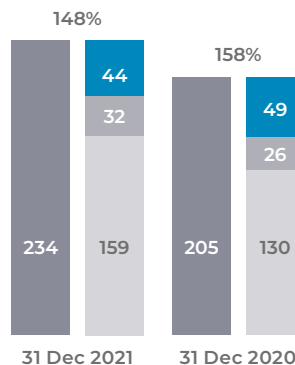
SOLVENCY SURPLUS MOVEMENT* *pre intragroup dividends



Own Funds: Own Funds have risen by £20.7m (pre-dividends). Drivers of growth include rising yields, strong equity growth, a UK with-profit transfer of £8.3m and completion of the Brand New Day acquisition. These factors were partly offset by the impact of operating losses on transfers out and expenses.

SCR: The SCR has risen by £3.1m, mainly due to a material rise in equity, interest and spread risk as a result of the strong economic growth. This is partially offset by a material fall in catastrophe and longevity risk, and an increase in the LACDT benefit.

SWEDEN £m



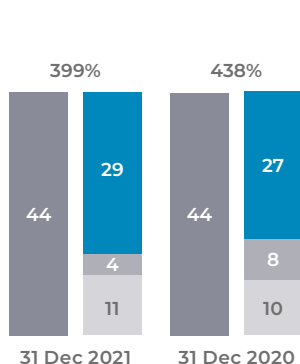
Surplus: £44.1m above board's Capital Management Policy.

Dividends: No foreseeable dividend is proposed for 2021 (2020: £5.3m).

Own Funds: Risen by £29.1m (pre-dividend) mainly due to strong economic growth, offset by an increase in assumed transfers out and a small operating loss on transfers out in 2021.

SCR: Risen by £28.6m, driven by material rise in equity, spread and currency risk capital.

NETHERLANDS – WAARD £m



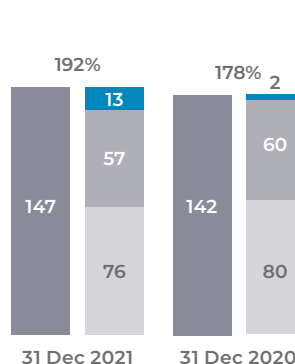
Surplus: £29.4m above board's Capital Management Policy (£4.5m due to buffer reduction: 75% to 35%).

Dividends: Solvency position stated after £6.1m proposed dividend.

Own Funds: Risen, pre-dividend, by £2.3m, mainly due to completion of the Brand New Day acquisition and moderate investment surplus, offset by an increase in costs.

SCR: Increased by £1.0m, with an increase in market and lapse risks, offset by a fall in catastrophe risk.

NETHERLANDS – SCILDON £m



Surplus: £12.8m above board's Capital Management Policy.

Dividends: Solvency position stated after £5.0m proposed dividend (2020: no dividend was paid).

Own Funds: Risen by £9.4m (pre-dividend) due to rising interest rates and a fall in mortgage spreads, offset by an increase in expenses and cost of new catastrophe risk cover.

SCR: Fallen by £3.4m, driven by a material reduction in catastrophe risk capital, offset by increases in market and lapse risk capital.

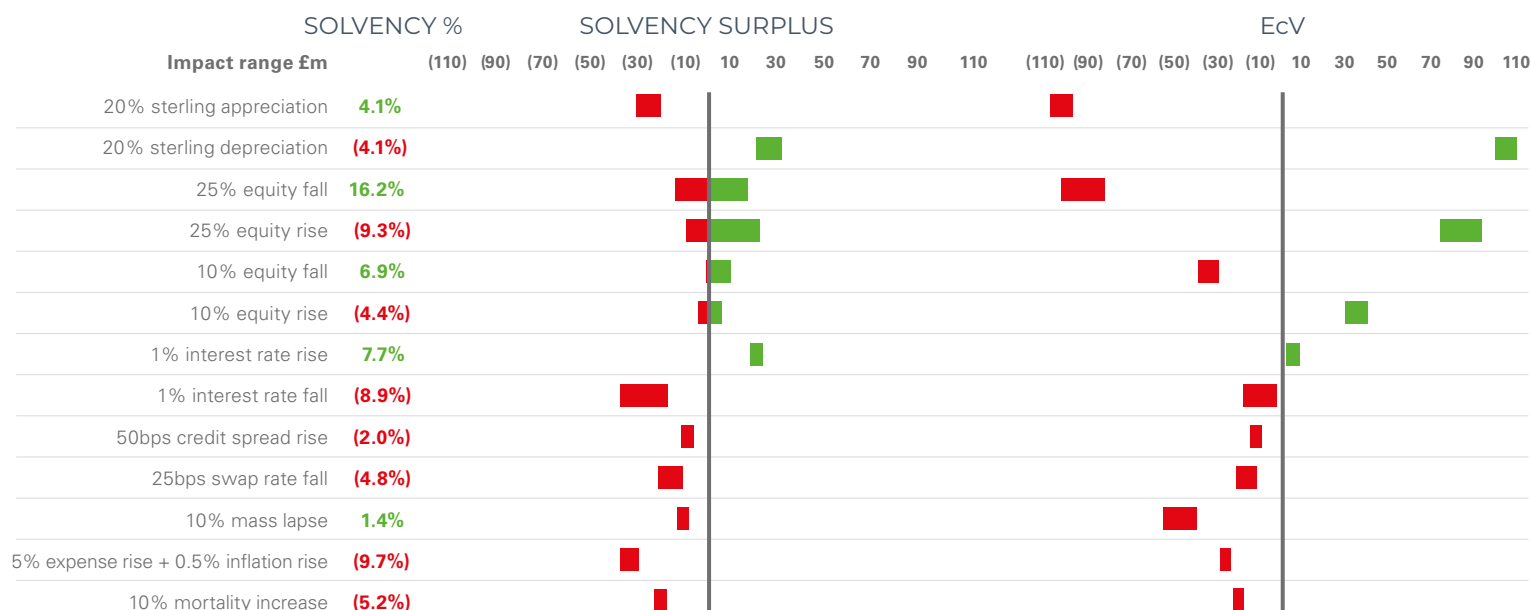
KEY ■ Own Funds (Post Div) ■ SCR ■ Buffer ■ Surplus

CAPITAL MANAGEMENT • SENSITIVITIES

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

The diagram below provides some insight into the immediate impact of certain sensitivities that the group is exposed to, covering solvency surplus and Economic Value. As can be seen, EcV tends to take the 'full force' of adverse conditions 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/depreciation

A material sterling appreciation reduces the value of surplus in our overseas divisions and hence has an immediate adverse impact on the solvency surplus and EcV. Conversely, a sterling depreciation has the opposite effect.

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 the solvency ratio, 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: -£29m to the SCR, 25% equity rise: +£10m 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 group impact.

50bps credit spread rise

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

25bps swap rate fall

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

10% mass lapse

This sensitivity has a small impact on solvency as the reduction in Own Funds is largely offset by a reduction in SCR. 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.

5% expense rise + 0.5% inflation rise

The expense sensitivity hits the solvency ratio 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 solvency and EcV, 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.

[†] 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 and Accounts.

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 2021. Further analysis can be found on pages 48 to 52.



GROUP CASH GENERATION[†] **£20.3M**

2020: £27.7m

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

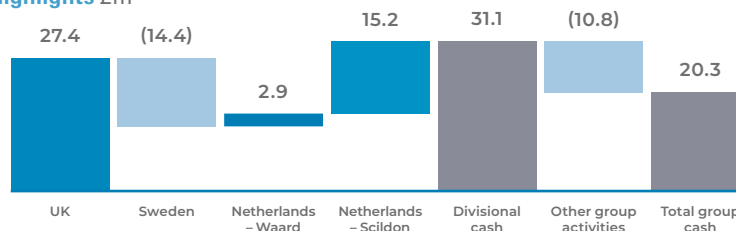
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 57 to 62. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar 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 GENERATION[†] **£31.1M**

2020: £23.6m

Further detail on p48

Highlights £m



Divisional cash generation

- Each operating division delivered a strong cash result for the period with the exception of Movestic, which reported material cash utilisation.
- The UK contribution was delivered through significant value growth, supported by a smaller reduction in capital requirements, while cash returns in Waard benefit from a rise in Own Funds and fall in required capital, each of a similar magnitude.
- Scildon reported healthy cash generation in 2021 after delivering both value growth and a reduction in required capital. Economic earnings supported growth in Own Funds, while new reinsurance drove a material decrease in SCR due to lower catastrophe risk exposure.
- Own Funds growth in Movestic includes the benefit of equity market growth, offset by operating losses relating to strengthening future transfer assumptions. The division also reported a corresponding increase in SCR, primarily due to the aforementioned equity market growth and an associated symmetric adjustment strain.

Group cash generation

- Total group cash generation includes the impact of other group activities, primarily the impacts of group expenses on Own Funds and of foreign exchange movements upon consolidation of the group capital requirements.



IFRS PRE-TAX PROFIT **£28.8M**

2020: £24.6m

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 224 to 225) to enhance understanding of financial performance.

Risks

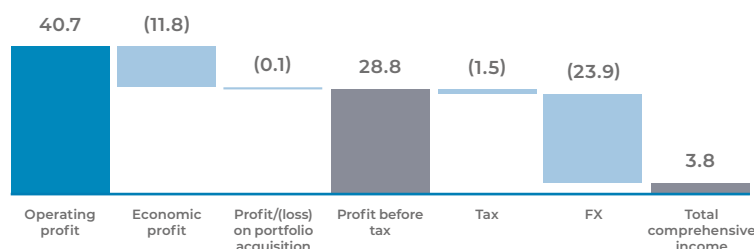
The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties as set out on pages 57 to 62. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), and foreign currency fluctuations can affect total comprehensive income. The 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 **£3.8M**

2020: £43.3m

Further detail on p52

Highlights £m



- Divisional pre-tax profits were ahead of expectations for the period, with a particularly strong contribution from the UK business, offsetting marginal losses in the Dutch businesses.
- Operating profits[†] of £40.7m underpin the result and reflect an uplift on the prior year, though a component of this was a release of reserves (c£10m) in Scildon as a result of the liability adequacy test no longer biting. Excluding this element, the year-on-year result is broadly similar, demonstrating the stability of the core business.
- The loss on economic activities[†] arises largely from the adverse impact of interest rate increases on Scildon's results (which have an asset and liability mismatch on current IFRS measurement rules).
- Total comprehensive income includes significant foreign exchange losses on translation of the Dutch and Swedish divisional results, owing to sterling appreciation against the euro and Swedish krona.

ECONOMIC VALUE (EcV)[†] £624.2M

2020: £636.8m

Further detail on p51

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?

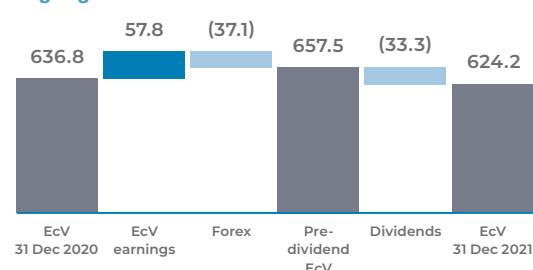
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. 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 £98m–£108m, based on the composition of the group's EcV at 31 December 2021.

Highlights £m



- Prior to any dividend payments, the total Economic Value increased by £20.7m in the year.
- The closing position reflects earnings of £57.8m, driven by positive investment market conditions, offset by some operating losses in both Scildon and Movestic.
- The result also incorporates material forex losses arising on translation of the Dutch and Swedish divisional results, representing the weakening of both the euro and Swedish krona against sterling.
- The change in EcV over the year includes the impact of the payment of the final 2020 and interim 2021 dividends.

EcV EARNINGS[†] £57.8M

2020: £(37.6)m

Further detail on p50

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.

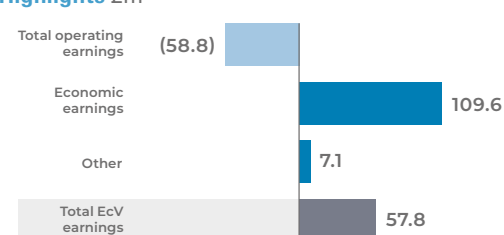
Why is it important?

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 57 to 62. 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



- Total group EcV earnings of £57.8m were reported in the year.
- The total operating earnings[†] loss includes material operating assumption changes and other items, amounting to £26.2m. This primarily relates to adverse changes in transfer out assumptions in Movestic.
- Other operating components include losses in Scildon and a group level expense strain, offsetting the positive results in other divisions.
- Economic conditions during the period, with rising equity markets coupled with increases in yields resulted in substantial economic gains of £109.6m (2020: £9.2m).

[†] 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 and Accounts.

FINANCIAL REVIEW • CASH GENERATION

The UK and Dutch divisions delivered solid cash contributions, supporting divisional cash generation of £31.1m in 2021. 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 **£20.3M**

2020: £27.7m

DIVISIONAL CASH GENERATION **£31.1M**

2020: £23.6m

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 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.

2021 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated/(utilised)	2020 £m Cash generated/(utilised)
UK	25.1	2.3	–	27.4	29.5
Sweden	26.3	(35.5)	(5.2)	(14.4)	12.4
Netherlands – Waard Group	2.3	2.8	(2.3)	2.9	4.1
Netherlands – Scildon	9.6	6.1	(0.5)	15.2	(22.3)
Divisional cash generation/(utilisation)	63.4	(24.3)	(8.1)	31.1	23.6
Other group activities	(4.5)	(0.1)	(6.1)	(10.8)	4.1
Group cash generation/(utilisation)	58.9	(24.4)	(14.2)	20.3	27.7

GROUP

- Group cash generation of £20.3m is lower than the 2020 total, although it is supported by improved divisional results over the prior year. The result includes the adverse impact of a £14.2m foreign exchange loss on consolidation (2020: £14.1m gain).
- Divisional cash generation of £31.1m reflects an improvement on the prior year (2020: £23.6m), despite the cash utilisation reported in Movestic.
- Further analysis of the key drivers of cash generation across the group is provided below and on the following page.



UK

- The division has delivered another year of robust cash generation. Substantial value growth, supported by a smaller reduction in capital requirements, resulted in cash generation of £27.4m for 2021. The growth in Own Funds was assisted by economic conditions (particularly the positive impact of rising yield curves) and supported by solid operating profits. The result includes the benefit of an £8.3m capital transfer from the with-profit funds, offset by a restricted surplus build up of £14.6m during the year. The new annuity reinsurance arrangement that was entered into during the year contributed to the reduction in SCR.



NETHERLANDS – WAARD

- Waard has reported growth in Own Funds, alongside a similar reduction in capital requirements, resulting in another year of stable cash generation, contributing to the divisional cash total. The result includes the positive impact of the Brand New Day policy portfolio acquisition, as well as a foreign exchange loss due to sterling appreciation against the euro.



SWEDEN

- Movestic reported cash utilisation of £14.4m in the year, with Own Funds growth being exceeded by a larger increase in capital requirements. On the Own Funds side of the equation, growth was driven by economic conditions and strong investment returns, particularly in equity markets, offset by operating losses relating to strengthening future transfer assumptions. From a capital requirements perspective, equity market-driven growth in Own Funds has resulted in an increase in market-risk related capital requirements, including the impact of the symmetric adjustment, which increased significantly in the year.



NETHERLANDS – SCILDON

- The Scildon result was pleasing, with a rise in Own Funds and reduction in capital requirements yielding healthy cash returns. Value growth was delivered predominantly via economic returns (narrowing of bond spread and positive interest rate movements) offsetting operational strains, largely driven by changes in assumptions relating to one-off expenses. The reduction in required capital was driven by the new reinsurance arrangements entered into during the year, driving a fall in catastrophe risk exposure, while economic conditions saw favourable spread risk movements on the mortgage portfolio.

FINANCIAL REVIEW • CASH GENERATION – ENHANCED ANALYSIS

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

 **COMMERCIAL CASH £53.0M**
2020: £27.7m

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	GROUP ADJ	TOTAL
Base cash generation	27.4	(14.4)	2.9	15.2	(10.8)	20.3
Symmetric adjustment	9.8	16.2	–	–	–	26.1
WP restriction look through	6.3	–	–	–	–	6.3
Acquisition activity impact	–	–	0.1	–	1.3	1.4
Reallocate lapse risk reversal	–	–	–	(4.0)	4.0	–
Model changes	(3.6)	–	–	(5.2)	–	(8.8)
LIBOR to SONIA	7.7	–	–	–	–	7.7
Commercial cash generation	47.7	1.9	3.0	6.0	(5.5)	53.0

Whilst CA remains the dominant source of cash it is pleasing to note that all divisions have made positive contributions. Economic conditions have been favourable and we have also created cash from a series of management actions. Operating cash is suppressed by the adverse impact of system investments in Scildon and transfer outflows in Movestic. Writing new business creates long-term value and enhances business longevity but it does create short-term cash strain which is therefore a natural and expected feature of the Scildon and Movestic results. On balance, the overall commercial cash generation outcome benefits from a good level of diversification including the mix between open to new business and closed-book businesses.

UK

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

CA has delivered strong economic and operating results in line with sensitivities base expectations. Management has enhanced the outcome through management actions including annuity reinsurance and application of the volatility adjustment.

SWEDEN

As an open business with a natural level of new business strain the total outcome is broadly in line with expectations. Economic conditions (predominantly equity growth) have resulted in more cash generation (looking through the symmetric adjustment) than we would expect under more steady state conditions, but this has been largely offset by losses due to higher transfers. An action to reinsure some of our mass lapse exposure has enhanced the outcome in the year.

WAARD

Waard is the only division to report economic losses within the total commercial cash result, predominantly due to foreign exchange impacts. The operating and management action component net results is c£6m which continues to demonstrate the ability of the Dutch closed-book division to make meaningful cash contributions. Completion of the Robein Leven acquisition in 2022 is expected to further enhance the cash potential from Waard.

SCILDON

As is the case with Movestic, the results include the short-term adverse impact from writing new business in line with expectations. Similarly economic conditions (predominantly increasing yields and an increase to the value of mortgage based investments) have resulted in more cash generation than we would expect under steady state conditions but this has been largely offset by losses due to IT investment expenses. We have taken out catastrophe risk reinsurance during the year which has had a material positive capital efficiency impact.

GROUP ADJ

The group cash loss relates primarily to foreign exchange impacts.

FINANCIAL REVIEW • EcV EARNINGS

Economic conditions, particularly the positive impact of rising yields and interest rates, coupled with equity market growth, underpin healthy EcV earnings of £57.8m, offsetting some large operating losses reflective of difficult trading conditions in Sweden and one-off items in Scildon.



EcV EARNINGS £57.8M

2020: £(37.6)m

Analysis of the EcV result by earnings source:

£m	2021	2020
Expected movement in period	(1.7)	0.3
New business	2.4	3.7
Operating experience variances	(19.2)	(22.0)
Other operating assumption changes	(13.9)	(35.8)
Other operating variances	(0.2)	3.9
Material operating assumption changes and other items	(26.2)	(16.2)
Total EcV operating earnings†	(58.8)	(66.1)
Economic experience variances	79.5	45.7
Economic assumption changes	30.1	(22.8)
Total EcV economic earnings†	109.6	22.9
Other non-operating variances	4.5	(2.8)
Risk margin movement	10.8	4.7
Tax	(8.2)	3.7
EcV earnings	57.8	(37.6)

Analysis of the EcV result by business segment:

£m	2021	2020
UK	28.0	11.8
Sweden	26.1	(22.9)
Netherlands	8.3	(8.5)
Group and group adjustments	(4.6)	(18.0)
EcV earnings	57.8	(37.6)

Economic conditions: The EcV result is sensitive to investment market conditions, and reflects material economic earnings in the year. The result includes positive movements in interest rates and spreads, alongside equity market returns, offset by the negative impact of rising inflation. Key movements in investment market conditions during the year that have contributed to the reported economic profits are:

- CPI (UK consumer price index) increased by 4.7% (year ended 31 December 2020: reduced 1%);
- FTSE All Share index increased by 15% (year ended 31 December 2020: decreased by 12%);
- Swedish OMX all share index increased by 35% (year ended 31 December 2020: increased by 13%);
- The Netherlands AEX all share index increased by 23% (year ended 31 December 2020: increased by 4%); and
- 10-year UK gilt yields have increased from 0.24% to 0.98%.

Total operating earnings: In addition to the material operating assumption changes, the result consists of losses in Scildon, coupled with some group expense strain, offsetting positive earnings in both the UK and Waard. The loss in Scildon includes adverse mortality and lapse results. While the division reported positive lapse experience, in the current economic environment this results in EcV losses due to guarantees within certain policies. Scildon also reported an expense assumption strain arising from its digitalisation programme. A key component of the positive operating result in the UK was fee income, arising from a higher than expected persistency throughout the year. Growth in Waard was largely due to favourable mortality experience and resultant changes in mortality assumptions.

Material operating assumption changes and other items: This includes operating items that are individually material and have therefore been analysed separately. This main component of this relates to Movestic, where assumption strengthening had a significantly negative impact (£28.7m) on earnings in the opening half of the year. Following changes surrounding transfer regulations in the Swedish market during the prior year, transfer experience in 2021, in part due to further aggressive pricing by a competitor, has led to a need for a further strengthening of future transfer assumptions. The other element within this category is a £2.5m gain on the completion of Waard's acquisition of the Brand New Day portfolio during the second quarter.

UK: The UK delivered significant value growth in 2021 with earnings of more than double the prior year total, aided by positive investment market conditions, but also supported by solid operational growth. Economic profits of £24.3m arose from the positive impact of rising yields and equity markets growth, overshadowing the adverse effect of rising interest rates. Operational performance contributed earnings of £7.2m, with key items including positive outcomes on fee income (due to higher retained policy counts) and changes in assumptions relating to future guarantees and expenses. This offset a strengthening of mortality assumptions and an expense strain (also owing to higher policy counts).

Sweden: Movestic recorded earnings of £26.1m for the period, with strong economic gains offset by a material non-recurring operational strain. As described above, the operational strain was mainly the consequence of assumption changes in relation to dynamics around policy transfers. The operational loss, excluding these assumption changes, was £3.3m, with adverse experience on transfers and fee income overshadowing other operational gains. New business profits of £2.9m were delivered, representing an improvement compared to the £1.0m reported in 2020. Volume and margin pressures remain in a challenging Swedish market, though good progress was made in 2021, particularly on single premium and custodian business. Improvements in fund rebate arrangements, and corresponding future income, also delivered operational gains for the division. Economic earnings of £56.3m underpin the result (2020: £9.2m) and were primarily the result of strong equity markets during 2021, reflected by an average policyholder investment return of 23.3%.

Netherlands: The Dutch businesses posted combined value growth of £8.3m for the period, with Scildon delivering gains of £6.1m and Waard contributing a further £2.2m. Economic profits support the Scildon result, reflective of positive interest rate movements and narrowing spreads. As indicated earlier, Scildon has reported operating losses, largely the result of incurring guarantee related costs as a consequence of better than expected policy retention, and the impact of higher mortality driven outgoings than anticipated. A strengthening of expense assumptions attributable to its digitalisation programme was another key component of the operating result. Waard has reported EcV earnings of £2.2m, with modest operating earnings supported by economic profits, arising from investment market conditions. Operationally, positive mortality experience (and subsequent changes to assumptions) was offset by an expense strain a revision of future provisions. The result also includes the benefit delivered by the Brand New Day portfolio acquisition.

Group: This component comprises 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 gain on our euro debt, and the impact of rising interest rates and interest on our bank debt.

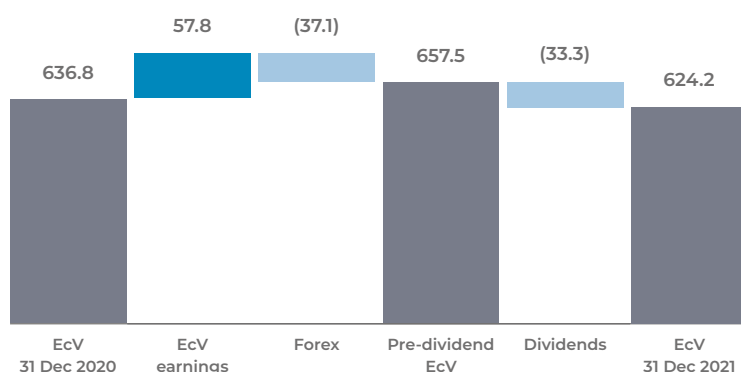
† Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

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) £624.2M
2020: £636.8m

Value movement: 1 Jan 2021 to 31 Dec 2021 £m

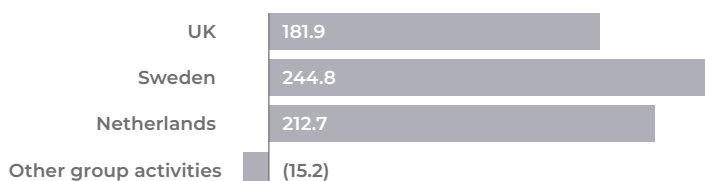


EcV earnings: Earnings of £57.8m have been delivered in 2021. Economic profits arising from favourable market conditions, with equity growth, rising yields and narrowing spreads, drive the result. Further detail can be found on page 50.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £33.3m were paid during the period, being the final dividend from 2020 and the 2021 interim dividend.

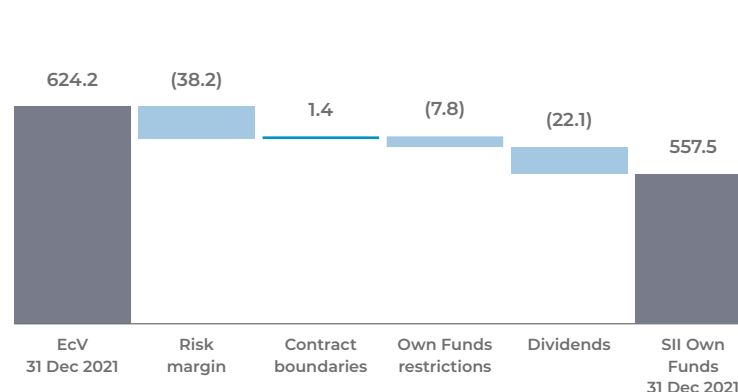
Foreign exchange: The EcV of the group includes the adverse impact of a foreign exchange loss on consolidation, being a consequence of sterling appreciation against the euro and Swedish krona during the year.

EcV by segment at 31 Dec 2021 £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 £22.1m 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 **£28.8M**

2020: £24.6m

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 funding. 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

IFRS TOTAL COMPREHENSIVE INCOME **£3.8M**

2020: £43.3m

product guarantees. The IFRS results of Scildon are potentially relatively volatile although this is, in part, due to reserving methodology rather than 'real world' value movements.

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

IFRS results

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

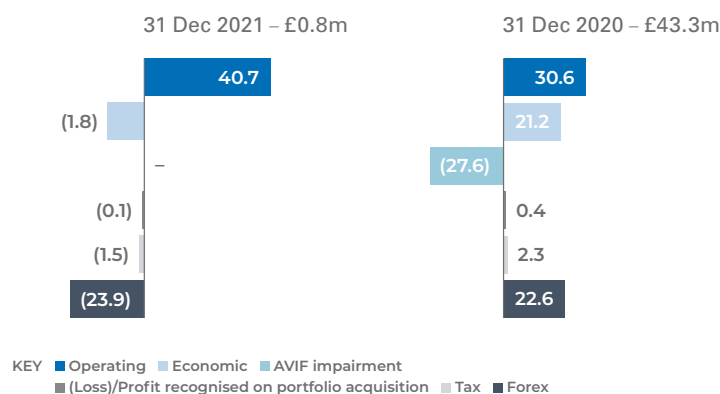
	2021 £m	2020 £m	Note
CA	35.6	35.7	1
Movestic	12.1	12.9	2
Waard Group	0.1	4.1	3
Scildon	(0.5)	14.6	4
Chesnara	(12.6)	(9.4)	5
Consolidation adjustments	(5.8)	(6.1)	6
Profit before tax, AVIF impairment and profit on acquisition	28.9	51.8	
AVIF impairment	–	(27.6)	7
Post completion (loss)/gain on portfolio acquisition	(0.1)	0.4	3
Profit before tax	28.8	24.6	
Tax	(1.5)	(3.4)	
Profit after tax	27.3	21.2	
Foreign exchange	(23.9)	22.6	8
Other comprehensive income	0.4	(0.5)	
Total comprehensive income	3.8	43.3	
Operating profit, excluding AVIF impairment ¹	40.7	30.6	9
Economic profit, excluding AVIF impairment ¹	(11.8)	21.2	10
Profit before tax, AVIF impairment and (loss)/gain on acquisition	28.9	51.8	
AVIF impairment	–	(27.6)	7
Post completion (loss)/gain on portfolio acquisition	(0.1)	0.4	3
Profit before tax	28.8	24.6	
Tax	(1.5)	(3.4)	
Profit after tax	27.3	21.2	
Foreign exchange	(23.9)	22.6	8
Other comprehensive income	0.4	(0.5)	
Total comprehensive income	3.8	43.3	

Notes.

1. The CA segment has continued to post a strong result, which saw a strong emergence of operating profits in the year. This included a one-off gain arising from the inception of a new annuity reinsurance agreement, favourable policyholder tax deductions, positive with-profit modelling impacts and favourable expense assumption impacts. Economic returns were also positive in the year, with favourable valuation interest rate impacts being offset slightly by adverse market and inflation rate related factors.

2. Movestic continues to contribute positively to the overall group IFRS result, with profits broadly in line with the prior year. Higher fund rebates arising from higher Funds under Management¹ and favourable claims experience were the main drivers.

3. The Waard Group result reflects weaker investment performance due to investment market volatility. The result also reflects an adverse expense assumption change in the year and slightly higher than expected acquisition and other project related expenditure.



4. The loss generated by Scildon reflects adverse investment return movements in the year, as rising interest rates have had a negative impact on investment values. Higher than expected expenses have also impacted the results, with higher than anticipated project spend being incurred.

5. The Chesnara result largely represents holding company expenses. The current year loss is higher than last year largely due to 2021 including larger one-off items such as project related expenditure, such as IFRS 17. The result also reflects a foreign exchange gain of £1.5m 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 2020 a write-down of the Scildon AVIF intangible asset was performed amounting to £26.6m. 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 were 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. No further write-downs have been performed in 2021.

8. Sterling strengthened against both the euro and Swedish krona in the period, having a material impact on the 2021 result, creating a sizeable exchange loss at the end of the year.

9. The operating profit, excluding AVIF impairment, includes the positive impact of fully releasing the additional reserve created in 2020 due to the liability adequacy test biting in Scildon, amounting to £10.0m. In the absence of this, operating profits, albeit lower than in 2020, have remained strong, 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. The economic loss in the year, largely reflects adverse investment market factors, particularly the adverse impact of interest rate rises upon the value of investments in the Netherlands.

IFRS net assets reduced slightly during the year, as did cash generated from operating activities, which also decreased period on period, as positive investment returns were outweighed by 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
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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
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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: 152%	2019-2021 TSR 0.08% 2020 dividend yield 8.1% Based on average 2021 share price and full year 2021 dividend of 22.60p.	Gearing [†] ratio of 6.4% Pro-forma gearing ratio of 30.4% ² This does not include the financial reinsurance within the Swedish business. ² Unaudited pro-forma figure is based on the 31 December 2021 actual, adjusted for the expected impacts of the pro-forma acquisitions and Tier 2 debt.	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 54)

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 6.4% at 31 December 2021 (7.4% at 31 December 2020). 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. Subsequent to the balance sheet date, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes. This is expected to increase group solvency from 152% to 202%. The net proceeds of the notes will be used for corporate purposes, including investments and acquisitions.

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.

[†] 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 and 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 emerging potential impact of the invasion of Ukraine and the associated sanctions that have been imposed upon Russia as a consequence and, to a lesser extent, the reducing impact of COVID-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV and IFRS positions. In particular these projections assess the cash generation of the life insurance divisions and how these flow up into the Chesnara parent company balance sheet, with these cash flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company. Further insight into the immediate and longer-term impact of certain scenarios, covering solvency, cash generation and Economic Value, can be found on page 45 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of the Ukraine crisis and COVID-19 on the group, as Chesnara's most material ongoing exposure to both potential threats are any associated future investment market impacts. Underpinning the projections process outlined above are a number of assumptions. The key ones include:

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

The group's strong capital position and business model provides a degree of comfort that although the Ukraine crisis and COVID-19 both have the potential to cause further significant global economic disruption, the group and the company remain well capitalised and has sufficient liquidity. As such we can continue to remain confident that the group will continue to be in existence in the foreseeable future. The information set out on pages 43 to 44 indicates a strong Solvency II position as at 31 December 2021 as measured at both the individual regulated life company levels and at the group level. As well as being well capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due and does not rely on the renewal or extension of bank facilities to continue trading. This position has been further enhanced in early 2022, when the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes, the net proceeds of which will be used for corporate purposes, including investments and acquisitions. The group's subsidiaries rely on cash flows from the maturity or sale of fixed interest securities which match certain obligations to policyholders, which brings with it the risk of bond default. In order to manage this risk, we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low.

Whilst there was some short-term operational disruption 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 3-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 3-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 57 to 62) and how these might affect our prospects.

An assessment of our prospects has been shown below, updated for our consideration of the impact of the Ukraine crisis and to a lesser extent COVID-19. This has been structured around our three strategic objectives:

Value from in-force book: The group has c876,000 policies in force at 31 December 2021. These are generally long-term policies, and the associated cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. Just as equity markets had recovered from the impact of COVID-19, the worsening situation in the Ukraine has caused equity prices to fall. Whilst this may turn out to be a temporary situation, sustained depressed market values do adversely impact fee income streams and therefore if markets fall further then profitability prospects reduce. Similarly, 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 are covered on page 42. We see no reason to expect that the Ukraine crisis or COVID-19 will have a long-term impact on the availability of acquisition opportunities. Indeed, during the year we announced two acquisitions in the year, one in the UK and one in the Netherlands. We also completed another small Dutch acquisition in 2021 which has resulted in a £2.5m EcV gain. Waard continue to build a useful market position as a company who are able and willing to acquire books that are sub-scale for the vendors business model. Whilst we maintain our ambition to complete larger deals, the prospects from a steady flow of well-priced smaller acquisitions should not be underestimated. The financial position of the group continues to support financing deals through the use of our own resources or by raising debt, however in the short-term equity funding would likely be less attractive.

Value from new business: Chesnara is in a fortunate position in that its prospects do not fundamentally rely on the ability to sustain new business volumes. New business levels have contributed a small amount of extra value during the year despite the ongoing challenges as a result of COVID-19 and we believe there remains realistic upside potential as we move into 2022.

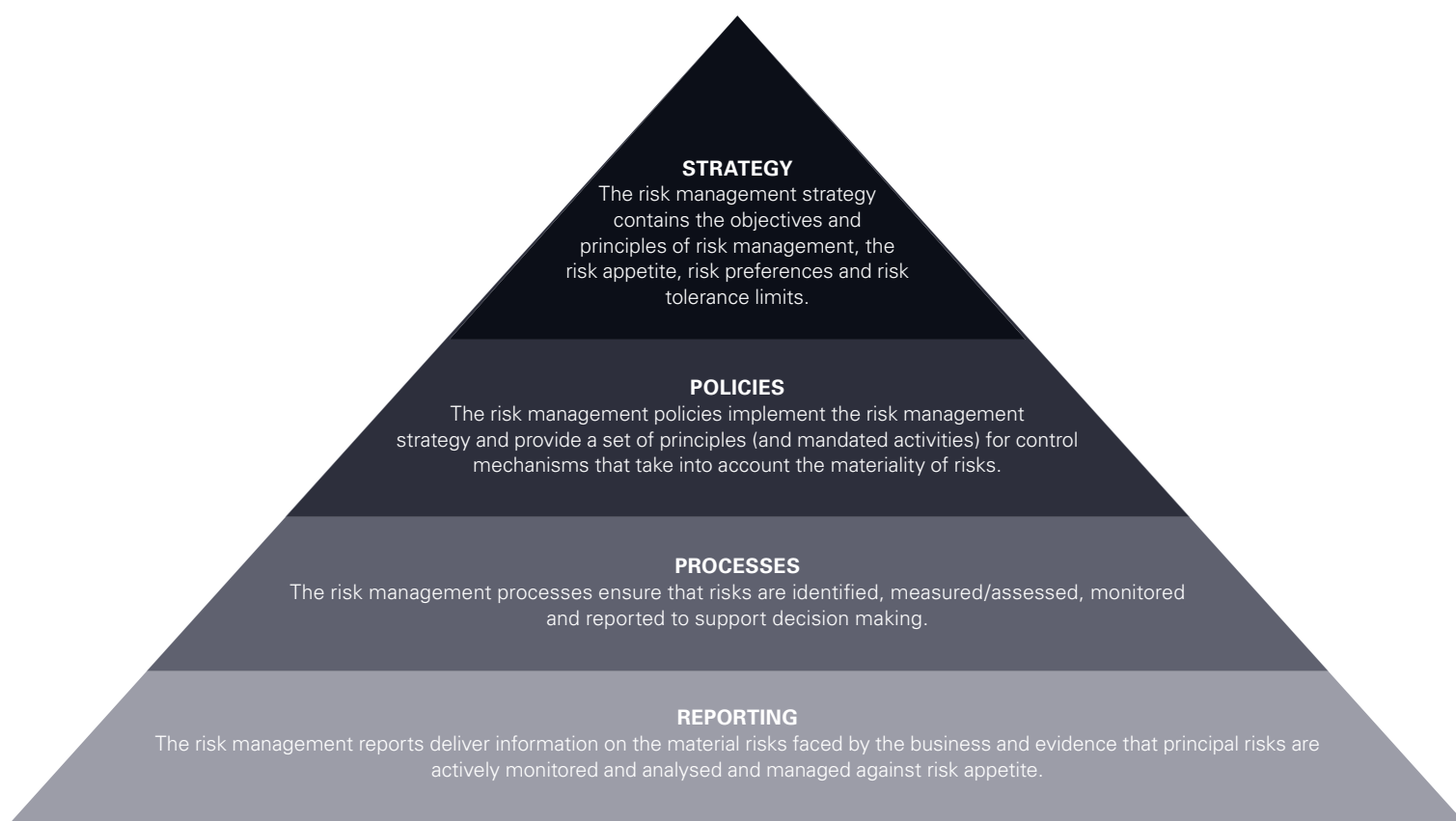
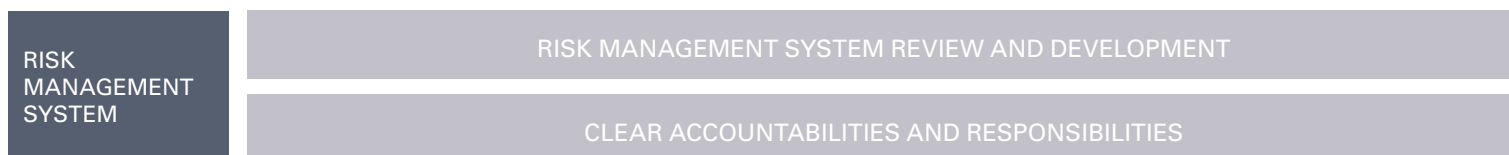
Our business fundamentals such as assets under management, policy volumes, new business market shares and expenses have all proven resilient to the impact of the Ukraine crisis and COVID-19 pandemic. This, together with the positive assessment of our core strategic objectives and a line of sight to positive 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 to monitor and control the probability and/or impact of adverse outcomes within the board’s risk appetite or to maximise realisation of opportunities.



Chesnara adopts the ‘three lines of defence’ model with a single set of risk and governance principles applied consistently across the business.

In all divisions we maintain processes for identifying, evaluating and managing 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 evaluate 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 57 to 62). 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.

Strategy and Risk Appetite

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

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

Risk and Control Policies

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

Risk identification

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk Management System effectiveness

The group and its divisions undertake a formal annual review of and attestation to the effectiveness of the Risk Management System. The assessment considers the extent to which the Risk Management System is embedded.

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

COVID-19

Although COVID-19 has been a material event, it is not documented here as a principal risk in its own right, as the impacts from COVID-19 are already covered by other principal risks, for example, market risks, mortality risk and other risks associated with operational failure and business continuity. The Chesnara group has continued to remain operationally and financially stable throughout the COVID-19 pandemic, providing a high level of assurance regarding operational resilience processes and the suitability of the approach taken.

CLIMATE CHANGE RISK WITHIN CHESNARA'S RISK FRAMEWORK

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

Chesnara has embedded climate change risk within the group's risk framework during 2021 and included a detailed assessment alongside the group's ORSA, concluding that the group is not materially exposed to climate change risk.

UKRAINE CONFLICT

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

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

NEW BUSINESS RISK

PR8

REPUTATIONAL RISK

PR9

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 45).

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>COVID-19 has arguably introduced greater uncertainty into investment markets, given that the longer-term effects of government enforced social and economic restrictions remain unclear, as does the extent to which those restrictions may need to continue or be repeated in future as the virus, and any subsequent mutations, continues to affect different parts of the world. 2021 was a year of high equity growth, but also with an appreciation in sterling and inflation increasing. Chesnara continues to monitor these closely given the heightened level of uncertainty and volatility but remains within risk appetite in terms of its exposures.</p> <p>With greater global emphasis being placed on environmental and social factors when selecting investment strategies, the group has an emerging exposure to 'transition risk' arising from changing preference and influence of, in particular, institutional investors. This has the potential to result in adverse investment returns on any assets that perform poorly as a result of 'ESG transition'. Chesnara's 2021 risk analysis of transition risk demonstrates that this is well within its risk appetite and within its standard economic sensitivities.</p> <p>The conflict in Ukraine/Russia brings additional economic uncertainty and volatility to financial markets, including the potential for higher inflationary pressures in the short term. The group has no direct exposure in terms of investments in Russian funds or companies via customer unit-linked funds, and we are working with customers that are exposed to help them.</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 are the constraining of efficient and fluid use of capital within the group or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>Regulatory developments continue to drive a high level of change activity across the group, with items such as operational resilience, climate change and IFRS 17 being particularly high profile. Such regulatory initiatives carry the risk of expense overruns should it not be possible to adhere to them in a manner that is proportionate to the nature and scale of Chesnara's businesses. The group is therefore exposed to the risk of:</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 departure from the EU.

The PRA's post Brexit transition period ends on 31 March 2022. In addition, the UK Treasury and EIOPA are both undertaking a review of SII rules implementation. There is potential for divergence of regulatory approaches amongst European regulators with potential implications for Chesnara's capital, regulatory supervision and structure.

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.

The group is subject to evolving regimes governing the recovery, resolution or restructuring of insurance companies. As part of the global regulatory response to the risk that systemically important financial institutions could fail, banks, and more recently insurance companies, have been the focus of new recovery and resolution planning requirements developed by regulators and policy makers nationally and internationally. It remains unclear to what extent any future recovery and resolution regime could apply to the group in the future and, consequently, what the implications of such a development would be for the group and its creditors.

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.

We have assessed that COVID-19 does not materially increase the level by which Chesnara is exposed to this risk.

ACQUISITION RISK (CONTINUED)

PR3

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 2021 and has agreed to complete further acquisitions in the first half of 2022, one in the UK and another in the Netherlands, whilst maintaining the established disciplines within the Acquisition Policy.

The successful Tier 2 debt raise, in addition to diversifying the group's capital structure, has provided additional flexibility in terms of funding Chesnara's future growth strategy.

DEMOGRAPHIC EXPERIENCE RISK

PR4

DESCRIPTION

Risk of adverse demographic experience compared with assumptions (such as rates of mortality, morbidity, persistency etc.).

RISK APPETITE

The group accepts this risk but restricts its exposure, to the extent possible, through the use of reinsurance and other controls. Early warning trigger monitoring is in place to track any increase or decrease in the risk exposure beyond a set level, with action taken to address any impact as necessary.

POTENTIAL IMPACT

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

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

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

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

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

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. The higher rates of transfers have persisted through 2021 as a result of the legislation and compounded by a competitive market, resulting in further changes to the transfer assumptions.

COVID-19 increased the number of deaths arising in 2020 and 2021. The effect of this is expected to be more pronounced in older lives rather than in the typical ages of the assured lives in the Chesnara books. Chesnara does not expect the pandemic to have a material impact on mortality experience and costs in the long term.

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. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.</p>

KEY CONTROLS

- 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 level of operational and strategic change currently 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.

Inflation has materially increased during 2021 in all territories including both long-term measures and short-term distortions in wage inflation due to the economic impacts of COVID-19, e.g., the operation of the furlough scheme. Higher inflation would increase Chesnara's expected longer-term cost base.

Through its exposures to investments in real asset classes, both direct and indirect, Chesnara has an indirect hedge against the effects of inflation and will consider more direct inflation hedging options should circumstances determine that to be appropriate.

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	<p>The group and its subsidiaries are exposed to operational risks which arise through daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons. As a result, the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.</p> <p>Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.</p>

OPERATIONAL RISK (CONTINUED)

PR6

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

Operational resilience remains a key focus for the business and high on the regulatory agenda following the regulatory changes published by the BoE, PRA and FCA. Chesnara plc is progressing activity as part of a UK Operational Resilience project to identify important business services, carry out scenario testing and establish respective impact tolerances. Each business unit continues to carry out assurance activities through local business continuity programmes to ensure robust plans are in place to limit business disruption in a range of severe but plausible events. In response to COVID-19, Chesnara, its subsidiaries and outsourced service providers all adapted to remote working conditions, utilising communication technology as required and implementation of additional controls.

IT/DATA SECURITY & CYBER RISK

PR7

DESCRIPTION

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

RISK APPETITE

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

POTENTIAL IMPACT

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

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

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 executive membership;
- Having established Chesnara and supplier business continuity plans which are regularly monitored and tested;
- Ensuring Chesnara's outsourced IT service provider maintains relevant information security standard accreditation (ISO27001); and
- Monitoring network and system security including firewall protection, antivirus and software updates.

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 cyber risk resilience and response options.

No reports of material data breaches.

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

It is anticipated that cyber-crime campaigns originating from Russia will increase, with some suppliers already reporting an increase in information security threats which some are saying are state sponsored. Although Chesnara is not considered to be a direct target of any such campaigns, all business units have confirmed that they have increased monitoring and detection/protection controls in relation to the increased threat.

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 CHANGES / OUTLOOK

COVID-19 caused some volatility in new business volumes across markets as well as in individual business' volumes during 2021.

Overall volumes during the pandemic have been lower than historic levels, largely 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. As a result of recent changes in competitor offerings, making them less attractive, 'transfers out' have begun to trend back down towards more normal levels.

Scildon has increased market share in protection business within the Netherlands.

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. For example, any restrictions on brokers meeting new customers face-to-face could result in increased focus on the existing customers and risk of churn.

REPUTATIONAL RISK

PR9

DESCRIPTION	Poor or inconsistent reputation with customers, regulators, investors, staff or other key stakeholders/counterparties.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>The group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information (including the loss or theft of customer data), IT failures or disruption, cyber security breaches and/or inadequate services, amongst others, whether true or not, could impact its brand or reputation. The group's brand and reputation could also be affected if products or services recommended by it (or any of its intermediaries) do not perform as expected (whether or not the expectations are realistic) or in line with the customers' expectations for the product range.</p> <p>Any damage to the group's brand or reputation could cause existing customers or partners to withdraw their business from the group, and potential customers or partners to elect not to do business with the group and could make it more difficult for the group to attract and retain qualified employees.</p>

KEY CONTROLS

- Chesnara seeks to limit any potential reputational damage by:
- Regulatory publication reviews and analysis;
 - Timely response to regulatory requests;
 - Open and honest communications;
 - HR policies and procedures;
 - Fit and proper procedures;
 - Operational and IT data security frameworks;
 - Product governance and remediation frameworks; and
 - Appropriate due diligence and oversight of outsourcers and third parties.

RECENT CHANGES / OUTLOOK

Given the global focus on climate change as well as the significant momentum in the finance industry, the group is exposed to strategic and reputational risks arising from its action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter.

In relation to the Ukraine/Russia conflict, no material exposure has been identified in terms of the group's key counterparty connections. There are limited indirect connections through third parties who have a presence in Russia and Chesnara has confirmed that there are no obvious links with Russia through its shareholders or stockbrokers.

CORPORATE & SOCIAL RESPONSIBILITY

Our goal is to manage the business responsibly and for the long-term benefit of all stakeholders, including our customers, shareholders, employees, regulators, suppliers and partners, and local communities as well as to take reasonable steps to consider relevant environmental factors.

In January 2021, the Chesnara board set out its policy statement on environmental, social and governance ('ESG') matters for the purposes of integrating ESG factors into our operational and investment decision making across all business units. At the same time, the board highlighted the importance of understanding the wider impact of climate change and confirmed its support for the Task Force on Climate-Related Financial Disclosures ('TCFD'). This strategy builds on the foundations laid in the previous years, with the intention to make further progress as more guidance and data becomes available.

PROGRESSION OF OUR ESG STRATEGY

We have a clear corporate and social purpose. As a business we help protect people and their families from the economic impact of an early death, through life assurance protection, and help support them during retirement through pension and investment savings. We believe that stakeholder value creation is best delivered through the embedded consideration of environmental, social and governance ('ESG') issues. In this regard, among our key considerations are the following strategic aims:

- Maintaining a long-term sustainable working environment for our staff, suppliers and partners, local communities and the societies.
- Investments focusing on long-term sustainability and strong financial solvency for the company.
- Genuine care about our customers, helping them create financial security now and for the future.
- Assessing and managing climate-related risks to our business, and looking for ways to cost effectively reduce our environmental impact.

As described on pages 56 and 85, a key part of this work includes the annual review of the effectiveness of our Risk Management System and the system of governance so as to ensure that we can achieve our business objectives and safeguard the interests of our stakeholders. The overall conclusion from the review conducted in 2021 was that Chesnara has a stable and well understood risk profile, controlled by an effective and embedded system of governance.

Chesnara has selected five areas to focus upon from the 17 UN Sustainable Development Goals ('SDGs') blueprint to direct our attention to promote prosperity and protect the planet. This means taking into consideration social needs including education, health, financial protection, job opportunities and human rights, while also taking responsibility for climate change and environmental protection. These five SDGs are:



Find out more at globalgoals.org

3 GOOD HEALTH AND WELL-BEING



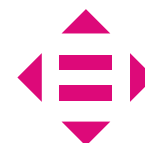
5 GENDER EQUALITY



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



13 CLIMATE ACTION



In all three of our territories, we work with fund managers that are committed to the UN's Principles of Responsible Investment (UNPRI). In Sweden, Movestic is a signatory of the UN Global Compact and it submits an annual Communication on Progress report setting out specific actions taken with regard to the four designated categories covering human rights, labour, environment and anti-corruption. Movestic Livförsäkring is a signatory to the UNPRI. Actions which relate to the five SDGs have been briefly explained within this report under the sub-headings: Our Colleagues; Human Rights; and Suppliers & Partners. Our assessment of climate-related impacts has been described under the Climate-Related Financial Disclosures report.

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

The COVID-19 pandemic has had a marked impact on public health, society, business activities and the economy. However, it has also focused minds on areas where social and environmental action is necessary to protect people, livelihoods, communities, economies and the planet. To address these challenges, it is widely acknowledged that reliable data and relevant information are vital for businesses, customers, investors, regulators and policy makers.

We believe that ESG matters are not solely for our board and leadership teams, and we have taken steps to educate, involve and support our workforce and other stakeholders, including our suppliers, in the delivery of our ESG initiatives.

In January 2021, the group initiated an ESG project with the primary objective of taking a closer look at the social and environmental initiatives that each of our divisions have in place; to share good practice; and to embed our ESG and sustainability aspirations within the business planning and decision making process going forward.

Each of our businesses have also incorporated ESG considerations into their Investment Policy, Investment Committee Terms of Reference and investment decision making.

As part of the preparations for Chesnara's application to become a signatory to the FRC's UK Stewardship Code 2020, we have identified areas where further work is required to develop our sustainable investing and stewardship objectives.

A key part of our ESG project was to consider our existing approach to climate-related risk assessment and the new reporting requirements, in particular the recommendations of TCFD, which came into force for premium listed commercial companies in 2021. Our revised approach and progress with the integration of the assessment of climate change risks and opportunities within our Risk Management System has been described in our TCFD report which can be found on page 67.

We anticipate further regulatory requirements will emerge around this subject in the coming year and we shall take appropriate measures to fulfil our ESG responsibilities as our work develops.

UNDERSTANDING THE NEEDS OF OUR CUSTOMERS

Our products and services

We offer and manage life and health insurance and pension products for our customers to help them meet their financial goals. We achieve this by paying attention and understanding the customer's point of view, by regularly asking for feedback and by investigating any complaints thoroughly and promptly. Lessons learned from our interaction with customers are used to train and develop our staff, make our processes more efficient and to take further steps to ensure our policyholders are treated fairly. Our aim is to consistently exceed industry service standards.

Reuniting customers with their policies

We appreciate that customers can lose touch with their policies due to business acquisitions, house moves, name changes and passage of time, so we actively try to trace and recontact customers wherever possible.

Digitalisation

Advancements in technology and data usage are having a significant impact on how business is conducted, and the way regular communication is taking place. We have continued to invest in digital technology and applications so that we can meet the expectations of our business partners and customers, whilst maintaining the traditional contact methods for customers that are more comfortable using that option.

Regulatory compliance

We maintain an open and constructive relationship with the regulators in the jurisdictions we operate in. Understanding and implementing regulatory requirements is a key part of management responsibility, including the timely and accurate submission of information requested by the regulator. None of the business entities are subject to any regulatory intervention during 2021 and no penalties were imposed.

OUR COLLEAGUES

Health, safety and welfare at work

As would be the case of any responsible business, at Chesnara we place primary importance on the health, safety and welfare of our employees. The Chesnara board and our management teams took swift action during 2020 as lockdowns were imposed to ensure that our employees were safe and able to continue to work from home, taking into consideration individual circumstances where necessary so that appropriate support could be provided. During 2021, each of the boards in our businesses have maintained a keen interest in the welfare of our staff. Once restrictions were lifted, management sought the views of their teams on working from the office, and consequently implemented a hybrid model under which staff can continue to work from home for part of the time. In the intervening period, the office infrastructure was adapted where necessary to ensure that staff are able to work safely in the knowledge that the offices are being cleaned frequently and the air quality is being monitored regularly.

In the UK division, a Wellbeing Hub was launched in mid-March 2021 to provide staff with access to healthcare information and share resource material on mental health, coping with change, and support that is available. Subsequently, the hub has been updated with information about healthcare benefits, including discounted gym membership, PMI and cash plans, and an assistance line. Training has been provided to staff who have come forward to become Wellness Champions so that they can discuss their experiences openly and confidently in a safe space. The hub also includes a competitions page, a community calendar and a photo gallery. Similarly, the management teams and employees in Sweden and Netherlands have taken steps to guide and support colleagues during the year.

Each of our business units ensures that the health and welfare of our staff is supported by employment contract provisions, including access to health insurance for all employees and encouragement and support for flexible working, amongst other benefits such as life cover, occupational pension and parental leave. All staff are made aware of these benefits. They are also reminded through contracts of employment, the staff handbook and staff briefings. They are also reminded of their duty to act responsibly and do everything possible to prevent injury to themselves and others. Management teams across the group monitor the level of sick leave and absence and, where necessary, they take appropriate action to address any issues identified.

Relevant policies and procedures are reviewed on a regular basis so as to ensure that they meet appropriate standards. 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.

Equal opportunities and diversity

Chesnara always aims to attract, promote and retain the best candidates suitable for the roles that are transparent within all our operations. Our approach is to be open, entrepreneurial and inclusive in how we select and manage our employees.

We are committed to providing equal opportunities in employment and will continue to treat all applicants and employees fairly regardless of race, age, gender, marital status, ethnic origin, religious beliefs, sexual orientation or disability. Chesnara has policies in place to ensure that no employee suffers discrimination, harassment or intimidation and to effectively address any issues that come to light.

Year-end headcount	2021		2020	
	Male	Female	Male	Female
Directors of Chesnara plc	5	2	5	2
Senior management of the group	6	2	7	2
Heads of business units and group functions	19	9	14	10
Employees of the group	149	147	148	152
Total¹	179	160	174	166
Gender split %	52.8%	47.2%	51.2%	48.8%

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 FTEs during the course of the year.

Gender diversity forms an important part of Chesnara's selection and appointment process at group level. The Hampton-Alexander report recommends a board diversity target of 33% for FTSE 350 companies. Our board diversity ratio for 2021 was c71% male and c29% female, although this is now 62% male and 38% female following the appointment of Carol Hagh and Karin Bergstein during early 2022. During the year, our Group Audit & Risk Committee and Group Remuneration Committee had a female chair and Movestic is headed up by a female CEO.

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 business. Chesnara has only three members of staff who meet the Companies Act definition of senior management. Therefore, we have provided additional disclosures, including an analysis of diversity, which show 'Heads of business units and group functions' separately from the remainder of employees within the group.

Disabled employees

Chesnara endeavours to provide employment for disabled persons wherever the requirements of the business allow and if applications for employment are received from suitable applicants. Where an existing member of staff becomes disabled, every reasonable effort is made to achieve continuity of employment by making reasonable adjustments to give the staff member as much access to any training, promotion opportunities and employee benefits that would otherwise be available to any non-disabled employee.

Staff training and development

Our employees are a key asset of the Chesnara business and we invest in our staff through individual and group training and development plans. All staff are encouraged and supported to acquire relevant knowledge and build their skills and competence. Financial support is provided to staff who wish to achieve recognised qualifications that are appropriate for specific roles and the needs of the business.

Fair pay

We believe that all our employees deserve fair and just remuneration appropriate for the roles they hold and the work they perform. In our UK division, our employees and service contractors meet the Real Living Wage pay level set by the Living Wage Foundation and based on a calculation of the cost of living and what employees and their families need to live.

All UK employees, subject to a 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.

At the start of 2022, the Remuneration Committee consulted with employees on the alignment of directors' pay with UK employees. 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.

Employee engagement

Across our businesses, we provide high quality jobs with competitive remuneration along with requisite training and good working conditions. Regular contact with employees and keeping them updated on business strategy, priorities and achievements is a key part of management responsibility at Chesnara. Frequent employee engagement has become even more important over the last two years due to the COVID-19 pandemic and the necessity for prolonged remote working. Each of our businesses have a multi-channel approach for effective employee communication such as regular updates from the CEO, monthly team and departmental meetings, company briefings, discussions via Employee Forums, and the use of employee surveys to highlight issues and drive any necessary change. In addition, virtual social events have been organised by staff for supporting colleagues whilst they have been working from home.

As the Workforce Engagement NED appointed by the Chesnara board, Veronica Oak's liaison with the CEOs, HR teams and Employee Forum representatives has been invaluable in terms of independent engagement with staff and also for the ongoing assessment of our culture and embedding of our values across our UK, Swedish and Dutch divisions. Following the retirement of Veronica during early 2022, the Workforce Engagement NED role is now being performed by Carol Hagh.

Within the UK division, the Employee Forum has continued to meet monthly on a remote basis. This forum comprises staff members who represent each functional area, rotated from time to time, for the purposes of discussing any matters of concern or areas of interest for the staff and management.

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 and in Sweden, staff representation is via a Working Environment Committee and a trade union. During 2021, staff surveys covered a range of subjects such as engagement, trust, alignment, leadership, inclusion, change management, company culture, and returning to office-based working. It is pleasing to note that responses to the surveys were high and staff comments have been encouraging.

Chesnara's aim is to continue to grow via acquisition of life assurance businesses and our due diligence plan incorporates an assessment of all relevant workforce matters which are reported to the board to assist its deliberations on any potential acquisition opportunities.

Whistleblowing

Each of the Chesnara businesses has a Whistleblowing Policy which complies with local regulatory requirements and is reviewed on an annual basis. In the UK the Audit & Risk Committee Chair is appointed as a Whistleblowing Champion, whose responsibilities are aligned to the prescribed requirements set out in the PRA's Senior Managers Certification Regime. The policy is shared with all new joiners and whenever it is updated it is provided to all existing employees. All staff are requested to read and confirm that they understand the contents, and the attestation response has been 100% during 2021. Similar arrangements are in place within our overseas divisions.

Within the UK there were no relevant regulatory changes, and the policy was reviewed in March 2021 and confirmed as fit for purpose. Confirmation was also received that each outsource service provider (OSP) has a Whistleblowing Policy in place which is provided to all employees.

In Sweden and the Netherlands, new regulations came into force in December 2021 under which organisations have to implement stringent internal procedures for reporting misconduct and include explicit requirements against retaliation and safeguarding of reporter identities. These obligations are now incorporated within their policies by the business units.

No whistleblowing incidents have come to light across any of our divisions during 2021 and our overall conclusion is that the policies and related control systems have been operating effectively.

SUPPLIERS AND BUSINESS PARTNERS

At Chesnara, we believe in developing mutually respectful and sustainable relationships with our suppliers and business partners. Our preference is to establish long-term relationships where they remain commercially competitive and operationally viable. This is achieved through a structured due diligence process before selection, followed by clear agreement of the business objectives, consistent implementation of regulatory requirements and relevant policies, and effective attention to resolving issues fully. We require our suppliers and business partners to apply high standards of ethical conduct in all their dealings with us and their other stakeholders.

We are 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 proper engagement with their own workforce.

During 2021, we conducted a desk-based review of the annual reports published by the top six suppliers to our UK division so as to understand how they are addressing their ESG responsibilities. We expect to do further work along these lines across each of our businesses so as to identify, discuss, learn and resolve common issues and risks in a collaborative manner.

HUMAN RIGHTS

Human Rights and the Modern Slavery Act 2015

Human rights belong to all human beings regardless of nationality, gender, race, age, religion, language, physical or mental ability or any other political, economic or social status. Such rights are protected by the rule of law through legal mechanisms designed to prevent abuse by those in positions of power. Modern slavery is just one such form of human rights abuse. In addition to the freedom of expression, human rights include:

- the right to life;
- prohibition on torture;
- the right to a fair trial; and
- the right to fair and just working conditions.

Chesnara has zero tolerance to the abuse of human rights and modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships. We seek to avoid causing or contributing to adverse human rights impacts by operating and enforcing effective systems and controls to ensure human rights abuse and modern slavery are not taking place anywhere in the group or its supply chains.

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.

The Modern Slavery Act does not apply to our European divisions, but instead they adhere to the European Convention on Human Rights (ECHR) treaty which is similarly designed to protect people's human rights and basic freedoms.

Our Human Rights & Modern Slavery Policy is made available to our entire workforce and is also available via the Chesnara website.

During 2021, a group-wide review was conducted which confirmed that the necessary policies were in place and that the controls had not identified any increased risk in the processes or supply chain as a result of COVID-19 working practices. There have not been any breaches of human rights or the Modern Slavery Act during the reporting period.

ANTI-BRIBERY AND CORRUPTION

In addition to other financial control policies, Chesnara has group-wide Anti-Money Laundering and Anti-Bribery & Corruption Policies in place which are reviewed at least annually. Their scope includes all directors, employees and third parties operating on behalf of the group.

We have zero tolerance to financial crime, including money laundering and bribery and corruption. Our internal control framework includes the maintenance and review of a Gifts & Hospitality Register, the disallowance of any political contributions or inducements and careful consideration of any charitable donations. These controls act as a monitoring and prevention system. Policies are made available to all staff and they are required to attest that they have read and understood their importance and application. There were no instances of money laundering or bribery or corruption in the period.

TAXATION

We adopt a responsible and open approach to taxation and, consequently, pay the appropriate taxes due throughout the group, details of which are set out in the respective Annual Reports and Accounts for each of our operating entities.

OUR COMMUNITIES

Chesnara's management and staff support local community initiatives to the extent deemed appropriate given our financial responsibilities as a public limited company.

During 2021, within the UK, we continued our work with the Foxton Centre in Preston and contributed funds towards the purchase of two flats in order for them to continue to provide accommodation to homeless youth and adults. This project is expected to be completed in the first half of 2022. In October 2021, employees donated money for breast cancer research and life-changing care.

In the Netherlands, Scildon has continued to support Sherpa, a local charity that helps people with physical and intellectual disabilities to function as independently as possible.

CLIMATE-RELATED FINANCIAL DISCLOSURES

New disclosure requirements¹ on the impact of climate change were introduced by the Financial Conduct Authority (FCA) for premium listed companies with effect from 1 January 2021. This is our first progress report in support of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and its 11 recommendations¹ to provide appropriate decision useful information regarding material risks and opportunities arising from climate change.

CONTEXT

The TCFD maturity map² sets out recommendations under four pillars – Governance; Strategy; Risk Management; and Metric and Targets – through a pathway from the beginner stage to intermediate and full disclosure. It is widely understood that the information and analysis have to be accurate and reliable, and that it will take some time for the recommendations to be fully implemented by firms. We have taken appropriate steps to determine the impact of material climate change risks upon our businesses and reflect the outcome of our analysis with the aim of providing intermediate or moderate level disclosures with respect to the TCFD recommendations shown within the TCFD maturity map.

COMPLIANCE STATEMENT

Chesnara has complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures except for the following matters, where we have further work to do:

Strategy – a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long terms. In the Strategy section of our TCFD report we have explained that our assessment of how climate change is expected to cut across the main principal risks covers the short term, but the medium- and long-term impacts are currently uncertain and will depend upon mortality rates and longevity trends as well as second order effects, such as the potential decline in economic growth, geopolitical conflict and shifts towards low-carbon business models. During 2022, as part of the work we have in-hand, our aim is to expand our climate-related risk assessment to cover the medium and long term.

Strategy – c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. Our UK business applied climate-related scenarios, including a 2°C or lower scenario, but as at year end 2021 this work was outstanding for our European entities and will be completed during 2022. That said, from the work we completed during 2021 for the purposes of our solvency assessment, we concluded that physical and transition risks due to climate change are not expected to have a material impact over the short term on Chesnara and its business units, and the group is stable and resilient.

Metrics & Targets – a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. We have used climate-related metrics to monitor and report carbon emissions, and energy and water consumption within our operations. During 2022, we expect to identify and use additional metrics as we progress with the integration of climate-related risks and opportunities.

Metrics & Targets – c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. In 2021, we had not set any specific climate change-related targets whilst embarking on the integration work. However, for 2022, we intend to report performance against set targets that are appropriate for the nature and size of our business as climate change-related considerations become fully embedded within our strategic and operational performance evaluation and decision making processes.

We expect to refine our approach to climate-related risk and opportunity assessment as our understanding of the short-, medium- and long-term impact of physical and transition risk exposures develops, and relevant data, tools and a common methodology for forward-looking reporting on this important subject becomes available for the insurance sector.

GOVERNANCE

The Chesnara board sets the values and culture of how the business divisions operate and the group invests time and resources to ensure that the governance structures in place remain appropriate for the evolving business and regulatory landscape.

Chesnara's governance arrangements

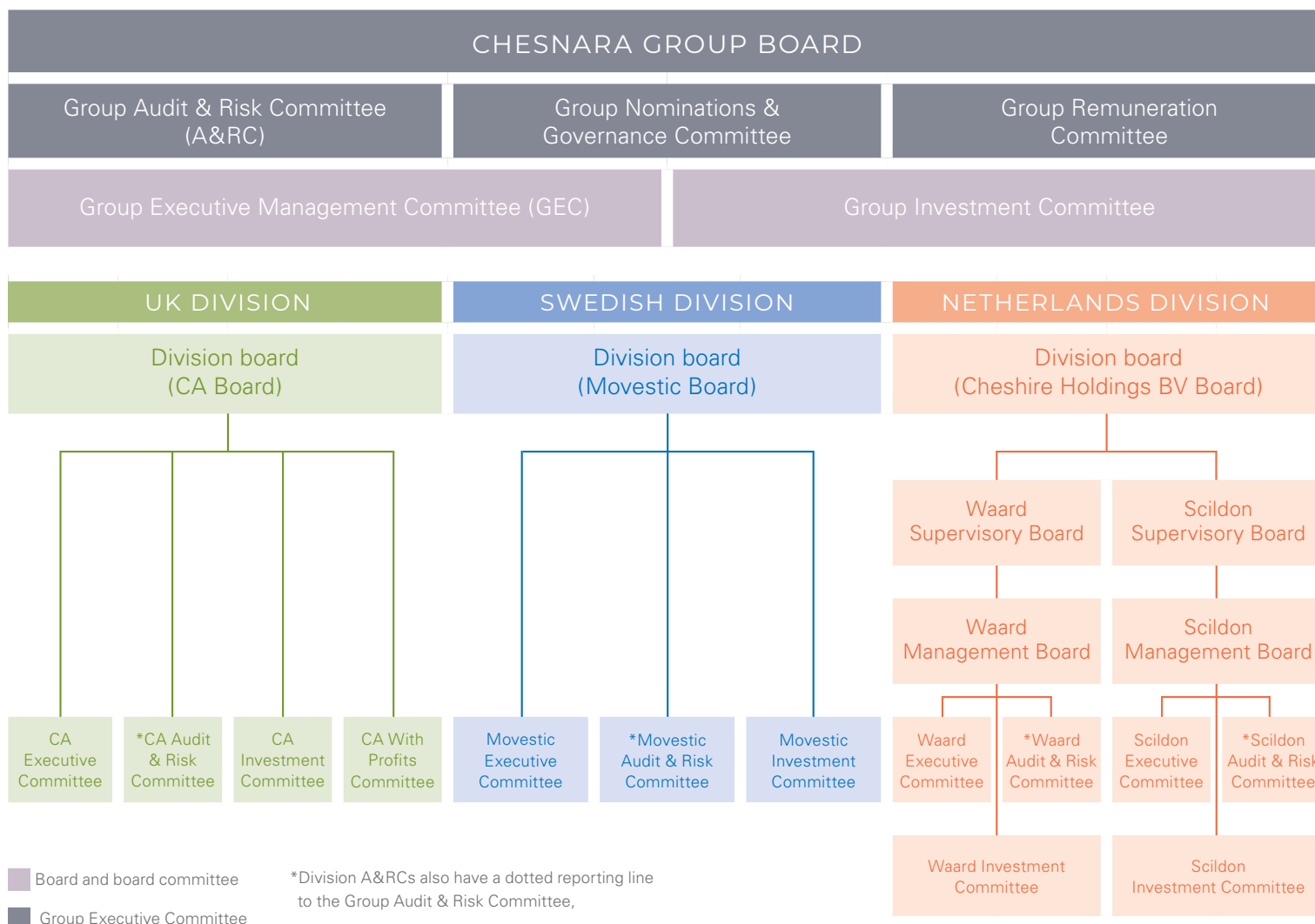
The board defines the group's strategic aims, ensures that the necessary financial and human resources are in place to meet corporate objectives and sets the criteria against which to review management performance. The board also ensures that its obligations to its employees, customers, shareholders and other stakeholders are clearly understood and met. Chesnara has ESG as a regular agenda item across the group in order to provide top-down guidance and achieve consistency where appropriate.

Chesnara's systems of governance are set out in the Corporate Governance and Responsibilities Map, the group-wide risk management and internal control framework, as well as a core set of policies that are reviewed and attested every year as effective and fit for purpose. Each division and business unit is responsible for maintaining a similar governance map and for producing operating and control procedures that conform with the group's governance and risk management standards, taking into consideration of any local regulatory requirements. The Chesnara board is supported by the Audit & Risk Committee, the Nominations & Governance Committee, and the Remuneration Committee as shown in the governance chart on the following page.

¹ www.fsb-tcfid.org/recommendations/#principles-for-effective-disclosure

² www.tcfidhub.org/resource/tcfid-maturity-map

CHESNARA GOVERNANCE STRUCTURE



Chesnara’s Nominations & Governance Committee plays a key role in ensuring that the board’s composition and balance are appropriate for the group’s governance arrangements. The committee also ensures that board members have the necessary skills, knowledge and experience to discharge their duties effectively. Training covering developments in governance practices, enhancing of internal controls over financial reporting in the UK, sustainable investing, and climate-related disclosures was delivered to the Chesnara board during 2021. The skills, knowledge and experience of each board member are summarised within the corporate governance section of Chesnara’s 2021 Annual Report and Accounts at page 78.

The Audit & Risk Committee focuses on corporate governance requirements and developments related to environmental and social obligations, including the following responsibilities for the oversight of climate-related risks and opportunities:

- a) monitoring risk exposures across the group, including emerging risks and the financial risks from climate change, and advising the board around matters where such exposures do not appear to accord with the group’s risk appetite statement;

- b) reviewing and challenging risk information, the treatment of risks and oversight of the Own Risk and Solvency Assessment (ORSA) process, including the outcome of stress and scenario testing, and financial resilience monitoring; and
- c) reviewing and recommending to the board the disclosures to be included in the Annual Report and Accounts in relation to internal control, risk management and the viability statement.

During 2021, the Audit & Risk Committee reviewed the quarterly group and divisional risk reports on the identification, evaluation and management of principal risks, including any emerging risks. The quarterly risk reporting included ‘in focus’ topics such as the impact of climate change.

The role of the Remuneration Committee is to ensure that the Remuneration Policy and practice of the company promote, encourage and drive long-term growth of shareholder value in the context of other stakeholder interests.

The role of our management teams

Management responsibility for matters related to climate change are assigned to the Group Chief Executive at group level and the respective CEOs at business unit level. All divisions and business units are responsible to the relevant divisional Chief Executive who has dual reporting lines to the division board and the Group Chief Executive. A Group Executive Committee and a Group Investment Committee are in place to challenge and support the Group Chief Executive and the leadership team members who are accountable for the Risk Management, Compliance, Actuarial, Operations, Finance and Investment functions in accordance with responsibilities assigned by the Chesnara board. The Group Executive Committee meets on a monthly basis and the Group Investment Committee meets twice every quarter.

The Group Executive Committee is accountable for the review and sign-off of the quarterly risk report, including any material variations in the impact of climate change upon the business operations and the solvency of the group, as well as for monitoring compliance with the risk appetite.

Under the strategic objectives and performance criteria, for 2021, Chesnara's Remuneration Committee allocated a 10% weighting to be applied for the purposes of determining the annual bonus payable to the Group CEO and the Group CFO for the effective development and implementation of sustainability policies, principles and practices. Specific actions arising from this overall objective were set out in an ESG Actions Tracker for the year and regular progress updates were provided to the Group Executive Committee and the Chesnara Audit & Risk Committee. To support the embedding of climate change risk assessment across the businesses, the Remuneration Committee will shortly give consideration to setting appropriate targets based on specific climate-related objectives.

The Group Investment Committee is responsible for ensuring that the investment governance framework is effective and for setting high-level strategic criteria to apply throughout the group within the context of the investment philosophy. The terms of reference for the Group Investment Committee specifically includes consideration of ESG factors, including overseeing the asset managers' approach to ESG and climate change related matters.

In accordance with the UK Corporate Governance Code and Solvency II rules, on an annual basis Chesnara's Group Risk function facilitates a review of the effectiveness of the systems of governance. During 2021 the review confirmed that the systems of governance were well embedded across the group. Further information on governance matters and significant issues considered by the Audit & Risk Committee are set out within the corporate governance section of Chesnara's 2021 Annual Report and Accounts on pages 113 to 119.

In January 2021, the board set out its ESG Policy Statement which reiterated the importance of identifying climate change risks on Chesnara's operations and investment decision making and confirmed the board's support for the TCFD recommendations. An ESG project was initiated by the Group CEO and with engagement from the divisional CEOs and Risk Officers, an evaluation was conducted of the approach taken in 2020 to factor in climate change impacts upon Chesnara's businesses, and to identify areas of improvement in view of the disclosure guidance available from the TCFD, other standard setters and the Climate Financial Risk Forum (CFRF)³.

Based on the outcome of the evaluation of the 2020 climate risk assessment approach, a gap analysis was conducted, and this was followed by the production of an internal guide for our businesses on climate risk analysis to be conducted in 2021. Progress was reported to the Group Executive Committee on a monthly basis via an ESG Actions Tracker. The Group Audit & Risk Committee considered the 2021 Group Business Plan and ORSA Stress and Scenario Proposals in April 2021, the Climate Change Risk Roadmap in May 2021, and the Climate Change Risk Management Review paper in June 2021. The board received a progress update in March 2021 and climate change impact was also considered in September 2021 as part of the strategy discussion. Within our UK division, Investment Committee members have held three

workshops with Schroders to understand the range of different metrics used to measure and monitor ESG factors (including climate change risk) and how these may be applied to the asset portfolios. Some of these workshops were also attended by group and CA board members. Likewise, our businesses in Sweden and the Netherlands have been working closely with their fund managers to integrate sustainability factors covering the environment, business ethics, and human rights within the investment analysis process.

For 2021 our aim was to meet the intermediate or moderate disclosure standard of TCFD recommendations as set out in the TCFD maturity map. Work is ongoing to fully embed climate-related risks and opportunities within Chesnara's governance, risk management and internal control framework. As more data and guidance becomes available our aim is to develop a better understanding of climate change risk impacts and the financial implications for our businesses especially over the medium- and long-term horizons.

STRATEGY

As a life assurance and pensions consolidator, Chesnara's strategic objectives are to maximise value from the existing business, write focused profitable new business, and acquire life and pensions portfolios and businesses. We aim to manage our customers' policies efficiently and deliver fair outcomes to them and their beneficiaries, generate profits to pay dividends to our investors, provide good working conditions and appropriate benefits to our employees, develop commercially sound and operationally viable relationships with our suppliers and business partners, work constructively with regulators, and support the local communities in the territories that we operate in.

Identification of climate-related risks

Changes in the environment and the effect of global warming can potentially affect the way we operate our businesses, and the returns to our customers and shareholders. We are committed to applying ESG-informed investment decision making across the group. Chesnara supports the UN Sustainable Development Goals (SDGs) and we have selected five goals to focus upon, including Climate Action. Movestic, our business unit in Sweden is a signatory to the UN Principles for Responsible Investment (PRI)⁴, and the fund managers that assist with our investment activities across our three divisions are also signatories to the UN PRI.

Given the long-term nature of the products that we offer and the policies that we manage, assessing risks and monitoring the solvency of our business is paramount. Each of our businesses in the UK, Sweden and the Netherlands operates under a group-wide governance and responsible risk-based management framework as explained above. Within this framework is the requirement to prepare a forward-looking business plan and solvency projections that take account of all material risks and clearly identified growth opportunities. The group's solvency position can be affected by a number of factors over time. Insight into the immediate and longer-term impact of certain sensitivities that the group is exposed to can be found under the capital management section of the 2021 Annual Report and Accounts on page 45. It includes market and credit risk exposures, where we believe any material impact of climate change may manifest for our businesses.

Chesnara's businesses have adopted, either directly or via their respective fund managers, the six UN Principles of Responsible Investment. Our aim is to continue to invest responsibly with ESG considerations in mind and to provide a choice of sustainable funds to customers, e.g., green investments which aim to solve climate issues or primarily focus on companies that invest in improving health.

With regards to our Own Funds, the terms of reference for our Investment Committee include ESG criteria and our teams are working closely with the respective fund managers to gain further insight on how they apply ESG criteria to investment decision making, and the way they engage with investee companies to bring about the necessary changes from a climate, social and governance perspective.

³ The CFRF is an industry-led forum established by the PRA and FCA to bring together representatives from across the financial sector to produce practical tools and recommendations for firms in responding to climate-related financial risks and capturing the opportunities arising from climate change.

⁴ www.unpri.org/about-us/what-are-the-principles-for-responsible-investment

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

In addition to the ESG information available from their fund managers, our European entities are using sustainable investment analysis from ISS Ethix and Oekom Research to benchmark ESG risk scores to their portfolios, and they have started to exclude investment in companies where more than 5% of the turnover is derived from certain types of trades, e.g., tobacco, fur and exotic leather, pornography and gambling. Furthermore, they take a critical look at the electricity production, manufacturing, mining and the oil and gas sectors when making investment decisions. In overall terms our exposure to carbon-related assets is relatively low and our investment portfolios across our businesses are not materially vulnerable in the short term to climate-related risks except for any market shocks.

There are two main types of risk relating to climate change:

Physical risks – these arise due the direct impact of events such as heatwaves, flood, wildfire, storms, increased weather variability, and rising mean temperatures and sea levels.

Transition risks – these would emerge from the process of change towards a low carbon economy. A range of factors may influence such change, including climate-related developments in policy and regulation, technological change (e.g., electric vehicles), a shift in consumer sentiment and social attitudes, and climate-related litigation against firms that fail to mitigate, adapt or disclose climate-related financial risks.

In 2020 the CFRF issued a guide on risk management and recommended that climate risk could be integrated into existing enterprise risk management frameworks in one of the following ways:

- 1) By defining climate change as a standalone principal risk and then using the established practice for managing principal risks.
- 2) By noting climate change as a cross cutting risk, that manifests itself through other existing risk types (e.g., in a similar way to COVID-19, climate change would impact a number of existing risks).
- 3) A combination approach, where climate change risk is allowed for both within existing risk types and as a principal risk.

Based on preliminary work we concluded that for Chesnara's businesses climate change risks will tend to manifest through other risks, rather than as a separate new risk (as per the second recommendation by the CFRF). In other words, climate change risk is a trigger for and will cut across other financial risks that are closely monitored by us.

Impact of climate change risks

During 2021 following the gap analysis, Chesnara's Group Risk function developed guidance for the businesses on climate change impact assessment and to commence the integration of climate-related risks and opportunities within the overall Risk Management System. Given the size and nature of the Chesnara business, the guidance called for the business units to take a proportional and pragmatic approach whilst emphasising the need to understand the change factors and climate risk drivers so that the impact on the business and its risk profile can be determined.

As industry practice is still developing for the assessment of climate change impact, explicit risk tolerance limits were not set but instead associated insurance and market risk indicators were monitored during 2021. Conclusions drawn from the climate-related risk assessment conducted as part of the annual ORSA are explained below by reference to the main principal risks through which climate change could potentially have an impact on our business model within the short term. The main effect of climate change is expected to be on the asset side of the balance sheet with respect to our investment portfolios and that of our customers.

Insurance underwriting risks

Chesnara and its subsidiaries are not generally exposed to the underwriting risks associated with physical climate change (e.g., extreme weather events such as heatwaves, floods, wildfires and storms), given the majority of policies we manage are savings plans, and long-term life, pension and health insurance products. There could be some mortality/morbidity impact due to warmer summers, more frequent heatwaves and heavy rainfall over the medium to long term. On the other hand, in terms of transition risks (arising from the shift towards a net-zero carbon economy), it is possible that a reduction in greenhouse gases may lead to cleaner air, which could potentially have a positive effect on health. Therefore, it is reasonable to say that future mortality/morbidity impacts are uncertain over the long term but in the short term they are not expected to have a material effect on the balance sheet based on the type of products we manage and our policyholder profile.

Regulatory risk

Regulatory risk would arise from the failure to understand and comply with regulatory requirements when conducting our day-to-day business. From a climate change perspective each of our business units are closely monitoring regulatory developments, including policy statements and guidance published by local regulators in order to fulfil our obligations. Given Chesnara's strong compliance culture we believe that the risk of failure to comply with regulatory requirements with respect to climate change is very low.

Strategic risk

Failure to deliver against our strategic objectives and meet the reasonable expectations of our stakeholders would have an impact on Chesnara business and reputation. However, our purpose is very clear, and we have a robust governance and risk management framework in place to identify such risks early, and to manage them effectively. Sustainability is integral to our decision making and we take climate change and the disclosure requirements seriously. Our management teams are focused on evaluating the impact of climate change and based on the assessment in 2021 we have concluded that physical and transition risks are not likely to have a material impact on our ability to deliver the strategic objectives over our business planning period.

Market and credit risks

Market and credit risks are considered to be material risks for Chesnara and its subsidiaries. Market and credit risks could arise due to:

- Corporate bond or counterparty downgrades/defaults triggered by physical risks to our operations, assets or supply chains, or transition risks to specific sectors relevant to our business.
- Concentrations of risk to sectors such as transport, energy, industrial which are highly exposed to transition risks.
- A reduction in the market value of individual stocks or sectors due to transitional risk and climate-related developments in policy and regulation, technological change, shifting sentiment and social attitudes.
- A reduction in market values driven by physical risks, particularly impacting property, real estate and commodities.

To evaluate the impact of climate change manifesting through market and credit risks, quantitative analysis was carried out by Countrywide Assured in our UK division. The PRA's 2019 stress tests were applied as per the guidelines on investment asset mapping, data sources and the general methodology covering three scenarios: a sudden transition, a long-term orderly transition and failure in climate policy. This work, which included a 2°C or lower scenario, was completed with the help of Schroders, Countrywide Assured's fund manager. The shocks were calibrated by the PRA to represent the 1-in-100 Value-at-Risk under the three climatic scenarios and expressed as instantaneous impacts on the investment portfolio. Assumptions were made around changes in equity values for sectors of the Countrywide Assured investment portfolio with material exposure to the energy, transportation, water, agriculture and food security industries, as well as change in value of real estate assets, and sovereign bond credit ratings. The analysis showed that the impact of the climate scenarios covering physical and transition risks would result in an overall fall in asset values ranging from 3% to 3.8%.

With the support of NNIP, the fiduciary investment manager, as part of its quantitative assessment Scildon benchmarked the ESG risks of corporate bonds within its portfolio and found that the weight of the riskier assets is limited, and that the overall ESG risk of Scildon is broadly the same as the benchmark. Scildon also considered the riskiest ESG securities in its portfolio by comparing three characteristics: CO₂ emissions, and waste and water consumption, which revealed that Scildon's footprint was below average.

To assess the potential financial effect of climate change Movestic conducted a look-through analysis of its assets to quantify the proportion relevant from a climate perspective (5.6% policyholder assets/11% own assets) and assumed a fall in the value of those assets of 20%. It then quantified the balance sheet impact of the initial fall, and of assuming risk free returns on those assets and found that the solvency ratio fell by no more than 1%. Amongst the policyholders' assets invested in equities, less than 5% were collectively invested in the automotive, power, oil, gas and steel sectors, which are the more carbon intensive industries.

Our overall conclusion was that market impacts from climate change in the short term are well within the market stresses that are already applied by the Chesnara businesses within their respective ORSA and are therefore within Chesnara's risk appetite. In other words, the market impact of climate change risk is adequately covered by the equity, credit and combined economic stresses that we usually consider in our annual business planning and risk assessment, a subset of which are shown on page 45 under the capital management section of the 2021 Annual Report and Accounts. However, the medium- and long-term impacts of both physical and transition risks are uncertain. These conclusions are broadly similar to the Geneva Association's research findings published in its report⁵ entitled Climate Change Risk Assessment for the Insurance Industry, which states that given the longer-time horizon of the risks assumed by life insurers, the physical and transition risks of climate change are generally not expected to have a material impact over the short term. The report goes on explain that the severity of the impact in the long term will depend upon changes in mortality rates and longevity trends as well as second order effects, such as the potential decline in economic growth, population migration, geopolitical conflict and shifts towards low-carbon business models. As further data and analysis tools continue to develop, we shall refine our assessment processes accordingly.

Opportunities

To date we do not think that there are obvious opportunities arising from climate change for a company like ours. However, our management teams are continuing to monitor industry developments, e.g. investing in green bonds. Further research and validation of such opportunities and prospects will be necessary before any definitive proposals can be considered and taken forward by our businesses.

In summary, our 2021 assessment of climate change is largely based on a short-time horizon as the medium- and long-term impacts of both physical and transition risks are uncertain. Our aim is to continue to further develop our understanding of climate change impacts under different scenarios and refine our assessment process, as well as focus on investing responsibly. Lessons learned will be fed into the review of our strategy and financial planning process, the quarterly business review, and the annual group-wide risk and solvency assessment. Further information on our strategy can be found in Section B of the Annual Report and Accounts on pages 24 and 25.

Resilience of the organisation

The ORSA is designed to test the resilience of the company to a range of stresses that are applied in accordance with regulatory guidelines. At a group level the 2021 assessment results support the following conclusions:

- Chesnara has a stable and well understood risk profile, controlled by an effective system of governance that is well embedded across the business units.
- Chesnara is a resilient group in terms of its current solvency level and can comfortably withstand all the stress and scenario tests that were applied in 2021.
- The 3-year group projections evidence long-term viability, a well-diversified business, stable solvency ratios, and a steady source of emerging surplus.

RISK MANAGEMENT

Risk and solvency management are at the heart of Chesnara's robust governance framework, and the group is well capitalised. Given that we consider climate change to be a cross-cutting risk, that manifests through other existing risk types, climate-related risks and opportunities are identified, assessed and managed in a similar manner to other known and emerging risks. During 2021 our aim was to conduct a gap analysis and formalise the integration of climate change assessment. As already stated earlier, material impact of climate change is expected to be reflected on the asset side of our balance sheet, mainly through investment holdings.

Processes for identifying, assessing and managing climate-related risks

Chesnara's Risk Management Policy sets out the framework of principles and practices, policies and strategies for the group's Risk Management System. The Risk Management System supports the identification, assessment and reporting of risks assuming the economical application of resources to monitor and control the impact of adverse outcomes on the group risk appetite or the realisation of opportunities. The Group Risk Management Framework is designed to embed effective risk control systems with a holistic and transparent approach to risk identification, assessment, management, monitoring and reporting. Chesnara's Investment Policy contains investment guidelines as well as limits for individual counterparties which vary by credit rating, and these are monitored by the Investment Committee. There are also risk tolerance limits for managing individual counterparty limits which are monitored on a quarterly basis. These control arrangements enable us to ensure that the Chesnara has effective solvency assessment and capital management processes, and they give assurance of likely business outcomes.

⁵ www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/climate_risk_web_final_250221.pdf

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

The Group Chief Risk Officer is responsible for maintaining the overall Risk Management Framework. The CEOs for each business unit are required to ensure that the framework is fully integrated into the business model and decision making processes. During 2021 a key part of this work was to develop a roadmap to evaluate and enhance the approach to climate change risk assessment so that the qualitative information can be made available along with the results of any quantitative analysis conducted for principal risks where there is expected to be a material impact.

Each of our divisions is required to apply the Group Risk Policy and operate within the limits set by the risk appetite. The group's risk appetite reflects the Chesnara board's view on the amount of risk the group is willing to take and sets boundaries to determine when there is too much or too little risk exposure. The risk appetite enables management to take on an appropriate level of risk in pursuit of strategic objectives for each of our businesses. The definition and scope of each principal risk category is based on a set of key strategic and operating principles, and relevant tolerance limits. Each business unit and division is responsible for identifying risks which might create, enhance, accelerate, prevent, hinder, degrade or delay the achievement of the group's objectives, together with the sources of risks, areas of impact, events including changes in circumstances, and their causes and potential consequences. These risks are recorded in the risk register. The risks are then analysed and evaluated based on the likelihood of occurrence and severity of impact. Depending upon the nature and impact of the risk, the risk is either accepted, avoided, managed or transferred. Climate-related risks and opportunities are identified and evaluated according to this framework by the respective management teams in our business divisions.

Integration of processes for identifying, assessing, and managing climate-related risks

It is noteworthy that in April 2021 EIOPA published its opinion on the supervision of the use of climate change risk scenarios in ORSA, which states that regulators should require firms to integrate climate change risks in their system of governance, Risk Management System and ORSA similar to all risks that firms are or could be exposed to.

An integral part of Chesnara governance and risk management framework is compliance with the Prudential Solvency II Regulations to perform the ORSA on an annual basis. The group's ORSA Policy describes the processes and reporting requirements of the ORSA, including how it links into the Risk Management System and the stress testing and sensitivity analyses. The Chesnara board is responsible for the overall design of the ORSA process including its annual review. Climate-related risks are considered within the ORSA process and the impact of material risks upon the solvency and resilience of the business is documented. The views of the Actuarial Function Holder and any recommendations or prior feedback from the regulator is taken into account when conducting the assessment at business unit level. Conclusions drawn from the risk and solvency assessment are reported to the respective regulators by each of our businesses every year.

Each business unit provides its own Audit & Risk Committee, the Chesnara Audit & Risk Committee and the Group Executive Committee with a forward-looking perspective on risks that are emerging, i.e. those risks that are either new risks faced by the business, or are existing risks that are changing in terms of their increasing importance, likelihood or potential impact. As you would expect, from a climate change perspective this involves considering the content of relevant publications and guidance, such as the reports published by the Intergovernmental Panel on Climate Change (IPCC) on the physical climate change risks to the environment. Similarly, our management teams evaluate the possible effects of transition risk by keeping abreast of relevant policy and legal developments, technological advancements, changes in market risk due to demand shifts and any legal and reputational risk exposure.

Amongst other matters, business performance and risk management are discussed at the Group Executive Committee on a monthly basis. A more in-depth evaluation takes place as part of the quarterly business review meeting to ensure that outcomes are in line with expectations and risks and opportunities are being identified, monitored and managed effectively.

Chesnara's approach to assessing financial risk is to identify and assess factors that could potentially threaten the continued successful delivery of the anticipated stakeholder outcomes over a 3-year time horizon, including risks to the business model and strategy. The Chesnara board requires the management teams to ensure a good understanding of the solvency position at any point in time. In Q2 2021 a series of stress and scenario tests were selected for the ORSA based on the outcomes of group and business unit workshops with the requirement to follow the testing principles set out in the Group Risk Management System Policy. As well as current known risks, the stresses and scenarios took account of forward looking and emerging risks.

These selected stresses and scenarios along with the rationale were reviewed and approved by the Chesnara board. The tests conducted covered changes in equity asset values, yields and credit spreads, fluctuations in currency rates, expense inflation, post COVID-19 fixed interest rate shock, persistency of the in-force books, any material impact of physical and transition risk due to climate change, and operational resilience. Performance against the business plans as well as known and emerging risks and opportunities are discussed at quarterly business review meetings at entity and group level. Climate-related risk impacts and opportunities are considered at these meetings.

During 2021, the Group Risk function prepared detailed guidance on climate change risk analysis to be conducted by the Chesnara businesses for the purposes of the ORSA. Taking account of the climate change related publications from a number of sources, the aim of the guidance was to ensure that:

- Chesnara's risk identification was sufficiently thorough based on a range of climate change drivers and potential impacts;
- our entities conducted an in-depth risk analysis of any potentially material impact of climate change on their business, considering both asset and liability sides of the balance sheet; and
- conclusions drawn from the assessment of relevant climate-related risks and opportunities were supported by sufficient qualitative and, where possible, quantitative information on any material impact.

The output from the risk and solvency assessment was reviewed by the Group Risk function and a group level report highlighting all material risks and the results of the solvency assessments performed was considered by the Chesnara Audit & Risk Committee and the board along with the business plans for each of the entities. The overall conclusion was that Chesnara is a resilient group in terms of its solvency position, and it can comfortably withstand the immediate impact of all the stress and scenario tests applied during 2021.

Performance against the business plans as well as known and emerging risks and opportunities are discussed at quarterly business review meetings at entity and group level. Climate-related risk impacts and opportunities are considered at these meetings.

In October 2021 the CFRF working groups released a total of 10 guides covering risk management, scenario analysis, disclosure, innovation, and climate data and metrics. These guides contain helpful reference material for refining our approach to climate-related risk analysis and identifying clear opportunities. There are areas where further guidance will be welcome, e.g., exposures of material counterparties, such as reassurers and investment counterparties where the risk would materialise through a change in the credit rating.

More detail on Chesnara's risk management framework is set out in this Section B of the Annual Report and Accounts on pages 55 to 56.

METRICS AND TARGETS

Chesnara's greenhouse emissions, energy consumption and water usage data is provided below. Our aim during 2021 was to achieve compliance against the moderate level disclosure requirements set out in the TCFD maturity map. However, prior to embarking on the integration of climate-related risks and opportunities assessment within the Risk Management System during the second half of the year we were not in a position at the same time to set any targets and define a clear plan to achieve them. As our integration work progresses, we shall consider the guidance available, e.g. the CFRF guides published in October 2021 in order to decide the type of targets that would be relevant for our businesses and to determine realistic timeframes to achieve them.

Chesnara's Environmental Policy encourages all employees to take reasonable steps to reduce waste, and to re-use and recycle office materials, and the document reiterates our commitment to persevere to be carbon neutral. Specific examples of actions taken to reduce carbon emissions from our operations are noted below, along with appropriate metrics used to measure carbon emissions and the intensity, and energy and water consumption.

Greenhouse gas emissions

All our employees mainly operate from offices, or in some instances from home as has been the case in 2020 and 2021 due to the COVID-19 pandemic. Management in each of our business units take practicable steps to minimise the effect of our operations on the environment and our workforce is encouraged to conserve energy, use video conferencing, and minimise waste. Furthermore, we use environmentally friendly certified paper, unwanted equipment is recycled or donated, and staff refreshments are purchased from sustainable sources. Scildon's offices within our Netherlands division were redesigned to limit carbon emissions, the company uses solar power for some of its energy consumption, and all company cars are electric.

We measure and report greenhouse gas emissions from our operations in accordance with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Defra Carbon Trust conversion factors, as well as the disclosure requirements in Part 7 of the Companies Act 2006. The table below has been prepared based on the requirements within the Streamlined Energy & Carbon Reporting (SECR) framework. The data shown in the table covers all group owned entities over which Chesnara has financial and operational control.

Tonnes of CO ₂	2021			2020		
	UK & Offshore	Global (exc UK & Offshore)	Total	UK & Offshore	Global (exc UK & Offshore)	Total
Combustion of fuel and operations of facilities (Scope 1)	0.0	0.0	0.0	0.0	0.0	0.0
Electricity, heat, steam and cooling purchased for own use (Scope 2)	10.8	131.8	142.5	15.7	131.4	147.2
Travel (Scope 3)	4.9	27.7	32.7	10.1	35.6	45.8
Remote Working (Scope 3)	121.6	224.6	346.2	97.2	323.2	420.3
Commuting (Scope 3)	31.2	397.3	428.5	48.9	281.8	330.7
Total gross emissions	168.4	781.4	949.9	171.9	772.0	944.0
Carbon offset	(168.4)	(781.4)	(949.9)	(171.9)	(772.0)	(944.0)
Total net emissions	-	-	-	-	-	-
Companies chosen intensity measurement (tonnes of CO ₂ e per square metre of office space occupied excluding commuting and remote working)	0.033	0.028	0.029	0.055	0.029	0.031
Companies chosen intensity measurement (tonnes of CO ₂ e per square metre of office space occupied)	0.355	0.139	0.156	0.362	0.135	0.152

The overall emissions our offices have remained broadly consistent when compared to the prior year. We have seen a reduction in emissions from business travel arising from the COVID-19 pandemic but commuting emissions have increased, largely due to a rise in the level of office attendance in the Netherlands, although, as expected, emissions from remote working are

down in these divisions. It should be noted that the remote working emissions calculation has been refined further when compared to the prior year in line with more recent information, which has resulted in a small reduction in the level of emissions. We have also adjusted the allocation of outsourcers between UK and offshore in this year's calculation.

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

There are 8 (2020: 11) 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 government set conversion factors are used to calculate the carbon emissions based on the kWh of gas and electricity used during the course of the year. We believe this is a prudent approach in estimating the emissions for the European divisions.

Scope 3 – the 15 disclosure categories published under the GHG Protocol for scope 3 emissions have been considered, and the main emissions from our operations fall within categories 6 (business travel) and 7 (employee commuting). We understand there may be a very low level of emissions under category 5 (waste generated in operations); however, at present, we are unable to accurately quantify the amount but expect it to be trivial. The figures in the table also comprise emissions incurred by our staff and our outsourcers as a result of remote working. The government set conversion factors have been used to calculate the carbon emissions based on the distance travelled dependent on the travel method (rail, car, air). For the remote working emissions, the calculation is based on a report by Bulb, which is also in line with the white paper published by EcoAct⁶. This source of information estimates that approximately 0.15 kWh of energy is used for every hour worked at home and on average, 800 kWh of gas is used per month (adjusted to 533 kWh to represent an incremental occupancy factor of 2/3) per full time employee (FTE). Once these measures are extrapolated based on the number of FTEs and the proportion of time spent working from home, a relative emissions factor is applied (0.256 for electricity and 0.184 for gas) in order to calculate the total emissions as a result of remote working.

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, and emissions associated with waste management from our offices.

Background information – The Office for National Statistics has determined that total household emissions in 2020, including personal transport, and heating and other activities were 133 million tonnes of CO₂ equivalent, and total UK emissions were 481 million tonnes of CO₂ equivalent.

Carbon offsetting

We recognise that it is unlikely that we will be able to fully mitigate our carbon emissions through normal activities although we are taking various steps to reduce our emissions wherever possible, e.g., through the use of hybrid and electrical company cars in the Netherlands, by installing solar panels on the roof of our office occupied by Scildon in the Netherlands; and persevering to look for green gas and electric contracts.

To ensure that we minimise our impact on the environment, the group has decided to achieve 'net zero' by fully offsetting our remaining emissions. For 2021 the group decided to offset 200% of the total remaining emissions; 1,900 tonnes through planting 1,900 trees in the UK and 1,900 tonnes of carbon dioxide via financial support of a number of alternative energy production projects such as wind power in Uruguay and Mauritania, hydro power in Turkey and solar power in India, as well as a biomass energy conservation project in Malawi. These are high quality carbon reduction

projects that comply with international verification standards and are amongst the Carbon Footprint Limited's offset projects portfolio, details can be found at www.carbonfootprint.com.

Energy consumption

Chesnara is fully committed to complying with the Energy Saving Opportunity Scheme Regulations 2014 (ESOS). The group's energy consumption in the form of lighting, heating and fuel usage is assessed by an independent company every four years. The next assessment is due in December 2023.

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 emission measures using standard conversion factors from the UK 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 the average proportion of homeworking during 2021. These estimates have then had the standard conversion factors applied. Our energy consumption over the last two years is shown in the table below.

	UK offshore	Global (exc UK & offshore)	Total
2021: Energy consumption (kWh '000)	902	3,739	4,641
2020 restated: Energy consumption (kWh '000)*	675	4,929	5,604

*The 2020 kWh output has been restated based on a refinement to the calculation of km travelled expressed as kWh. It is also worth reiterating the refinement to the process for home working emissions as noted below the carbon emissions table which has resulted in a reduction to the expected impact of heating. No adjustment has been made to the 2020 figure in respect of this, but if the refinement was applied, the 2020 output would reduce to 4,344 kWh.

Background information – According to Ofgem, the average household in the UK has 2.4 people living in it, and uses 2,900 kWh of electricity and 12,000 kWh of gas respectively, i.e., total energy usage of 14,900 kWh per annum per household.

Water usage

We have collated water usage data as shown below from the three divisions based on the bills raised by local authorities and settled.

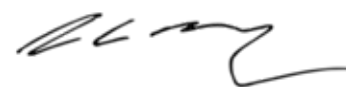
	UK offshore	Global (exc UK & offshore)	Total
2021: cubic meters (m ³)	145.0	1,309.5	1,454.5
2020: cubic meters (m ³)	183.0	1,568.3	1,751.3

*Excludes Waard since water usage is incorporated in the office service charge.

The Strategic Report was approved by the board on 30 March 2022 and signed on its behalf by:



Luke Savage
Chair



Steve Murray
Chief Executive Officer

Non-Financial Information Statement

This section of the Annual Report constitutes Chesnara's Non-Financial Information Statement, produced to comply with section 414CB of the Companies Act 2006. The following table sets out where, within our Annual Report, we provide further details on the matters required to be disclosed under the section listed above. In particular, it covers the impact we have on the environment, our employees, social matters, human rights, anti-corruption and anti-bribery matters, policies pursued and the outcome of those policies, and principal risks that may arise from the company's operations and how we manage those risks, to the extent necessary for understanding of the company's development, performance and position and the impact of its activity.

Reporting requirement	Section(s) and page(s)
Anti-corruption and anti-bribery	Corporate & Social Responsibility (p66)
Business model	Overview of our Strategy, Business Model, Culture & Values (p22-23)
Employees	Corporate & Social Responsibility (p64-65), S172 (p30)
Environmental matters	Corporate & Social Responsibility (p67-75), S172 Statement (p32-33)
Non-financial key performance indicators	S172 Key Stakeholders (p30-32), Business Reviews (p36-41)
Principal risks	Risk Management – Principal Risks and Uncertainties (p57-62)
Respect for human rights	Corporate & Social Responsibility (p66)
Social matters	Corporate & Social Responsibility (p66)

SECTION C: CORPORATE GOVERNANCE



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BOARD PROFILE AND BOARD OF DIRECTORS

The role for the Chesnara board of directors is to establish the culture, values and ethics of the group and provide leadership to maintain high standards of corporate governance and behaviour throughout all levels of the organisation.

The diversity of skills, knowledge and experience of our board members ensure we continue to deliver against our strategic objectives. The board composition, as summarised on the right, indicates the core competencies that have been identified as being key to the board discharging its responsibilities and shows the collective score of the current board.

The biographies below show the specific areas of specialism each board 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 CHAIR

Non-Executive Chair 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 Chair in February 2020.

Committee membership: Nomination & Governance (Chair to 31 December 2021) and a member of the Remuneration Committee (from February 2020). Attends the Audit & Risk Committee by invitation.

Current directorships/business interests:

- Chesnara Holdings BV
- Numis Corporation plc, Chair
- DWF Group plc, NED
- Liverpool Victoria Financial Services Limited, NED – standing down on 31 March 2022

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

JANE DALE SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF THE AUDIT & RISK COMMITTEE

Appointment to the board: Appointed to the Chesnara plc board in May 2016 and as Chair 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 Chair from December 2016) and Nomination & Governance.

Current directorships/business interests:

- Countrywide Assured plc, Chair of the Audit & Risk Committee
- Covea – Covea Insurance plc, NED and Chair of the Audit Committee; and Covea Life Limited, Chair of the Audit Committee
- Anacap Financial Partners – Amber Financial Investments Limited, NED and Chair; Novia Financial plc, NED and Chair of the Audit and Risk Committees; and Novia Financial Holdings Limited, NED
- Global Risk Partners Limited, NED and Chair of the Governance & Audit Committee and Chair of the Remuneration Committee

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

STEVE MURRAY GROUP CHIEF EXECUTIVE

(from 19 October 2021, replaced John Deane)

Appointment to the board: Appointed as a director of Chesnara on 2 August 2021 and as Group Chief Executive on 19 October 2021.

Career, skills and experience: Steve joined Chesnara from Royal London where, as part of their Group Executive Committee, he was Chief Commercial Officer with group-wide accountability for M&A and Strategy, Transformation and Analytics & Insight as well as accountability for its legacy business with c5million customers and the take to market activity across the UK insurance and savings. He was also a NED of Royal London Asset Management. Prior to that he spent 15 years at Standard Life across a variety of roles, including its demutualisation and IPO before leading Group M&A and strategy. He then worked in the UK & European insurance business initially as CEO of 1825 Financial Planning before becoming MD Commercial & Strategy. After leading the first phase of the separation of the UK & European insurance business to Phoenix, he was appointed as Deputy Head of the Private Market division in Aberdeen Standard Investments. Steve started his career with EY.

Current directorships/business interests:

- Movestic Livförsäkring AB
- Chesnara Holdings BV
- Scildon NV Supervisory Board
- Waard Group Supervisory Board
- Cattanach, a private charity, Chair

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

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.

Current directorships/business interests:

- CA Services Ltd
- Movestic Livförsäkring AB

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

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	● ● ● ● ● ● ● ●
M	Environmental, social and governance (ESG)	● ● ● ● ● ● ● ●

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 diagram to the left 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, CHAIR OF THE REMUNERATION COMMITTEE until 15 January 2022

Appointment to the board: Appointed to the Chesnara plc board in January 2013 and retired as a director on 15 January 2022.

Committee membership: Nomination & Governance, Audit & Risk and Remuneration (as Chair 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

CAROL HAGH

NON-EXECUTIVE DIRECTOR AND DESIGNATED WORKFORCE NED

Appointment to the board: Appointed to the Chesnara plc board on 14 February 2022.

Committee membership: Nomination & Governance Committee and Remuneration Committee.

Current directorships/business interests:

- Countrywide Assured plc, NED
- Old Game New Rules Ltd, Director and Founder
- Women on Boards, Ambassador

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

EAMONN FLANAGAN

NON-EXECUTIVE DIRECTOR AND CHAIR OF THE REMUNERATION COMMITTEE from 15 January 2022

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

Committee membership: Nomination & Governance, (until 15 January 2022), Audit & Risk and Remuneration.

Current directorships/business interests:

- Countrywide Assured plc, NED (until 14 February 2022)
- Movestic Livförsäkring AB, NED
- Movestic Kapitalförvaltning AB, Chair
- AJ Bell, NED
- Randall & Quilter Investment Holdings Ltd (Bermuda), NED

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

MARK HESKETH

NON-EXECUTIVE DIRECTOR

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

Committee membership: Nomination & Governance (as Chair from 1 January 2022) and Audit & Risk.

Current directorships/business interests:

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

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

KARIN BERGSTEIN

NON-EXECUTIVE DIRECTOR

Appointment to the board: Appointed to the Chesnara plc board on 14 February 2022.

Committee membership: Nomination & Governance and Audit & Risk.

Current directorships/business interests:

- Van Lanschot Kempen N.V., NED
- Bank Nederlandse Gemeenten N.V., NED
- University Medical Center Groningen, NED
- Bergstein Advies B.V., General Manager

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

GOVERNANCE OVERVIEW FROM THE CHAIR



‘We have made a number of changes to ensure that we continue to develop and improve our approach to the governance of Chesnara’.

Dear Shareholder,

On behalf of the Chesnara board, I am pleased to present our Corporate Governance Report for the year ended 31 December 2021.

Chesnara’s corporate governance framework underpins the delivery of sustainable value to our customers and shareholders through effective deployment of our staff and technology, and constructive engagement with our suppliers, partners and regulators. The board sets the tone for the group’s culture and values with a view to achieving the strategic objectives by assigning clear roles and responsibilities and setting high expectations of business performance and ethical conduct.

I believe that our robust governance framework enables us to effectively manage risks and opportunities, as well as to take appropriate steps to address relevant environmental and social issues in a proportionate manner.

In December 2020, the FCA introduced a rule for UK premium listed firms requiring disclosure, on a comply or explain basis, against the recommendations of the TCFD.

This new rule applies for accounting periods beginning on or after 01 January 2021. We have produced our first TCFD report and this can be found on pages 67 to 74.

This section of the Annual Report and 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 recognises that sustainability and stewardship are central to a company’s ability to operate responsibly. The board is mindful of the ever-increasing importance of the interests of its employees, customers and suppliers for the purposes of delivering sustainable performance, whilst engaging constructively with regulators and shareholders to understand and meet their expectations.

I am delighted to welcome Carol Hagh and Karin Bergstein to the Chesnara board and would like to thank Veronica Oak, who stepped down in January 2022, for her dedication and contribution to the company over the many years since her appointment to the board in January 2013. I would also like to thank John Deane for his significant contribution to the group during his seven years as Group Chief Executive and welcome his replacement, Steve Murray.

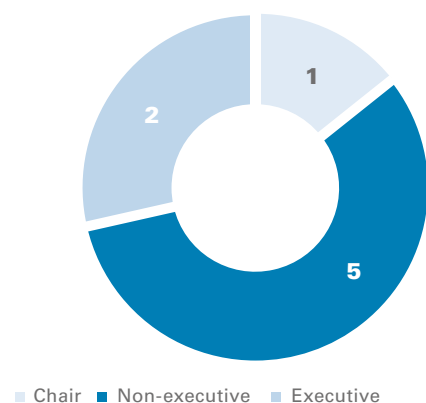
Alongside these changes we have also appointed new chairs to our board committees with Mark Hesketh now chairing the Nominations & Governance Committee and Eamonn Flanagan the Remuneration Committee. This means that no NED now chairs the board and/or more than one board committee. The principles and policies that support the governance framework outlined in the Group Corporate Governance & Responsibilities Map are designed to encourage high standards of ethical and business conduct and consideration of matters such as diversity. Each of the businesses within the group has continued to make further progress in ensuring that the governance arrangements remain effective, whilst also integrating environmental and social factors within their risk assessment system.

This report summarises the steps the board and its committees have taken to fulfil their governance responsibilities.

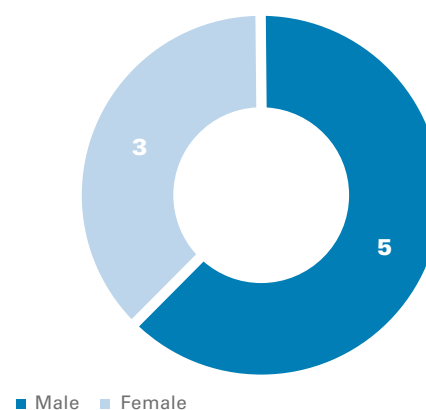


Luke Savage
Chair
30 March 2022

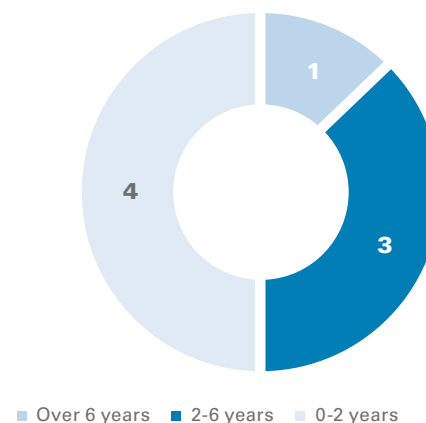
Current balance of executive and non-executive directors



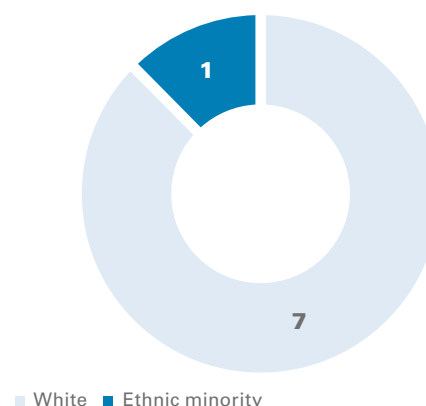
Current gender diversity of the board



Board tenure



Current ethnic diversity of the board



CORPORATE GOVERNANCE REPORT

The group's governance framework has continued to operate effectively in 2021 and we have taken further steps to improve our approach.

Compliance with the Code

The company has complied throughout the year with all of the relevant provisions of the Code including Provision 29 on the risk management and internal controls systems, noted in the respective sections that follow. The UK Corporate Governance Code is available at www.frc.org.uk

The board

At 31 December 2021, the board comprised of a non-executive chair, four other non-executive directors and two executive directors.

Biographical details of current directors are given on pages 78 and 79 and a board profile, which assesses the core competencies required to meet the group's strategic objectives, is provided on page 79. The board, which plans to meet at least eight times during the year, has a schedule that it reviews annually on 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 Hesketh, Savage and Deane, 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 throughout the year and were joined by Eamonn Flanagan upon his appointment in August 2021; and
- iv) Messer Deane was also a director of the Scildon and the Waard Supervisory Boards throughout the 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 Chair and Group Chief Executive

The division of responsibilities between the Chair of the board and the Group Chief Executive is clearly defined and has been approved by the board. The Chair 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 availability of timely information, ensuring its effectiveness, encouraging challenge from non-executive directors and setting its agenda. The Chair 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 Chair 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 Chair present, at least annually, and conducts the annual appraisal of the Chair's performance and provides feedback to the Chair and the board on the outputs of that appraisal.

Directors and directors' independence

During 2021 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 under 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 92 to 105, the Nomination & Governance Committee Report on pages 87 to 89, and the Audit & Risk Committee Report on pages 113 to 119 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 2021.

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	CH	KB
1. Been an employee of the company or group within the last five years?	No	No	No	No	No	No
2a. Had within the last three years, a material business relationship with the company: Directly?	No	No	No	No	No	No
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?	No	No	No	No	No	No
3. Received additional remuneration from the company apart from a director's fee?	No	No	No	No	No	No
4. Participated in the company's share option or performance-related pay scheme?	No	No	No	No	No	No
5. Been a member of the company's pension scheme?	No	No	No	No	No	No
6. Got close family ties with any of the company's advisors, directors or senior employees?	No	No	No	No	No	No
7. Held cross-directorships or had significant links with other directors through involvement in other companies or bodies?	No	No	No	No	No	No
8. Represented a significant shareholder?	No	No	No	No	No	No
9. Served on the board for more than nine years from the date of their first appointment?	No	No	No	No	No	No

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 94, 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. Independent professional advice of this nature was drawn upon for the recruitment of the new Group Chief Executive with regard to remuneration matters. This has been disclosed on pages 91 and 95 in the Remuneration Report.

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. The additions of Carol Hagh and Karin Bergstein are expected to

bring incremental and diverse cultural and territory insight and skills to further strengthen the board in this regard. This includes Karin's European experience as well as Carol's US and European experience and advisor/ambassador roles. Both bring experience from financial service and other industries.

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, their responsibilities and duties as contained within the group's Corporate 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 climate change, diversity & inclusion, corporate reporting, BEIS corporate reform, financial reporting controls and sustainability with regard investment management. 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, Flanagan, Deane, Hesketh, Rimmington and now Murray, 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. It is expected that Karin Bergstein will add significantly to this overseas capability going forward as will Carol Hagh.

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, covering 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 OF 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 questionnaire contained wide-ranging matters, 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 Chair.

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 required to discharge their responsibilities to the company. The evaluation findings were presented back to each committee and formally approved on that basis before each committee then confirmed to the board that it continued to operate effectively despite remote working at times due to COVID-19.

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. As announced on 13 September 2021, Chesnara entered into an agreement to acquire Sanlam Life & Pensions UK Ltd. Veronica Oak was acknowledged to be a director of Sanlam Investment Holdings UK Limited and previously of Sanlam UK Limited. Veronica received no materials with regard to the prospective transaction and was not present during any meeting of the Chesnara plc or Countrywide Assured plc board meetings at which the matter was discussed. No other new material conflicts of interest were noted in 2021.

Whenever a director takes on additional external responsibilities, the Chair 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 Chesnara's 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 were noted in 2021.

Employee engagement

With ongoing COVID-19 restrictions during the first half of the year in particular, we continued with our policy to ensure that our employees remained safe, whilst also maintaining the necessary service standards for our customers. Within the UK division, staff completed a survey on returning to the office and thereafter a hybrid arrangement was implemented to allow staff to continue to work from home a few days each week.

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 description of our approach to employee engagement and well-being is provided in our corporate and social responsibility section on pages 63 to 66.

Customer/supplier engagement

Following on from the 2019 review of customer/supplier engagement across all areas of our group, the board remains vigilant to ensure the importance of such engagement remains high on agendas. During the year we completed a desk-based exercise to understand how the top five suppliers of services to the UK division are addressing their ESG responsibilities based on the information that they have publicly disclosed. We intend to extend this work to incorporate environmental and social criteria in our supplier selection and management process across the group.

TCFD

In accordance with the mandatory reporting requirements for listed companies we have compiled a report covering the broad range of climate-related information to be disclosed under the four overarching pillars (Governance, Strategy, Risk Management and Metrics & Targets) of the TCFD. During 2021 we started to integrate climate risk and opportunity assessment within Chesnara's overall risk management framework and this work is still ongoing. Our report explains how we have addressed the majority of the TCFD recommendations in a proportionate and pragmatic manner with the aim of providing moderate level disclosures as set out in the TCFD maturity map. However, we have not described the impacts of climate change taking into consideration different climate-related scenarios, including a 2°C or lower scenario for covering all our business units and we have not used any specific climate change related targets and metrics to assess performance. Our aim is to complete the ongoing work during 2022 in order to comply with the remaining TCFD recommendations.

Company Secretary

Al Lonie is the Company Secretary and is responsible for advising the board, through the Chair, 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 90 to 112.

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided on pages 113 to 119.

Nomination & Governance Committee

Full details of the composition and work of the Nomination & Governance Committee are provided on pages 87 to 89.

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 – Non-executive Chair	14 (14)	8 (8)	9 (9)	n/a
John Deane ³ – Executive Director (resigned 18 October 2021)	11 (11)	n/a	n/a	n/a
Veronica Oak – Non-executive Director (resigned 14 January 2022)	14 (14)	8 (8)	9 (9)	11 (11)
Steve Murray ⁴ – Executive Director (appointed 19 October 2021)	2 (2)	n/a	n/a	n/a
David Rimmington – Executive Director	14 (14)	n/a	n/a	n/a
Jane Dale – Non-executive Director	14 (14)	8 (8)	n/a	11 (11)
Mark Hesketh – Non-executive Director	14 (14)	8 (8)	n/a	11 (11)
Eamonn Flanagan – Non-executive Director	14 (14)	8 (8)	9 (9)	11 (11)

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 4 meetings that were called at short notice to discuss ad hoc/subject specific matters.

2. There was one board meeting at which neither John Deane nor Steve Murray was present as Group Chief Executive as it was held to formally approve Steve to the role. Both individuals were therefore conflicted and hence were not present.

3. John Deane stepped down from the board effective 18 October 2021.

4. Steve Murray was appointed to the board effective 19 October 2021.

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 Chair, the Senior Independent Director and any other director. The Chair 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 2021 with enhanced use made of audio and video facilities due to the ongoing COVID-19 restrictions during the first half of the year.

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.

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 2021 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 18 May 2021 all resolutions were passed, with votes for ranging from 99.99% to 96.98% (votes against ranging from 0.01% to 3.02%).

Our next AGM is to be held on 17 May 2022 and details of the resolutions to be proposed can be found in the Notice of the Meeting on pages 217 to 218. It is intended that the meeting be held in person at the time of writing, with the chairs of the board committees available to answer such questions as appropriate, but the company will continue to assess the prevailing COVID-19 risks and advise shareholders if any change is necessary. Shareholders are therefore encouraged to submit in advance any questions that they may have in order that the chairs of the board committees can answer them on the day.

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 methods and 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 ongoing 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 and 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 57 to 62.

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:

- 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;
- there is an explicit risk function, which is supported by compliance; and
- the internal audit functions provide independent assurance that the risk management, governance and internal control processes are operating effectively.

As an integral part of this regime a detailed risk register is maintained, which is used to identify, monitor and assess risk by appropriate classification of risk. It includes climate change risk.

As at 31 December 2021, all Chesnara directors, apart from Luke, 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 Waard Group, Scildon and Movestic, such oversight is exercised by way of the membership of Chesnara directors on local 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 2021, and that it has considered material developments between that date and the date of approval of the Annual Report and Accounts. The board confirms that these reviews took account of the findings by the Internal Audit and Compliance functions on the operation of controls, internal financial controls, as well as 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's 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 113 to 119. 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, however it does acknowledge the need to enhance certain aspects of its general IT controls across the group, which will be considered as part of the IFRS 17 implementation and with the potential introduction of a UK Sarbanes Oxley (SOX) regime in the future in mind. 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 software. 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 Statement on Going Concern is included in the Directors' Report on page 122 and the Long-Term Viability Statement is set out on page 54.

Financial crime and whistleblowing

Amongst others, the company operates policies for Anti-Bribery & Corruption as well as Anti-Fraud in order to manage risks such as financial crime, money laundering, fraud, corruption and terrorist financing. Related to this, a Whistleblowing Policy is also operated to facilitate the communication of wrongdoing or suspected wrongdoing with clear communication lines highlighted to enable individuals to advise of their concerns in a safe and confidential manner. No instances of whistleblowing or financial crime were noted during the year. These policies are all reviewed annually and staff are asked to attest to their embedding and understanding. A Gifts & Hospitality Register is maintained and no breaches were recorded during the year.

NOMINATION & GOVERNANCE COMMITTEE REPORT



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

NOMINATION & GOVERNANCE COMMITTEE

During the period under review, the committee comprised Luke Savage, who also served as Chair of the committee, Veronica Oak, Jane Dale, Mark Hesketh and Eamonn Flanagan. No individual participated in discussion or decision making when the matter under consideration related to him or her. Mark Hesketh was appointed committee chair from 1 January 2022.

The committee chair reports material findings and recommendations from each meeting 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, diversity 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 eight times and attendance at those meetings is shown on page 85. This was several meetings more than typically the case but 2021 saw the committee oversee the recruitment of our new Group Chief Executive, two new non-executive directors who have been appointed in February 2022 and a new Head of Strategic Development and Investor Relations who will join the executive team in April 2022. 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 maintaining an appropriate composition for the board and its committees to support the continued development of 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 2021 the committee managed the process that led to the appointment to the board of Steve Murray as successor to John Deane following his decision to retire, the committee has worked on the appointment of two non-executive directors on expectation of the retirement of Veronica Oak at the end of her 9 year term and, in so doing, to strengthen the European experience of the board.

The development of talent below board level is vital and an area of focus for the board. The company continues to both build an internal leadership pipeline for senior roles and ensure that the necessary skills and experience exist within the business to deal with challenges and to achieve set objectives.

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. Details of 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 assessment process as outlined in the FCA Senior Managers & Certification Regime (SMCR).

Following John Deane's decision to retire, the board process set out above was followed and led to the appointment of Steve Murray as the Group Chief Executive. The board engaged the services of Warren Partners as independent external recruitment consultants for this exercise. And, in anticipation of Veronica Oak retiring from her role as a Non-Executive Director in January 2022, the board engaged the services of Flint Hyde as independent external recruitment consultants for this exercise.

Diversity

The committee is mindful of the corporate governance developments in the areas of diversity and gender balance, including the requirements under the Disclosure and Transparency Rules.

The board recognises the benefits of having diversity across all areas of the group – please see the equal opportunities section on page 64 for further detail. When considering the make-up of the board, the benefits of diversity are reviewed and balanced where possible and appropriate, along with the breadth of skills, sector experience, gender, race, disability, age, nationality and other contributions that individuals may make. In identifying suitable candidates, the committee seeks 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 set a measurable gender-based target of having at least 33% female representation. The board currently comprises five men and three women (37.5%) and is aligned with the Parker guidance in having at least one director from an ethnic minority. In consideration of the longer term, the board has discussed increasing its range of knowledge and experience from outside financial services and also a broader geographical experience base. The board is satisfied with its current composition given the diverse backgrounds and experience that Carol Hagh and Karin Bergstein bring. The business operates to principles for other roles and is mindful that it has a small workforce and therefore considers that it needs to take associated staff turnover expectations into account.

Review of effectiveness

The board and its committees undertook annual effectiveness reviews and the respective chairs 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 Chair. The evaluations did not identify any additional changes needed to board composition over and above those that had been initiated.

Any areas where increased focus and/or action was considered to be of potential value has either been addressed in 2021 or will be taken into account as appropriate during 2022. The committee determined that these board effectiveness reviews would be undertaken by an external third party in 2022.

'WHEN CONSIDERING THE MAKE-UP OF THE BOARD, THE BENEFITS OF DIVERSITY ARE REVIEWED AND BALANCED WHERE POSSIBLE AND APPROPRIATE, ALONG WITH THE BREADTH OF SKILLS, SECTOR EXPERIENCE, GENDER, RACE, DISABILITY, AGE, NATIONALITY AND OTHER CONTRIBUTIONS THAT INDIVIDUALS MAY MAKE.'

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.

Mindful of the need for effectiveness and engagement, the committee through its annual review of board and committee memberships determined to make a number of changes in 2022. My appointment to chair this committee is reflective of this, with Luke Savage remaining a member. Eamonn Flanagan has been appointed to the role of Remuneration Committee Chair in January 2022 and stood down from the Countrywide Assured board in February 2022. Steve Murray and David Rimmington similarly stood down from the Countrywide Assured board from that date. Eamonn Flanagan became Chair of Movestic Kapitalförvaltning AB in January 2022 and Carol Hagh and Karin Bergstein have been appointed to roles as reflected on page 79.

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 ongoing training is essential to maintaining an effective and knowledgeable board. The Company Secretary supports the Chair 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 2021, 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 or, in the case of Carol Hagh, Karin Bergstein and Steve Murray, election, at the company's AGM on 17 May 2022. Following the annual board effectiveness reviews of individual directors, as applicable and subject to re-election/election, the Chair 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 Nomination & Governance Committee, recommends the re-election/election of each director so proposed at the 2022 AGM. The full 2022 AGM Notice can be found on pages 217 to 218.



Mark Hesketh
Chair of the Nomination & Governance Committee
30 March 2022

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT



'This is my first report to shareholders as Chair of the Remuneration Committee, having taken over responsibility from Veronica Oak on her retirement from the board on 15 January 2022. I would like to thank Veronica, on behalf of the committee, for her tremendous work and insightful guidance as Chair these past 9 years'.

Dear Shareholder,

I am pleased to present the 2021 Directors' Remuneration Report, for which we seek your support at our forthcoming Annual General Meeting, in May 2022.

2021 – Another year of good delivery

Chesnara has a very clear strategic focus across three key areas:

1. Maximising value from our existing business;
2. Acquiring life and pension businesses that meet the strategic criteria of the company; and
3. Enhancing value through profitable new business generation.

These three strategic objectives are underpinned by the culture, values and risk appetite of the group, which looks to deliver positive 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 continued disruption due to the COVID-19 pandemic, we have seen significant delivery on our key performance metrics in 2021:

1. Continued stable solvency ratio of 152%.
2. Acquisition strategy saw the announcement of two transactions in 2021, with the Sanlam Life & Pensions UK and Robein Leven deals expected to complete in the first half of 2022.
3. New business generation in 2021 created £9.6m of new business profits on a commercial basis.
4. Cash generation[†] of £20.3m contributed to the funding requirements of the dividend.
5. EeV grew by £57.8m before the impact of dividend distributions of £33.3m and a foreign exchange loss of £37.1m.

Executive performance in 2021

In light of the performance of the executive team in 2021 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 2021 under the STI can be found on pages 94 to 95.

No awards have been granted in respect of the LTI awards made in April 2019 under the 2014 LTI scheme, due to the minimum targets not being met. The targets and performance outcome can be found in the table on page 97. Payments under the STI scheme, as set out on pages 94 to 95, reflected performance against both company and individual expectations. 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 which takes into account factors such as inflation. However, against the 2021 economic background, no inflationary rise was awarded to staff or executives in 2021.

In 2022, UK employees received a general salary increase of 4% with the exception of individual awards being made as a result of staff progression.

The executive directors' remuneration for 2022 can be found on page 103.

The board took into account individual NEDs' updated responsibilities including changes made post the appointment of Carol Hagh and Karin Bergstein to the group board and wider benchmarks for NED pay when determining increases to their fees. The Chair's fee was raised by 4% in line with the general uplift to UK staff salaries. Directors' fees are set out on page 112.

[†] 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 and Accounts.

Review of incentive scheme performance measures

As noted in last year's report 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 2021 and this year, the committee concluded that the metrics remain appropriate but we have increased the weighting of the group strategic objectives by 10 percentage points to enhance the bonus potential that can be attributed to expected outcomes in relation to ESG and acquisitions – see full details on page 103.

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. The committee has concluded that these measures and their weightings remain appropriate.

Directors' Remuneration Policy

We reviewed the composition of the executive's remuneration and our policy which was last approved by shareholders at our AGM in May 2020. The current arrangements remain largely 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 2021 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 106 to 112 and in the governance reports section of the company's website: www.chesnara.co.uk.

Change of Group Chief Executive Officer

In May 2021, we announced that John Deane had served notice of his intention to retire and that we had identified Steve Murray as his intended successor. Steve joined in August 2021 and with John working out most of his notice, the organisation has benefitted from an orderly and smooth handover of responsibilities.

The terms upon which John will retire are in line with our Remuneration Policy with no special arrangements. John worked his notice until 25 February 2022 by which date all regulatory approvals for Steve had been received in the UK and Sweden with Scildon and Waard approvals also secured in the Netherlands. Approval for Chesnara Holdings BV followed in March. From this date John has been on garden leave and will retire on 11 May 2022. John's inflight LTIP awards will be pro-rated to his retirement date and no new awards have been granted during his notice period. The Remuneration Committee exercised its discretion to allow the exercise period on his vested options to be extended from 6 months to 24 months and arrangements have been agreed with John to ensure that our post-employment minimum shareholding requirements are met.

Over John's 7-year leadership of Chesnara, shareholders have received £204m in dividend payments and seen the EcV of the group increase by 50% to £624.2m at the end of 2021. We are grateful for the contribution John has made to Chesnara and wish him well in his retirement.

We are pleased to welcome Steve Murray as the new GCEO. Steve joined in August 2021 as Executive Director and, following receipt of the appropriate UK regulatory approvals, took over from John as GCEO of Chesnara in October 2021. Steve has over 20 years' experience within the life assurance industry and a well-established track record in M&A, wider commercial leadership roles and experience of growing a business in '1825', Standard Life's financial advisory business.

The structure of Steve's remuneration is the same as that provided to his predecessor and, as investors would expect, the package is in line with our Remuneration Policy. We are alert to investor sentiment to executive remuneration and the ratcheting up of salaries that is often seen with new appointments. Investors are asked to note that this is not the case with the appointment of our new GCEO who joins on a lower salary as compared with his predecessor of 7 years' standing. That said, we anticipate that in future years, predicated on company performance and development in the role we will be returning to investors to ask for your support in rewarding success with future pay rises for Steve.

We have compensated Steve for awards which he forfeited on leaving Royal London Mutual Insurance to join Chesnara. In the main, we have utilised the Chesnara LTIP scheme to structure a number of awards where the performance period, performance conditions and holding period have been tailored to match as closely as possible the lost awards. At Steve's request a cash bonus which he has foregone from his former employer has also been compensated for with LTIP awards, which further increases the alignment between his remuneration and the interests of investors. Details can be found on pages 94 to 100.

When we introduced the minimum shareholding requirements in 2020, we took the view that this should be proportionate and that we would keep the policy under review. This year we have increased the minimum holding for new executives from 100% of salary to 200% and this new policy applies to Steve.

Shareholder engagement

The Directors' Remuneration Report for the year ended 31 December 2021 comprises my Annual Statement as Chair of the Remuneration Committee and our Annual Remuneration Report, which together are subject to an advisory shareholder vote at the AGM in May 2022.

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

The voting outcome at the 2021 AGM in respect of the Directors' Remuneration Report for the year ended 31 December 2020 and the Remuneration Policy is set out on page 105 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 management teams in each of the businesses are responsible for ensuring that employees are kept informed and their views are considered on key subject matters. The Chesnara board continued to support the initiatives taken at the local business level to manage the impact of COVID-19 at the operational level during the year.

The committee engaged with staff on the development of the group's Remuneration Principles and the alignment of directors' pay with UK employees through a meeting held between previous Remuneration Committee Chair Veronica Oak, member Eamonn Flanagan and GCEO Steve Murray with representatives from across the UK team.

I hope my annual statement, together with our Remuneration Report, provides a clear account of the operation of the Remuneration Committee during 2021 and how we have put our Remuneration Policy into practice. As the new Chair of the Remuneration Committee, I look forward to engaging with you on the activities of the committee and the decisions we have taken.



Eamonn Flanagan
Chair of the Remuneration Committee
30 March 2022

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT

This section sets out how the Remuneration Committee has implemented its Remuneration Policy for executive directors during 2021. Other than the single total figure of remuneration for each director tables on page 93, statement of directors' shareholding and share interests on pages 99 and 100, 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 and that of other senior managers at each of its meetings in 2021. Members of the Remuneration Committee during the course of the year were:

Committee members ¹	Role on the committee	Committee member since	Attendance in 2021	Maximum possible meetings in 2021
Veronica Oak ²	Committee Chair until 14 January 2022	January 2013	8	8
Luke Savage ³	Committee member	February 2020	8	8
Eamonn Flanagan ³	Committee Chair	July 2020	8	8
Carol Hagh ⁴	Committee member	February 2022	0	0

Notes.

1. By invitation, the GCEO attends the Remuneration Committee, but neither John Deane nor Steve Murray were present when matters relating to their own remuneration were discussed.

2. Veronica Oak joined the committee in January 2013 and became the Chair in May 2013. She retired as a director and as committee Chair in January 2022.

3. Eamonn Flanagan joined the committee in July 2020, and was appointed Chair on 15 January 2022.

4. Carol Hagh joined the committee on 14 February 2022 but is shown for completeness at the time of writing.

During 2021 the committee incurred external advisor fees totalling £4,980 including VAT, for advice in relation to the introduction of a post-employment minimum shareholding requirement and the retirement and appointment of a GCEO.

Highlights 2021

In 2021, 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 2020 under the STI Scheme and in 2019 under the LTI scheme having given due consideration to the risk report provided by the Audit & Risk Committee. Approved the targets and the grant of awards to executives in 2021 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 was likely to give rise to a 'windfall' for directors. Although the share price was lower compared to that used for awards the previous year, the price was close to the share price average for the year and so no adjustment was deemed appropriate. In relation to the appointment of Steve Murray as GCEO, the committee assessed and approved his remuneration and compensation for lost awards.
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, as demonstrated in the recruitment of our new GCEO.
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 2021.
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 2021 Report and 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. For new executives joining the company after 1 May 2021, the committee agreed to raise the minimum shareholding requirement from 100% to 200% of basic salary while in employment and for the 2 year post-employment shareholding requirement to be the lower of the executive director's attained shareholding on leaving and 200% of final basic salary.
Shareholder engagement	The committee chair responded to questions/queries raised by shareholders.
Employee engagement	The committee engaged with staff on the alignment of directors' pay with UK employees through a meeting held between committee members, the Group Chief Executive and a cross section of the UK workforce.

Area of focus	Matter considered
Chair's fees	The committee reviewed the level of fees payable to the Chair.
Remuneration principles	The committee reviewed the Group Remuneration Principles, which guide the remuneration policies throughout the group.
Chesnara Savings Related Share Option Scheme 2022 (SAYE)	The previous Share Option scheme was approved by shareholders on 17 May 2011 and had a 10 year term. The committee therefore reviewed the ongoing benefit and preference to operate such a scheme as well as taking into account the withdrawal from the market of the previous scheme administrator. A Chesnara Savings Related Share Option Scheme 2022 (CSRSOS) is proposed to replace the company's previous arrangement and under which options to acquire ordinary shares in the company may be granted to qualifying employees. The SAYE is intended to satisfy the conditions of schedule 3 to the Income Tax (Earnings & Pensions) Act 2003 such that options granted pursuant to the SAYE may benefit from certain tax reliefs on exercise of the options. The SAYE is similar to the Existing Scheme, but has been updated to reflect changes in the relevant legislation since the Existing Scheme was adopted. A summary of the principal terms of the SAYE is set out in an appendix to the Notice of AGM. If the new scheme is approved then it will be administered by Link Group.

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

The remuneration of the executive directors for the years ended 31 December 2021 and 31 December 2020 is made up as follows:

Executive directors' remuneration as a single figure – year ended 31 December 2021

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	Annual bonuses £000	LTI ² £000	Pension ³ £000	Total for 2021 £000	Fixed £000	Variable £000
Steve Murray ⁴	175	8	–	240	283	15	721	198	523
John Deane ⁵	458	28	10	439	–	43	978	539	439
David Rimmington	289	60	7	255	12	27	650	383	267
Total	922	96	17	934	295	85	2,349	1,120	1,229

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

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	Annual bonuses £000	LTI £000	Pension ³ £000	Total for 2020 £000	Fixed £000	Variable £000
Steve Murray ⁴	–	–	–	–	–	–	–	–	–
John Deane ⁵	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

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. Steve Murray joined Chesnara on 2 August 2021 and was appointed as a director and the GCEO on 19 October 2021.
5. John Deane stood down as a director on 19 October 2021 and will retire from the company on 11 May 2022.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

The remuneration of the non-executive directors for the years ended 31 December 2021 and 31 December 2020 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 2021 and 2020

Name of director	Fees £000	2021 Benefits ⁸ £000	Total £000	Fees £000	2020 Benefits ⁸ £000	Total £000
Luke Savage	123	–	123	123	–	123
Veronica Oak ⁶	62	–	62	62	–	62
Eamonn Flanagan ⁷	61	–	61	35	–	35
Jane Dale	66	–	66	66	–	66
Mark Hesketh	61	–	61	61	–	61
Total	373	–	373	347	–	347

Notes.

6. Veronica Oak retired as a non-executive director on 15 January 2022.

7. Eamonn Flanagan joined Chesnara on 1 June 2020 and was appointed a non-executive director on 1 July 2020.

8. 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.

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), a replacement arrangement for which will be proposed to shareholders at the 2022 AGM.

The committee engaged directly with employees on the alignment of directors' pay with UK employees including with regard to the proposed 2022 salary increase.

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 2021 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 generation[†], total EcV earnings[†] 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 min 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 (£)
Steve Murray¹										
Cash generation*	£20.86m	0%	£26.08m*	12.0%	£33.91m	40.0%	£75.13m*	40.0%	22.8%	96,000
Total EcV earnings**	£15.03m	0%	£21.47m	16.0%	£32.20m	40.0%	£61.72m	40.0%	22.8%	96,000
Group strategic objectives	75%	0%	100%	10.0%	125%	20.0%	100.0% of max	20.0%	11.4%	48,000
Total				38.0%		100.0%		100.0%	57.0%	240,000
John Deane										
Cash generation*	£20.86m	0%	£26.08m*	12.0%	£33.91m	40.0%	£75.13m*	40.0%	40.0%	183,098
Total EcV earnings**	£15.03m	0%	£21.47m	16.0%	£32.20m	40.0%	£61.72m	40.0%	40.0%	183,098
Group strategic objectives	75%	0%	100%	10.0%	125%	20.0%	80.0% of max	16.0%	16.0%	73,101
Total				38.0%		100.0%		96.0%	96.0%	439,297

	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 (£)
David Rimmington										
Cash generation*	£20.86m	0%	£26.08m*	12.0%	£33.91m	40.0%	£75.13m*	40.0%	36.0%	103,952
Total EcV earnings**	£15.03m	0%	£21.47m	16.0%	£32.20m	40.0%	£61.72m	40.0%	36.0%	103,952
Group strategic objectives	75%	0%	100%	10.0%	125%	20.0%	90.0% of max	18.0%	16.2%	46,739
Total				38.0%		100.0%		98.0%	88.2%	254,643

¹ Part of Steve Murray's compensation for lost awards included a short-term bonus award for £240,000 which was lost as a result of him having served notice to leave Royal London Mutual Insurance at the time the award was due to be made. The financial performance measures for this award have been replaced with the Chesnara metrics that apply to the 2021 STI awards and 20% of the award is based on his performance since joining the company on 2 August 2021. In line with the terms of the 2021 STI awards, 35% is to be granted as a deferred share award that will vest after 3 years.

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

*Note – this is stated after certain adjustments, such as consolidation adjustments. The actual results are also adjusted in the same manner.

**Note – the total EcV earnings before exceptional items on page 50 has been adjusted in line with the basis of the target.

The following table details the requirements for delivery of the strategic objectives for 2021 and actual outcomes:

Objectives area	Objectives and performance	Outcome
Steve Murray		
Knowledge of Chesnara (25%)	Build understanding of Chesnara and its business units	Quickly established a good understanding of the business and its key markets. Spent significant time on the ground with our local boards and leadership teams as well as auditors and other partners.
Relationships with key stakeholders (25%)	Establish relationships with key stakeholders including shareholders and regulators	Supported H1 results presentation, H1 follow up sessions with shareholders and analysts and also held wider 121 sessions with shareholders. Presented to the regulatory college, made up of reps from all the group's key regulators, on the group's strategy. Engaged with potential debt holders as part of the Tier 2 debt raise process. Held sessions with key employee groups including the UK Employee Forum and Works Council in the Netherlands.
Strategic activity including M&A (25%)	Involvement in inflight strategic activity e.g. Sanlam and initiation of other strategic activity	Oversaw the latter stages of the Sanlam acquisition and pre-completion oversight. Led the initiation and assessment of further M&A opportunities and played a leading role in the recent £200m Tier 2 debt issuance. Improved the strength of the group's M&A and investor relations capability with the recruitment of senior level experienced resource.
Governance (25%)	Play an active role in the governance of Chesnara and its business units	Participated in group and subsidiary board meetings and ancillary committees, and initiated various reforms to streamline elements of governance going forward including more effective planning and tracking of actions. Provided strong support to the Chair and SID in the recruitment of our two new NEDs.

† 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 and Accounts.

Annual bonuses (continued)

Objectives area	Objectives and performance	Outcome
John Deane		
Scildon organisation and IT (25%)	Phase 1 design and development delivered in line with plan, including achievement of cost savings. Phase 2 plans to be in place.	Migration delivered but additional work required. Agreed not to progress based on the business case.
Balance sheet optimisation (20%)	Ensure clarity of SII balance sheet optimisation opportunities, and risks, and associated prioritisation and delivery of agreed actions.	Prioritised management actions determined and delivered to the extent agreed appropriate including reinsurance arrangements and acquisitions. Opportunities clear for implementation in more favourable economic circumstances to their regard.
Acquisitions (35%)	Lead the investigation and delivery of acquisitions within risk appetite processes.	Two acquisitions announced and continued development of the pipeline sees it healthy for the future.
People development (10%)	Ensure that people development and succession plans are progressed and monitored including handover of responsibilities to Steve Murray.	Development of individuals has remained a focus and succession plans remain in place for mobilisation at short notice should the need arise. The handover to Steve Murray was completed seamlessly.
ESG (10%)	Development of appropriate environmental/climate, people and sustainability policies and practices.	ESG Policy Statement agreed with the board and log of corporate information and development requirements completed.
David Rimmington		
Enhance investor relations (20%)	Improve investor relations materials and coverage and look to broaden shareholder engagement.	Hardman engaged and initiation note issued with online video produced. Investor presentation enhanced and well received. Introduced commercial value concept.
IFRS 17 (25%)	Planning and delivery of IFRS 17 across group and divisions.	Delivery in line with challenging plan with the major milestone of the first dry run met in line with the plan. Chesnara remains very well positioned with regards to costs and status.
Management reporting and financial analysis (15%)	Timely, appropriate and quality MI available to support capital and balance sheet management and decision making, ensuring continued improvements in processing, design and resilience.	All recurring reporting routines completed to normal quality and to deadline despite difficult operating conditions and non-business as usual priorities. Resilience programmes addressed in line with expectations and continuous improvement approach applied.
Financing (30%)	Establish revolving credit facility and explore other capital management activities to enhance deal funding certainty including obtaining a private rating.	Fitch management rating completed with positive outcome, RCF in place and Tier-2 raise.
ESG (10%)	Continued development of appropriate reporting in ARA and website of environmental/climate, people and sustainability policies and practices.	ESG policies and practices progressed in line with plan including TCFD reporting for the annual report.

Annual bonuses (continued)

Under the strategic objectives and performance criteria for 2021, a 10% weighting was applied for the purposes of determining the annual bonus payable to the Group CEO and Group FD for the effective development and implementation of sustainability policies, principles and practices. The specific actions arising from this overall objective were set out in an ESG Actions Tracker and progress updates were provided to the Group Executive Committee and the Chesnara board during the year. To ensure that climate change risk assessment has been fully embedded across the businesses, the Remuneration Committee will give consideration to setting appropriate future targets based on more specific sustainability objectives and outcomes.

In converting performance against the measures assessed for 2021 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 % of salary	Actual award as % of salary	Total value of award £
Steve Murray ¹	n/a	57%	57.00%	240,000
John Deane	457,745	100%	95.97%	439,297
David Rimmington	288,756	90%	88.19%	254,643
Total				933,940

Note 1. As this was a buy-out award, it is not based on Steve Murray's salary at Chesnara – the percentage that the award has relative to his current salary is shown for context only. In future years, Steve's maximum potential award will be 100% of salary.

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 2022 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	Performance achieved	% of award vesting	Value of award £
Steve Murray	Personal Performance ¹	100%	n/a	n/a	n/a	n/a	n/a	n/a	100.0%	144,051
	Royal London Company Performance ²	100%	n/a	n/a	n/a	n/a	n/a	n/a	40.8%	138,720
John Deane	TSR	50%	=Median	14.17%	50.26%			0.08%	0%	nil
	EcV	50%	=97.0%	£654.7m	£684.2m	£626.1m	£624.2m	95.3%	0%	nil
David Rimmington	TSR	50%	=Median	14.17%	50.26%			0.08%	0%	nil
	EcV	50%	=97.0%	£654.7m	£684.2m	£626.1m	£624.2m	95.3%	0%	nil

Notes.

1. This is a buy-out award in lieu of a cash bonus based with performance conditions related to personal performance and no holding period, although it is subject to the minimum shareholding requirement.

2. This is a buy-out award in lieu of an LTI scheme with Steve's ex-employer Royal London, with performance conditions related to the outcome of that company's scheme.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

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
Steve Murray	2014 LTI	26 November 2021	119,089	£340,000 based on share price (285.50p)	10.0%	28 April 2023 ³
	2014 LTI	26 November 2021	140,105	£400,000 based on share price (285.50p)	10.0%	28 April 2024 ³
John Deane	2014 LTI	28 April 2021	166,453	£457,744 based on share price (275.00p)	10.0%	28 April 2024 ³
	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 ²
	2014 LTI	28 April 2018	107,100	£439,110 based on share price (410.00p)	10.0%	28 April 2021 ¹
	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 2021	94,502	£259,882 based on share price (275.00p)	10.0%	28 April 2024 ³
	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 2021. David Rimmington; 75% in 2014 and 2015, 90% in 2016 to 2021. 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.

EcV growth 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 2021 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 2-year holding period in addition to the 3-year performance period.

In addition to the awards granted above, the following additional awards were granted to Steve Murray, to compensate him for the schemes that he held with his previous employer and which he forfeited upon accepting his new role with Chesnara:

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	Date of vesting
Steve Murray	2014 LTI	26 November 2021	50,456	£144,051 based on share price (285.50p)	10.0%	31 December 2021 ¹
	2014 LTI	26 November 2021	119,089	£340,000 based on share price (285.50p)	10.0%	30 June 2022 ²
	2014 LTI	26 November 2021	50,456	£144,051 based on share price (285.50p)	10.0%	31 December 2022 ¹
	2014 LTI	26 November 2021	20,722	£59,160 based on share price (285.50p)	10.0%	30 June 2023 ¹
	2014 LTI	26 November 2021	33,625	£96,000 based on share price (285.50p)	10.0%	30 June 2024 ¹

Notes.

1. LTI awards are not subject to a minimum holding period.
2. LTI award is subject to a minimum two-year holding 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. For executives who joined Chesnara before 1 May 2021, their minimum is 100% of basic salary, for executives joining from 1 May 2021 the minimum is 200% of salary. As at 31 December 2021 this criterion has been met for John Deane and David Rimmington. Steve Murray who joined on 2 August 2021 has unsurprisingly not met this requirement as yet. 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 Chair and non-executive directors are encouraged to hold shares in the company but are not subject to a formal shareholding guideline.

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 2021 or the date of resignation.

No changes took place in the interests of the directors between 31 December 2021 and 30 March 2022.

Name of director	Shares held: 1 January 2021	Shares held: 31 December 2021	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 ⁴	131,066	131,066	310,416	286,925	185,989 ³	–	255.2%
David Rimmington	72,281	108,282	246,785	62,170	–	67,796	160.2%
Steve Murray ⁵	–	–	483,086	–	50,456	–	34.2%
Luke Savage	20,000	20,000	–	–	–	–	–
Jane Dale	3,333	3,333	–	–	–	–	–
Eamonn Flanagan	30,000	30,000	–	–	–	–	–
Mark Hesketh	5,362	5,362	–	–	–	–	–
Veronica Oak ⁶	3,000	3,000	–	–	–	–	–
Total	265,042	301,043	1,040,287	349,095	236,445	67,796	–

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 2022 Annual Report and Accounts.
2. Calculated using the share price of 285.00p at 31 December 2021.
3. Awarded under the 2014 LTI Scheme and vested on 28 April 2021.
4. John Deane ceased to be a director on 19 October 2021.
5. Steve Murray was appointed as a director on 19 October 2021.
6. Veronica Oak ceased to be a non-executive director on 15 January 2022.

Outstanding share options and share awards

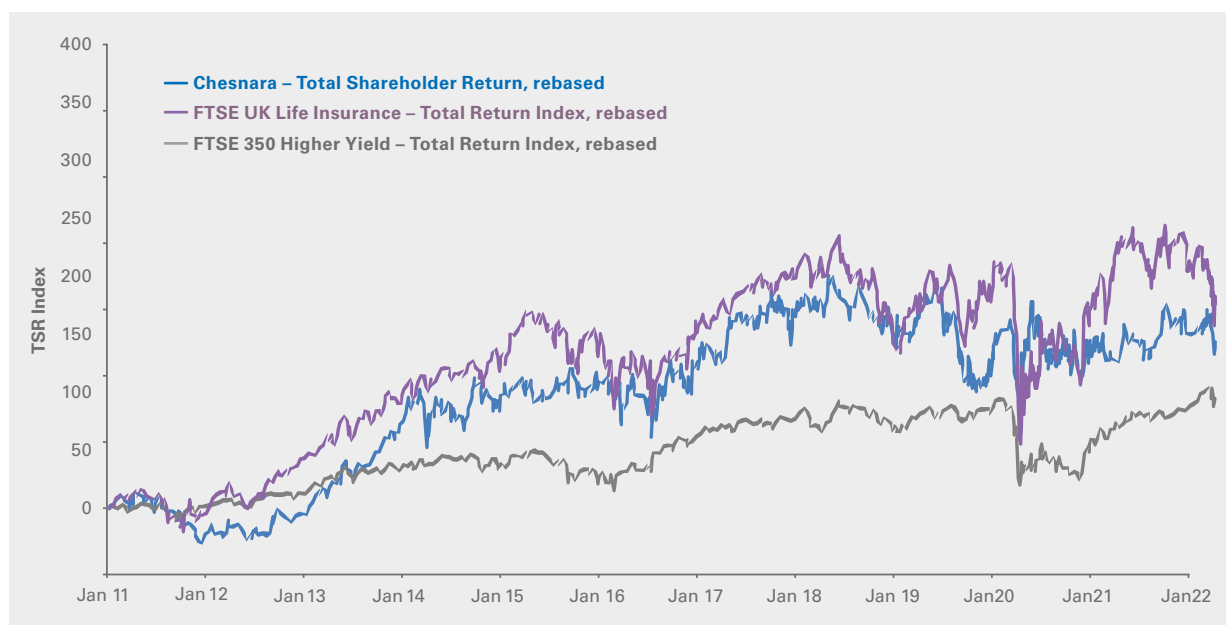
Below are details of outstanding share options and awards for current executive directors.

Name of executive director	Scheme	Grant date	Exercise price (p)	Number of shares under option at 1 January 2021	Number granted during year	Number exercised during year	Number waived/lapsed during year	Number of shares under option and unexercised at 31 December 2021	End of performance period	Vesting date	Performance period	Date of expiry of option
STEVE MURRAY	2014 LTI (2021 award)	26/11/21	Nil	-	50,456	-	-	50,456	31/12/21	31/12/21	5 Months	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	119,089	-	-	119,089	31/12/21	30/06/22	3 Years	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	50,456	-	-	50,456	31/12/22	31/12/22	1 Year	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	119,089	-	-	119,089	31/12/22	28/04/23	3 Years	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	20,722	-	-	20,722	30/06/23	30/06/23	2 Years	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	140,105	-	-	140,105	31/12/23	28/04/24	3 Years	26/11/31
	2014 LTI (2021 award)	26/11/21	Nil	-	33,625	-	-	33,625	31/12/23	30/06/24	3 Years	26/11/31
				-	533,542	-	-	533,542				
JOHN DEANE	2014 LTI (2021 award)	28/04/21	Nil	-	166,453	-	(92,474)	73,979	31/12/23	28/04/24	3 Years	28/04/31
	2014 LTI (2020 award)	28/04/20	Nil	143,045	-	-	(31,788)	111,257	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	26,052	-	-	-	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 (2021 award)	28/04/21	Nil	-	31,065	-	-	31,065	n/a	28/04/24	n/a	28/04/31
	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
				631,185	197,518	-	(231,362)	597,341				
DAVID RIMMINGTON	2014 LTI (2021 award)	28/04/21	Nil	-	94,502	-	-	94,502	31/12/23	28/04/24	3 Years	28/04/31
	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	14,449	-	(14,449)	-	-	31/12/19	28/04/20	3 Years	28/04/27
	2014 STI (2021 award)	28/04/21	Nil	-	18,803	-	-	18,803	n/a	28/04/24	n/a	28/04/31
	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
	204 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	30/10/20	219.80	8,189	-	-	-	8,189	n/a	01/12/23	n/a	01/06/24	
				324,251	113,305	(67,796)	(60,805)	308,955				

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 a 2-year holding period, to follow the 3-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 following 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
2021	Steve Murray	721	57.00%	58.42%	1
2021	John Deane	978	95.57%	–	2
2020	John Deane	782	53.38%	–	2
2019	John Deane	1,111	98.79%	19.93%	2
2018	John Deane	965	31.08%	67.99%	2
2017	John Deane	1,142	86.96%	80.95%	2
2016	John Deane	902	98.33%	–	2
2015	John Deane	596	81.96%	–	2
2014	Graham Kettleborough	712	91.30%	34.52%	3
2013	Graham Kettleborough	702	100.00%	n/a	4
2012	Graham Kettleborough	612	65.48%	100.00%	5

Notes.

1. Steve Murray joined Chesnara on 2 August 2021 and was appointed GCEO on 19 October 2021.

2. John Deane was appointed GCEO on 1 January 2015 and stood down on 18 October 2021.

3. 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.

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

5. 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.

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 2021 and 2020.

Percentage change in remuneration in 2021 compared with 2020	Group Chief Executive %	Group Finance Director %	Group employees %
Salary and fees	–	–	–
All taxable benefits	–	300.00 ¹	(1.10)
Annual bonuses	79.98	72.36	2.88

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 2021 and 2020. In future years, this analysis will be repeated until a rolling 5 year comparison is ultimately reported.

Percentage change in remuneration in 2021 compared with 2020	Group Chief Executive %	Group Finance Director %	Luke Savage %	Veronica Oak %	David Brand %	Jane Dale %	Eamonn Flanagan %	Mark Hesketh %	Group employees %
Salary and fees	-	-	-	-	-	-	-	-	-
All taxable benefits	-	300.00 ¹	-	-	-	-	-	-	(1.10)
Annual bonuses	79.98	72.36	n/a	n/a	n/a	n/a	n/a	n/a	2.88

Percentage change in remuneration in 2020 compared with 2019	Group Chief Executive %	Group Finance Director %	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	n/a	(100.00)	(100.00)	(100.00)	n/a	(100.00)	13.28
Annual bonuses	(44.89)	(41.01)	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 for the Group Finance Director. For the non-executive directors, these 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 directors normal place of work. Due to remote working, no expenses were incurred in 2020 and 2021.

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 2021 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 2021 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.

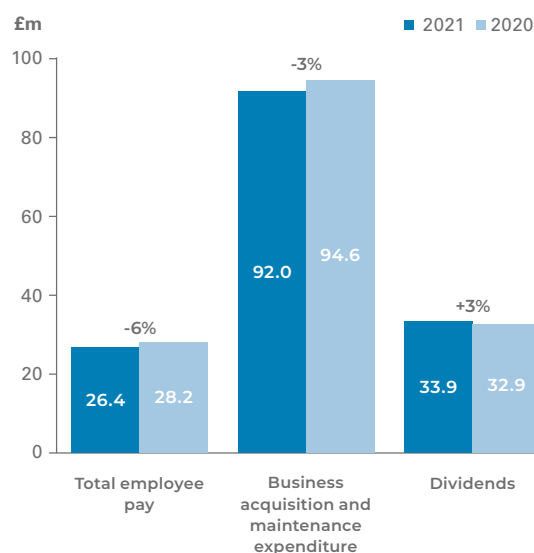
Comparison of total remuneration	25th percentile pay ratio (FTE UK employees total remuneration)	Median pay ratio (FTE UK employees total remuneration)	75th percentile pay ratio (FTE UK employees total remuneration)
2021	13.7 : 1	9.7 : 1	5.4 : 1
2020	11.3 : 1	8.2 : 1	4.8 : 1
2019	15.7 : 1	11.8 : 1	6.6 : 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 2022.

Salaries and fees

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

Executive directors

No increase in salary has been applied for Steve Murray (GCEO) in line with the terms of his appointment. David Rimmington (GFD) received a 4% uplift in line with all UK staff.

Non-executive directors

The Chair's fee has been increased by 4% in line with the pay award for UK staff. The fee level for other non-executive directors has been increased by different levels in parallel with a review of individual responsibilities after a period of 3 years since last the fees were increased in January 2019. Jane Dale's fee has been increased by 6.8% in recognition of her responsibilities as the Senior Non-Executive Director as well as chairing the Audit & Risk Committees of both Chesnara plc and its UK subsidiary Countrywide Assured plc. Eamonn Flanagan's fee was increased by 7.7% with his appointment to the Movestic Livförsäkring AB board and Audit & Risk Committee in 2021 as well as becoming Movestic Kapitalförvaltning AB Chair in 2022 and also Chair of the Chesnara Remuneration Committee. Mark Hesketh's fee was increased by 7.7% as he has taken on the role of Chair of the Nomination & Governance Committee and been appointed in 2021 to the Countrywide Assured plc With Profits Committee.

The table below sets out the anticipated payments to non-executive directors for 2022:

	Fees £000	Benefits ¹ £000	Total £000
Luke Savage	127.5	1.0	128.5
Eamonn Flanagan	65.5	1.0	66.5
Jane Dale	70.5	1.0	71.5
Mark Hesketh	65.5	1.0	66.5
Carol Hagh	61.5	1.0	62.5
Karin Bergstein	61.5	1.0	62.5
Total	452.0	6.0	458.0

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 directors normal place of work.

2022 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
Steve Murray	Cash generation	35.0%	80.0%	100.0%	130.0%	nil	25.0%	35.0%
	EcV earnings	35.0%	70.0%	100.0%	150.0%	nil	25.0%	35.0%
	Group strategic objectives	30.0%	75.0%	100.0%	125.0%	nil	15.0%	30.0%
David Rimmington	Cash generation	35.0%	80.0%	100.0%	130.0%	nil	25.0%	35.0%
	EcV earnings	35.0%	70.0%	100.0%	150.0%	nil	25.0%	35.0%
	Group strategic objectives	30.0%	75.0%	100.0%	125.0%	nil	15.0%	30.0%

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. For 2022, a higher weighting has been given to group strategic objectives (20% to 30%) to increase the bonus potential that can be attributed to good outcomes in relation to ESG and acquisitions. 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 primarily through the LTI scheme.

Measures (continued)

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 profit', cash generation', 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.

2022 award made under the 2014 LTI

In 2022 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 2025 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
	% of basic salary								
Steve Murray	100%	TSR EcV	50% 50%	=Median	Median	Upper quartile	nil nil	12.5%	50.0% 50.0%
David Rimmington	100%	TSR EcV	50% 50%	=Median	Median	Upper quartile	nil nil	12.5%	50.0% 50.0%

The 2 awards 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 is 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 2024.

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 2022 award the two measures have been assigned equal weighting.

Holding period

A 2-year holding period was introduced to the LTI Scheme for awards made from 2019, to follow the 3-year performance period.

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.

Targets

TSR: The Remuneration Committee proposes that the constituents of the FTSE 350 Higher Yield Index represent the most appropriate peer group for assessing the relative TSR performance.

EcV[†]: The Economic Value target is an output from the Chesnara business plan process. The figure is therefore subject to group board challenge and approval. The projections assume a realistic expectation for investment returns and incorporate challenging expectations for new business value from Movestic and Scildon.

The Remuneration Committee can make discretionary adjustments to either the target or to the actual result for the year if it considers this to be appropriate, in accordance with the scheme rules and the policy.

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.

[†] 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 and Accounts.

The following table sets out the voting in respect of the Directors' Remuneration Report at the 2021 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	86,686,919	97.54%	2,186,365	2.46%	88,873,284	15,646

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 30 March 2022 and signed on its behalf by:



Eamonn Flanagan
Chair of the Remuneration Committee
30 March 2022

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

The policy has been developed by the Remuneration 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.

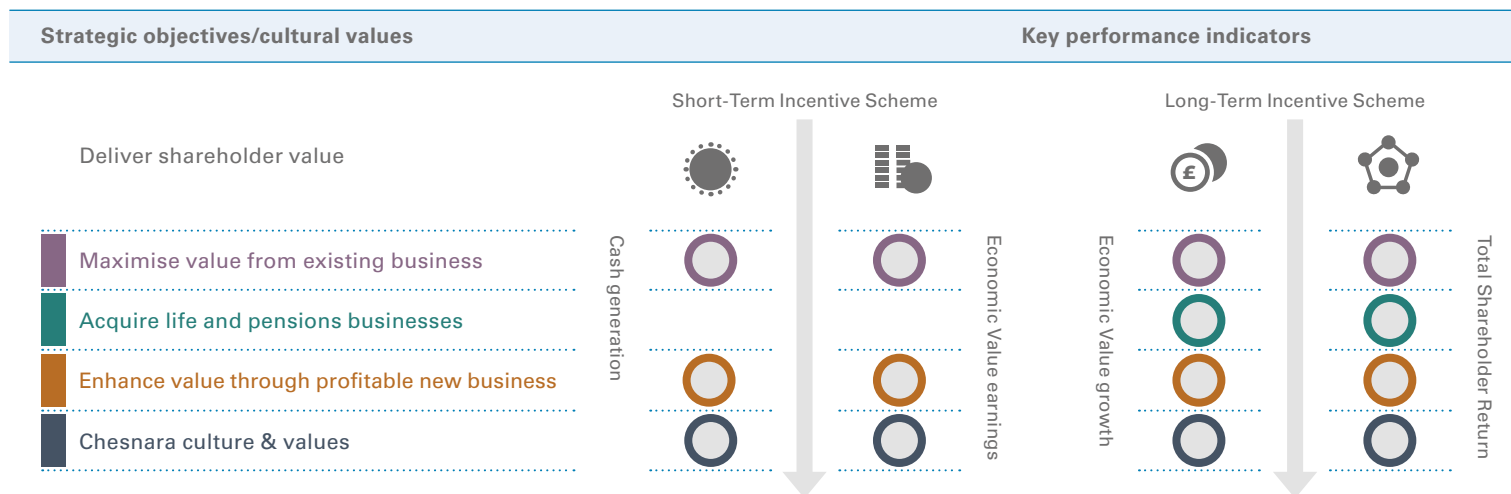
The achievement of these objectives is considered against the culture and risk environment of the company to ensure that rewards do not encourage excessive risk taking or an inappropriate culture to develop.

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.



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"> 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)		
<p>To drive and reward achievement of the group's business plan and key performance indicators.</p> <p>To help retention and align the interests of executives with those of shareholders.</p>	<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 3-year deferral period making a total of 4 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 generation², 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)		
<p>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>	<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 5 years after the grant date.</p> <p>The LTI Scheme includes malus and clawback provisions.</p>	<p>Vesting is dependent on two performance measures, the weighting of which the committee may vary as it considers appropriate:</p> <ol style="list-style-type: none"> 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. 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>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		
<p>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>	<p>Fees for the Chair are determined and agreed with the board by the committee (without the Chair being party to this deliberation). Non-executive director fees are determined by the Chair 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 Chair 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>

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, EcV[†] operating profit, cash generation[†], 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.

STI Scheme

- (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.

[†] 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 and Accounts.

LTI Scheme

- (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 5 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 January 2019 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.

Service contracts and loss of office

Executives

Our policy is for executives to have service contracts with a rolling 12-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.

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

Non-executive directors

- Appointments are made under a contract for services for an initial term of 3 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 3-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.

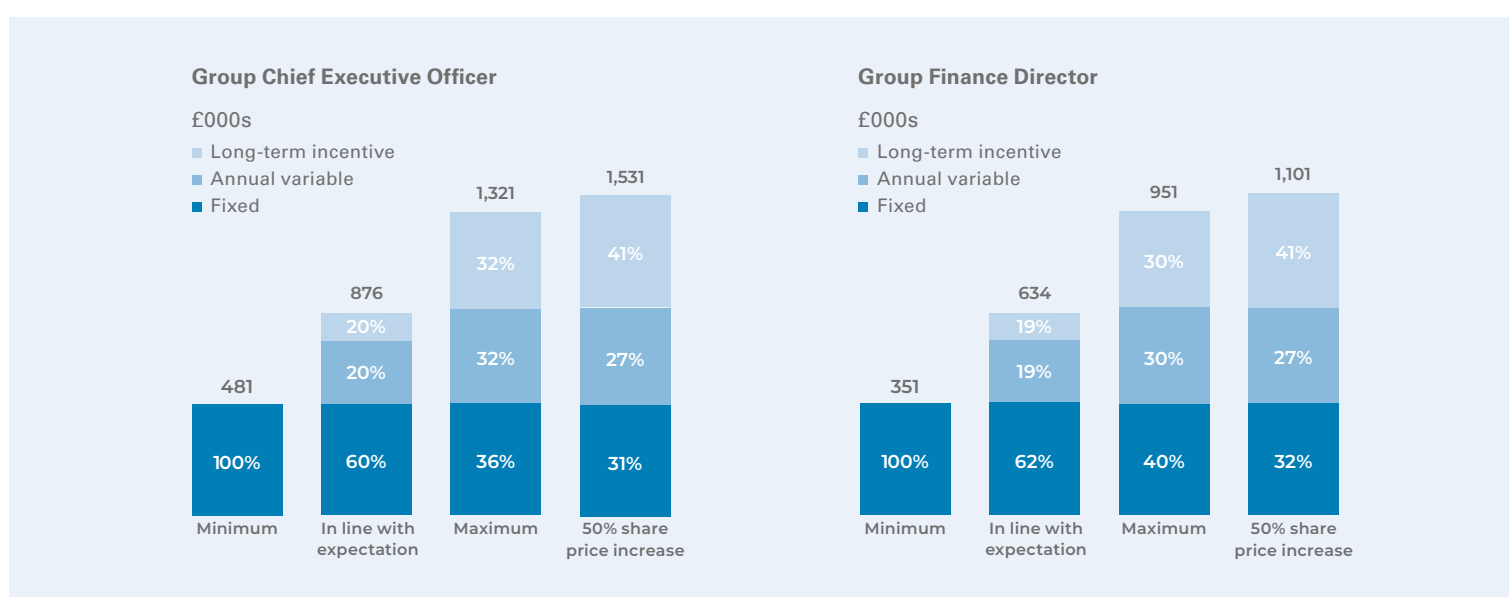
Executives' other directorships

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 65.0% and 29.2% of their maximum respectively for the Group Chief Executive and 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 2022.

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Group Chief Executive Officer	420.0	25.2	35.7	480.9
Group Finance Director	300.3	21.9	28.5	350.7

The pension figures above are based on 8.5% and 9.5% of gross basic salary, for the Group CEO and Group FD respectively.

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 AND RISK COMMITTEE REPORT



NUMBER OF MEETINGS DURING YEAR: 11

MEMBERS:

Jane Dale	Chair
Veronica Oak	Member (retired 15 Jan 2022)
Mark Hesketh	Member
Eamonn Flanagan	Member
Karin Bergstein	Member (appointed 14 Feb 2022)

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 78 to 79.

Chair's introduction

Welcome to the 2021 Chesnara Audit & Risk Committee Report. The committee has been kept very busy over the course of 2021.

As well as discharging our usual responsibilities, we have also monitored a number of areas of change throughout the year. This has included oversight of our group's operational resilience programme, including the impact of the ongoing pandemic; oversight of two acquisitions that were announced in the year; and a number of developments in corporate and financial reporting, including IFRS 17 and our ESG initiatives. Below I have provided some further insight into these areas.

Operational resilience and COVID-19 pandemic: The committee has continued its oversight of the group's operational resilience programme, which has included ensuring we meet the specific regulatory requirements imposed on our UK business. This has been mindful of the operational impact of a continuation of working restrictions that were in force across our group's operations as a result of the pandemic. The programme has included consideration of our resilience to cyber/information security risk, especially in light of ongoing remote working. Throughout the year we have ensured that our training is up to date at both a board and staff level in order to ensure we remain well protected.

Acquisitions: The committee oversaw the end-to-end due diligence for both the Sanlam and Robein Leven acquisitions that were announced during the year. This process included scrutinising key acquisition related papers, such as due diligence reports, financial business case reports, key legal documentation and any associated external reporting. For both acquisitions the committee was satisfied that the risk-based acquisition approach was appropriately followed.

Financial reporting developments

Corporate governance reporting issued by the Financial Reporting Council in November 2021:

The FRC issued a report summarising its observations following its review of corporate governance reporting during the year. The committee has studied the report carefully and taken on board the areas where the FRC recommends areas for potential improvement, covering board appointments, succession planning and diversity, and reporting on the effectiveness of internal control and risk management systems. We have sought to ensure that this year's Annual Report meets the standards that are expected of us in these areas.

Corporate governance and audit reform: The committee has taken a keen interest in developments over the year. The Government's white paper over restoring trust in audit and corporate governance was issued in March 2021, with the consultation closing in July. Whilst we understand that the Government is now analysing the feedback, in the meantime the committee has spent some time understanding the initial white paper through obtaining relevant briefings from industry professionals, noting in particular the potential for a 'UK SOX' framework.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Letter from the Financial Reporting Council (FRC): In September 2021 we received a letter from the FRC highlighting some observations following a review of our 2020 Annual Report and Accounts. It is pleasing to report that this only had one point which we were requested to respond to, relating to improving our disclosures over the methods and assumptions used to value a portfolio of mortgage-backed assets, and their sensitivities to certain assumptions. Disclosures have now been improved in these 2021 Report and Accounts. The letter also included some suggested areas for consideration, which we have taken on board and made improvements where necessary.

European Single Electronic Format reporting (ESEF): New requirements to electronically tag our financial statements have come into force this year. For 2021 reporting the tagging is limited to the primary statements, though in future years this extends to the notes to the financial statements. The committee has paid close attention to the mapping of the IFRS taxonomy to our primary statements, noting the key judgements that have been made.

IFRS 17: The committee has continued its oversight of the delivery of the group's IFRS 17 programme. This has involved obtaining regular updates on progress, alongside reviewing key deliverables that were planned for the year.

As we look forward, 2022 is a critical year for the programme, which includes:


- Completing the implementation of the IFRS 17 calculation engine.
- Calculating the group's opening balance sheet position as at 31 December 2021, including responding to the feedback from the external auditor's review.

As the programme reaches its final stages the committee will continue to keep a close eye on progress.

'AS WE LOOK FORWARD, 2022 IS A CRITICAL YEAR FOR THE PROGRAMME... AND THE COMMITTEE WILL CONTINUE TO KEEP A CLOSE EYE ON PROGRESS.'

Climate change reporting: This year's annual report includes a new section dedicated to climate change reporting. This includes specific reporting against the eleven disclosures recommended by the TCFD, on a 'comply or explain' basis. The committee has overseen the development of our climate change reporting over the course of the year. Further information can be found on pages 67 to 74, noting there is still work to be done in future years as we continue to develop our climate change initiatives and associated reporting.

Looking forward: Looking ahead, change remains firmly on the agenda. We have the outcome from the government's corporate governance review, the finalisation of our IFRS 17 programme as well as the next phase of ESEF reporting. We will also continue to monitor our ongoing operational resilience programme closely.



Jane Dale
Chair of the Audit & Risk Committee

30 March 2022

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 & Risk Committee are available on our website www.chesnara.co.uk

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 2021:** 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 2021

The committee's activity 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 following during 2021: **Due diligence** oversight of the two acquisitions that were announced in the year; the group's **IFRS 17 implementation programme**; the ongoing **impact of the pandemic; climate change reporting** and **keeping abreast of corporate governance developments**. A summary of all the activities performed by the committee during 2021 in relation to its audit responsibilities is included in the table below:

Financial reporting	<ul style="list-style-type: none"> – Annual Report and Accounts: Reviewed the Annual Report and 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. See significant issues section on page 117 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 2021. – 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 117 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, covering IFRS, Solvency, EcV, cash generation and expenses. – IFRS 17: Maintained its close oversight of the group's programme. Key highlights for the year have included: overseeing the implementation of the group calculation engine, which is provided by WTW; 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: Continued to monitor the impact of COVID-19 on the business. From a financial reporting perspective, the impact is perhaps less pervasive than for the 2020 Annual Report and Accounts, with financial markets having stabilised somewhat since the initial onset of the pandemic. The committee has consequently focused more on the operational risk impact of living with the pandemic and how this affects our working environment and operational resilience. – FRC updates: Actively monitored and reviewed any key publications issued by the Financial Reporting Council regarding financial reporting matters during the year. This has included, amongst other things, guidance on TCFD reporting, Annual Review of Corporate Reporting 2020/21 and the Review of Corporate Governance Reporting (November 2021). – FRC letter response: Actively managed the response to the FRC letter received in September 2021, requesting further information, following their review of the 2020 Annual Report and Accounts. This was successfully concluded in October 2021.
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 entitled 'Deloitte LLP Audit Quality Inspection and Supervision' which was published in July 2021. – External audit reporting and feedback: Reviewed key findings reported by the external auditor on the Annual Report and 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 and 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 116 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. For 2021 it determined that the papers that it receives, the opportunity to engage with contributors and the atmosphere in meetings, as well as the way in which it is kept informed had all been effective. – Oversight of Internal Audit function developments during the year: During 2021 the committee focused on ensuring that internal audit was able to continue to deliver its plans in light of the remote working conditions that prevailed for the majority of the year. See further detail in the internal audit section below. – 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. The Audit & Risk Committee chairs of both the Dutch and Swedish divisions also attended a Chesnara A&RC meeting each during 2021. – 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.

Audit responsibilities (continued)**2. External audit****Quality and effectiveness of the audit process**

The quality and effectiveness of the external audit process is reviewed 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 credentials and tenure of the lead audit partner. Andrew Holland has been the lead partner for Chesnara group, having replaced Stephen Williams who was required to rotate after having been lead partner for 5 years. Andrew has previously been lead partner for the Chesnara group for the 2015 year end, and for the UK component for the 2015 and 2018 to 2020 year ends. As such he is required to rotate after the 2021 year end audit having served 5 years in total. During the year the committee has worked with Deloitte on appointing a new lead audit partner and, having interviewed a selection of candidates, has selected Matt Perkins to lead the group audit from 2022 onwards. The committee is comfortable that Matt has the appropriate qualifications and experience to lead the audit, and as such this change does not affect 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.
- During the year, the FRC's Audit Quality Review Team (AQRT) reviewed Deloitte's audit of the Group's financial statements for the year ended 31 December 2020 as part of their annual inspection of audit firms. The committee chair received and reviewed the final report from the AQRT which indicated that there were no significant areas of concern.; 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.

Audit fees	2021 £000	% proportion	2020 £000	% proportion
Audit services	1,167	84	1,084	83
Assurance services	217	16	216	17
Total	1,384	100	1,300	100

Audit services

The fees charged for audit services have increased slightly when compared with 2020 (which have been updated from those published last year to include fee overruns due to scope change), largely driven by an annual inflationary uplift, coupled with some additional work arising from the IFRS 17 implementation project.

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

No non-audit services were delivered in 2020. 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 Luxemburg.

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 utilises a mix of outsourced and in-house capabilities, adapted to meet the specific needs of each local market. Each of the local teams have needed to continue to operate under a largely remote working model as a result of the ongoing pandemic that prevailed throughout the majority of 2021. Despite the delivery of audits being remotely delivered, the plans across the group were maintained at levels in line with pre-COVID-19 working conditions. Across the group, internal audit covered a broad range of topics including information technology, compliance, governance, underwriting, premium collection, actuarial processes, the strategic planning process, fund manager rationalisation post implementation, remuneration and the IFRS 17 project. 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 and Accounts. This includes consideration of matters communicated by the auditors.

Area of focus	Reporting issue	Role of the committee	Conclusion/action taken
Brand New Day acquisition	During the year group's closed Dutch business, Waard, completed the acquisition of Brand New Day. Acquisition accounting requires careful attention in order to ensure IFRS 3 'Business combinations' is appropriately applied.	The committee's role is to ensure that the accounting for the acquisition has been made in accordance with IFRS 3 'Business combinations' and that appropriate disclosures have been made in both the front and back half of the Annual Report and Accounts.	The committee has reviewed the accounting paper produced by management and the conclusions drawn, and is satisfied that the appropriate accounting and disclosures are reflected in the Annual Report and Accounts.
Annuity reinsurance accounting	During the year the UK business entered into a new treaty to reinsure the vast majority of its existing annuity business to Monument Re. As a large one-off transaction the accounting and associated disclosure requires careful consideration.	The committee's role was to review and challenge the accounting paper prepared by management which provided support for the accounting treatment and associated disclosures in the financial statements.	The committee is satisfied that this transaction has been appropriately accounted for and disclosed in the financial statements.
Valuation of Chesnara plc's investment in CA plc	Chesnara's company-only balance sheet includes the carrying value of its investments in its subsidiaries at historical cost. The value of the investment in its UK subsidiary, Countrywide Assured plc, is supported by the recoverable amount of this business, represented by the current IFRS net assets plus the future profits that are expected to emerge over time. As the business runs off, and dividends are paid up to Chesnara plc it is important to assess whether the historical cost carrying value continues to be supported by this assessment or whether it is impaired.	The committee is required to review and challenge the paper prepared by management that assesses the carrying value of the investment that Chesnara has in Countrywide Assured plc against its fair value in accordance with IAS 36 Impairment of Assets.	No further action is required. The paper concluded that, at this point in time, the fair value of Countrywide Assured exceeds the carrying value of the investment carrying value at historical cost, and therefore no impairment is required.
Movestic DAC	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 judgement for management and is influenced by recent experience.	The committee is required to satisfy itself that the judgements underpinning the accounting assumptions are appropriate and reflect the relevant facts and observations.	The review concluded that no impairment of the DAC asset was required during the year.
Scildon AVIF impairment	The group's 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.	The committee is required to review the work performed by management in assessing the carrying value of the AVIF intangible asset, including scrutinising the assumptions made and conclusions drawn.	The review concluded that no impairment of the AVIF asset was required during the year.
Actuarial assumptions	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.	The committee reviewed and challenged the actuarial assumptions report which underpins the valuation of insurance liabilities.	The committee concluded that the actuarial assumptions were appropriate. Disclosures over key judgements are included in note 3 and note 28 of the IFRS financial statements.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

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.

COVID-19:

The committee has been monitoring the impact of COVID-19 over the course of the year on the business’s operations, including consideration of whether this is introducing new operational risks to the business, both from a controls and efficiency perspective. All three territories of the group have operated in restricted working conditions for most of the year, resulting in a large part of the work force working remotely. In addition the committee has been monitoring the impact of positive cases in the work force on the business’s operations. Ultimately no significant operational risks have emerged as a result of Covid-19. Local crisis management teams (CMTs) operated as necessary over the course of the 2021 in order to monitor and manage the situation. Vaccine roll-outs over the course of the year enabled the territories in which we operate to open up somewhat albeit initial concerns over the Omicron variant meant that remote working was still necessary at the end of 2021 in order to provide time to understand its severity. A ‘new normal’ or hybrid approach to working remotely even after all government restrictions is likely to prevail, and the committee is satisfied that this approach enables the group to continue to operate within its own risk appetite.

Information security:

Working with the Risk function the committee has overseen some deeper dives with regards to the group’s approach to managing information security. This has spanned a number of areas including performing penetration testing, assessing the group’s risk to phishing attacks and user authentication procedure. The Chief Risk Officer reported relevant observations to the Audit & Risk Committee in these areas, and appropriate actions were taken where necessary.

IFRS 17:

During the year the Risk function performed a deeper dive into the IFRS 17 project, given the importance of the project to the group. This included, amongst other things, an assessment over whether the key risks were being appropriately managed, how the project was factoring in change associated with commercial/business plan activities (such as acquisitions, new reinsurance arrangements etc.), the contractual service margin tool (‘CSM’) implementation, the work of the external auditor and resourcing. The assessment was useful in providing an independent appraisal in addition to the usual project reporting that the Audit & Risk Committee receives, and gave comfort in that there were no surprises from this work.

Climate change:

The committee has been overseeing the group’s response to climate change risk. This has included reviewing Chesnara’s progress in embedding the approach to managing climate change risk in accordance with the PRA’s supervisory statement ‘SS3/19 Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change’, with the committee having been updated on the activity that was performed over the course of the year in this area. This committee has also overseen the work that has formed the basis of the new section in the annual report dedicated to reporting against the ‘Task Force for Climate-Related Financial Disclosures’ (TCFD) rules, which apply for the first time this year.

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:

– 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 and also reports against the group's 'watchlist' of items.
– 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.
– Risk plan review and sign off: The committee reviewed and approved the group and divisional risk plans and associated resourcing needs.
– 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.
– 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 future plans, with suitable priorities attached.
– ORSA review: The committee reviewed the 2021 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. 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.
– 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.
– Review divisional Audit & Risk Committee progress: Received and challenged updates provided by divisional Audit & Risk Committees.
– 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.
– 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.

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 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, the committee satisfies itself with regard the assurance it obtains on the group's activities and performance.



Jane Dale
Chair of the Audit & Risk Committee
30 March 2022

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 2021. The Corporate Governance Report on pages 82 to 86 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 and 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 53 to 54 and the risk management section on pages 55 to 62.

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 36 to 42.

Greenhouse gas reporting

The corporate and social responsibility section on pages 63 to 75.

Environmental, employee and social community matters

The corporate and social responsibility section on pages 63 to 75.

Directors

Full information of the directors who served in 2021 is detailed in the Corporate Governance Report on pages 82 to 86.

Detail of the non-executive directors who served as chairs and members of the board committees of the board are set out in the Corporate Governance Report on pages 82 to 86. Information in respect of the Chair and members of the Remuneration Committee and in respect of directors' service contracts is included in the Remuneration Report on pages 90 to 112, which also includes details of directors' interests in shares and share options. The Chair and all the non-executive directors will retire at the Annual General Meeting and, being eligible, offer themselves for election or re-election as appropriate. All of the executive directors have service contracts with the company of no more than 1 year's duration and will offer themselves for re-election at least every 3 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. 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 2020 and 31 December 2021 and the period to 30 March 2022.

Director evaluations

During the year, the Chair evaluated the performance of all appointed directors in one to one meetings and the Senior Independent Director evaluated the performance of the Chair. It was confirmed that each director continued to make effective contributions in their role and to 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.

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 38 to the IFRS Financial Statements which is incorporated by reference and deemed to be part of this report.

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 2021, the company had 150,145,602 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 2022, to repurchase up to 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 2021, shareholders approved resolutions to allot shares up to an aggregate nominal value of £5,002,499 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.

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.

As announced on 13 September 2021, Chesnara entered into an agreement to acquire Sanlam Life & Pensions UK Ltd. Veronica Oak was acknowledged to be a director of Sanlam Investment Holdings UK Limited and previously of Sanlam UK Limited. Veronica received no materials with regard to the prospective transaction and was not present during any meeting of the Chesnara plc or Countrywide Assured plc boards at which the matter was discussed. No other new material conflicts of interest were noted in 2021.

Results and dividends

The Consolidated Statement of Comprehensive Income for the year ended 31 December 2021, prepared in accordance with International accounting standards and set out on page 134 shows:

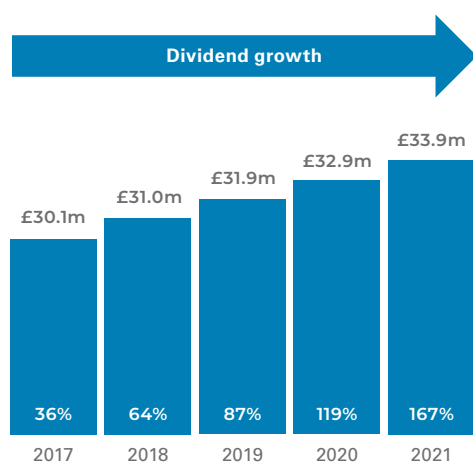
	2021 £000	2020 £000
Profit for year attributable to shareholders	27,294	21,191

An interim dividend of 7.88p (2020: 7.65p) per ordinary share was paid by Chesnara on 22 October 2021. The board recommends payment of a final dividend of 14.72p (2020: 14.29p) per ordinary share on 24 May 2022 to shareholders on the register at the close of business on 8 April 2022.

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 £160m of dividends have been paid at an average annual yield of 6.6% (based on average annual share prices) representing 74% 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 4 February 2021; 29 March 2021; 28 May 2021; 6 September 2021; and 7 December 2021:

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 31 December 2021
Aberdeen Standard Investments (Standard Life) (Edinburgh)	20,602,297	13.72%
Columbia Threadneedle Investments (London)	18,377,710	12.24%
M&G Investments (London)	9,507,099	6.33%
Interactive Investor (Glasgow)	9,406,448	6.26%
Hargreaves Lansdown Asset Mgt (Bristol)	9,350,115	6.23%
Canaccord Genuity Wealth Mgt (London)	8,550,000	5.69%
Janus Henderson Investors (London)	5,266,939	3.51%
Royal London Asset Mgt (London)	4,496,831	3.00%

Subsequent to 31 December 2021 there have been changes to this position and the holdings as at 14 March 2022 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 14 March 2022
Aberdeen Standard Investments (Standard Life) (Edinburgh)	18,911,953	12.60%
Columbia Threadneedle Investments (London)	18,375,536	12.24%
Hargreaves Lansdown Asset Mgt (Bristol)	9,688,800	6.45%
M&G Investments (London)	9,631,807	6.41%
Interactive Investor (Glasgow)	9,580,431	6.38%
Canaccord Genuity Wealth Mgt (London)	8,550,000	5.69%
Janus Henderson Investors (London)	5,266,939	3.51%
Royal London Asset Mgt (London)	4,255,864	2.83%

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 2021, 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

Subsequent to the balance sheet date, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes (the 'Notes'). The net proceeds of the Notes will be used for corporate purposes, including investments and acquisitions. The Notes will have a 10.5 year maturity, have a coupon of 4.75%, and are expected to be recognised as Tier 2 Capital in the group's regulatory capital.

This post balance sheet event does not require adjustment to the financial statements but is important in the understanding of the company's current position, financial performance and results.

Charitable donations

Charitable donations made by group companies during the year ended 31 December 2021 were £3,780 (2020: £22,000) 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. In addition, the board has also approved a donation of £46,000 to the DEC Ukrainian Humanitarian Appeal, which has been paid in early 2022.

No political contributions were made during the year ended 31 December 2021 (2020: £nil).

Employees

The average number of employees during 2021 was 322 (2020: 305).

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 updates via 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 stakeholders, 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 28 to 35.

Going concern statement

After making appropriate enquiries, including consideration of the emerging potential impact of the invasion of Ukraine and the associated sanctions that have been imposed upon Russia as a consequence and to a lesser extent, the reducing impact of COVID-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

Disclosure of information to the 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 they ought to have taken as a director to make themselves 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. Chesnara is satisfied that it adheres to the rules that are imposed on UK listed companies to perform a tender after 10 years and with a mandatory change of auditors after 20 years.

Approved by the board on 30 March 2022 and signed on its behalf by:



David Rimmington
Group Finance Director

DIRECTORS' RESPONSIBILITIES STATEMENT

Directors' responsibilities

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 UK-adopted international accounting standards.

In preparing the financial statements, International Accounting Standard 1 requires that directors:

- 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 IFRS Standards 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.

Disclosures under Listing Rule 9.8.4R

For the purposes of Listing Rule 9.8.4C, the information required to be disclosed under Listing Rule 9.8.4R can be found within the following sections of the Report and Accounts:

Section	Requirement	Location
1	Statement of interest capitalised	
2	Publication of unaudited financial information	Not applicable
3	Deleted	Not applicable
4	Details of long-term incentive schemes	Directors' Remuneration Report
5	Waiver of emoluments by a Director	Not applicable
6	Waiver of any future emoluments by a Director	Not applicable
7	Non pre-emptive issue of equity for cash	Not applicable
8	As per 7, but for major subsidiary undertakings	Not applicable
9	Parent participation in any placing of a subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Controlling shareholder provision of services	Not applicable
12	Shareholder dividend waiver	Not applicable
13	Shareholder dividend waiver – future periods	Not applicable
14	Controlling shareholder agreements	Not applicable

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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
Chair
30 March 2022

Steve Murray
Chief Executive Officer
30 March 2022

SECTION D: IFRS FINANCIAL STATEMENTS

- 
- 126** Independent Auditor's Report to the members of Chesnara plc
 - 134** Consolidated Statement of Comprehensive Income
 - 135** Consolidated Balance Sheet
 - 136** Company Balance Sheet
 - 137** Consolidated Statement of Cash Flows
 - 138** Company Statement of Cash Flows
 - 139** Consolidated Statement of Changes in Equity
 - 139** Company Statement of Changes in Equity
 - 140** Notes to the Consolidated Financial Statements

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions 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 Cash Flow Statement; and
- the related Notes 1 to 49, excluding the capital adequacy disclosures calculated in accordance with the Solvency II regime in Note 27 which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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 Scildon insurance liabilities; – Valuation of the Movestic Deferred Acquisition Costs (DAC) intangible asset; and – Valuation of Chesnara plc's investment in Countrywide Assured plc (CA plc) <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 £13.6m which was determined on the basis of 3% of net assets at 31 December 2021.
Scoping	Our group scope focused audit work on the material components where the group's policies are administered.
Significant changes in our approach	<p>Chesnara plc, the group's parent entity, holds its investment in the UK subsidiary, CA plc, at cost less impairment. As the policy numbers decrease with the run-off of the business, the valuation of the component will fall as the expected future cashflows diminish. As the valuation of CA plc is nearing the carrying value of the investment, we have identified a key audit matter relating to the valuation of Chesnara plc's investment in CA plc.</p> <p>We previously identified two separate key audit matters in respect of the valuation of the Save and Prosper (S&P) Cost of Guarantees (CoG), and the valuation of the Acquired Value In-Force (AVIF) intangible asset. Given the quantum of the respective balances, the judgement in the valuation is no longer considered to give rise to a significant risk of material misstatement, we no longer consider them to be key audit matters.</p> <p>Further, we also identified a key audit matter in the prior period in respect of the implementation of the Countrywide Assured plc fund manager rationalisation. As the most significant element of the project is complete, we no longer consider this to be a key audit matter.</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;
- 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 deterioration of the wider UK and global economy; 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 Scildon insurance liabilities

Key audit matter description

Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions. At 31 December 2021, the Scildon insurance liabilities contributed £1.9bn of the group total of £3.8bn.

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 consider the initial parameter setting process and LAT as key audit matters, specifically in relation to the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors.

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(g) to the financial statements. The assumptions, and the sensitivity of Scildon insurance liabilities to such assumptions are set out within Note 28. Actuarial assumptions, specifically the liability adequacy test, are referred to within the Audit & Risk Committee report on page 117.

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

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;
- with the 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 assessed the results of the experience investigations carried out by management to determine whether they provide support for the assumptions;
- we performed analytics on policy cash flows, and carried out further investigation on outliers and movements compared to the prior period; and
- for a sample of policies, we recalculated the reserve at a policy level, using our independent replication model, and compared the results to those produced by management.

Key observations

Based on the procedures performed, we concluded that the initial parameter setting process was reasonable, and LAT performed by management was reasonable, supporting the valuation of Scildon's insurance contract liabilities.

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, are recognised as an asset to the extent that they represent the contractual right to future benefits 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, transfer, surrender, and expense assumptions.

As at year end 2021, the DAC balance held on the group balance sheet totalled £63.3m (2020: £69.1m), of which £53.6m (2020: £58.5m) related to the Movestic component. Due to the significance of the balance and the uncertainty brought about by regulatory changes and competition in the Swedish market, driving an increase in transfers out, we identified a key audit matter related to the valuation of the Movestic DAC.

Due to the potential for management to introduce inappropriate bias to judgements made in the impairment assessment, we have determined that there was a risk of misstatement due to fraud. The Accounting Policy relating to deferred acquisition costs has been presented through Note 2(g) iii, with details of the balance and movement within Note 18. Movestic DAC is also referred to within the Audit & Risk Committee report on page 117.

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 created an expectation of the DAC balance using the amounts capitalised through the period, offset with the amortisation charge. We have also performed investigation into any differences;
- with the involvement of actuarial specialists, 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 challenged the reasonableness of management's assumptions within the impairment test by evaluating experience, supporting documents and calculations.

Key observations

Through the procedures performed, we consider the DAC valuation to be appropriate.

Valuation of Chesnara plc's investment in CA plc

Key audit matter description

Chesnara plc, the group's parent entity, holds a total investment of £354.7m (2020: £354.7m) on the Company Balance Sheet relating to its investment in group subsidiaries, of which £167.9m (2020: £167.9m) related to the UK entity, CA plc. The balance is held at cost less impairment.

In line with IAS 36 Impairment of Assets, management are required to carry out an impairment assessment annually to ensure that the investment in CA plc is not carried at more than the recoverable amount, which is the higher of fair value less costs of disposal and value in use. Management have historically deemed EcV to be an appropriate proxy for the IAS 36 'value in use' within their impairment assessment. Management's definition of EcV has been set out on page 47.

The reduction of the CA plc EcV by £19.6m between 31 December 2020 (£187.2m) and 30 June 2021 (£167.6m) was an indicator that the investment could be impaired at 31 December 2021. We therefore identified a key audit matter relating to the balance.

The impairment assessment performed by management as at the balance sheet date highlighted c£14.0m (2020: £19.3m) of headroom over the carrying value of the investment, and hence no impairment was deemed necessary.

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

The Accounting Policy relating to the valuation of Chesnara plc's investment in CA plc has been presented through Note 2(gg), with details of the balance and movement within Note 22. The investment in CA plc is also referred to within the Audit & Risk Committee report on page 117.

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

In respect of the investment in Countrywide Assured plc;

- we gained an understanding of the internal controls in place around the impairment assessment;
- we evaluated management's methodology and the appropriateness of using EcV as a proxy for the 'value in use' with reference to the requirements of IAS 36;
- we challenged management's assessment by performing benchmarking against other recent industry transactions to gain corroborative and contradictory evidence; and
- with the support of our actuarial specialists, we have challenged the adjustments made to the IFRS balance sheet to arrive at EcV.

Key observations

Based on the procedures performed, we consider the carrying value of Chesnara plc's investment in CA plc on the Company Balance Sheet is appropriate and does not need to be impaired.

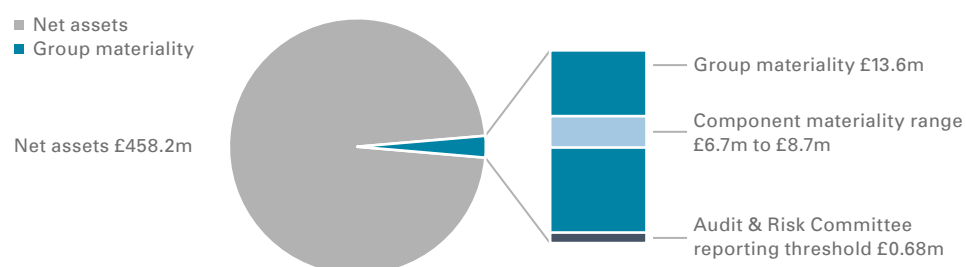
Our application of materiality

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	£13.6m (2020: £14.7m)	£11.4m (2020: £12.4m)
Basis for determining materiality	3% of net assets at 31 December 2021, consistent with the prior year. In the case of the parent company, materiality has been capped at 85% of group materiality.	
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	70% (2020: 60%) of group materiality	70% (2020: 60%) of parent company materiality
Basis and rationale for determining performance materiality	<p>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 in the previous audit.</p> <p>In the prior period, we reduced performance materiality to 60% in response to the potentially pervasive impact of COVID-19 on the control environment and financial reporting. Through the current period, the uncertainty around the impact of COVID-19 has reduced, and management have made appropriate adjustments to the control environment. We have therefore deemed it appropriate to increase performance materiality to 70% of materiality.</p>	

Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the committee all audit differences in excess of £680,000 (2020: £730,000), 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. Based on this assessment and consistent with the prior year, we focused our group audit scope primarily where the group's policies are administered. This included CA plc in the United Kingdom, Waard Leven, Waard Schade, and Scildon in the Netherlands and Movestic Livförsäkring AB in Sweden. 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 £6.7m to £8.7m (2020: £7.3m to £8.8m).

The audit at each location involved the use of component audit teams. The procedures performed by the group audit team specifically relate to the parent company, and group consolidation.

Our consideration of the control environment

We have focused our assessment of controls around each of the key audit matters detailed on pages 126 to 128, and significant balances and business processes, including premiums, claims, reserving, investments, policy administration and financial reporting. With the support of our IT specialists, we have performed walkthroughs with management to gain an understanding of the underlying IT systems. The extent of controls work performed across the group varies depending on the maturity of the IT systems and controls. If, through the process of understanding the systems and controls, we identified deficiencies or found that previously identified deficiencies had not been remediated or had been risk accepted by management, we did not seek to take a controls reliance approach. We took a controls reliance approach over the Movestic investments cycle only. We have shared observations from our procedures with management and the Audit & Risk Committee. The board's assessment of the control environment is set out on page 86.

Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements.

The group continues to develop its assessment of the potential impacts and opportunities of ESG and climate change as explained in the Strategic Report on pages 63 to 75. As set out in Note 2(jj) on page 151, management does not consider that climate change risk is currently a key source of estimation uncertainty nor that it presents a material impact to the judgements made in the financial statements.

As part of the audit, we have held discussions with management and reviewed their supporting papers to understand the climate-related risk assessment, legal and regulatory requirements, ESG strategy, governance, and disclosures.

With the support of our actuarial specialists, we performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transaction and did not identify any risks of material misstatement.

We read the disclosures included in the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

Working with other auditors

Referral instructions have been provided to each of the component audit teams detailing the procedures to be performed to support the group opinion. The group audit team have utilised virtual meetings throughout the audit, 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, focusing 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.

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.

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.

We have nothing to report in this regard.

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, actuarial, valuations, pensions, IT, and industry specialists 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 Scildon insurance liabilities, the valuation of the Movestic Deferred Acquisition Costs balance, and the valuation of Chesnara plc's investment in CA plc. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

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, pensions legislation, and tax 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 Scildon insurance liabilities, the valuation of the Movestic Deferred Acquisition Costs balance, and the valuation of Chesnara plc's investment in CA plc 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 the FRC, PRA, FCA, DNB and the Swedish Financial Services Authority (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 122;
- 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 54;
- the directors' statement on fair, balanced and understandable set out on page 123;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 85; and
- the section describing the work of the Audit & Risk Committee set out on pages 113 to 119.

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 13 years, covering the years ending 31 December 2009 to 31 December 2021.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Andrew Holland FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

30 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December			
	Note	2021 £000	2020 £000
Insurance premium revenue	7	312,046	293,365
Insurance premium ceded to reinsurers	7	(115,881)	(42,907)
Net insurance premium revenue		196,165	250,458
Fee and commission income	8	89,975	92,698
Net investment return	9	1,172,988	254,568
Other operating income	10	46,568	40,181
Total revenue net of investment return		1,505,696	637,905
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	11	(506,490)	(420,031)
Net (increase)/decrease in insurance contract provisions	11	(23,577)	6,869
Reinsurers' share of claims and benefits	11	60,168	48,178
Net insurance contract claims and benefits		(469,899)	(364,984)
Change in investment contract liabilities	12	(902,579)	(110,878)
Reinsurers' share of investment contract liabilities	12	4,110	1,340
Net change in investment contract liabilities		(898,469)	(109,538)
Fees, commission and other acquisition costs	13	(24,023)	(23,625)
Administrative expenses	14	(67,925)	(70,952)
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	(8,184)	(9,562)
Charge for amortisation of acquired value of customer relationships	15	(55)	(63)
Other	15	(5,964)	(5,062)
Total expenses net of change in insurance contract provisions and investment contract liabilities		(1,474,519)	(611,409)
Total income less expenses		31,177	26,496
Post completion (loss)/gain on portfolio acquisition	48	(93)	388
Financing costs	16	(2,272)	(2,299)
Profit before income taxes	7	28,812	24,585
Income tax expense	17	(1,518)	(3,394)
Profit for the year	7	27,294	21,191
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange translation differences arising on the revaluation of foreign operations	4	(23,879)	22,618
Revaluation of land and buildings		369	(464)
Other comprehensive income for the year, net of tax		(23,510)	22,154
Total comprehensive income for the year		3,784	43,345
Basic earnings per share (based on profit for the year)	43	18.18p	14.12p
Diluted earnings per share (based on profit for the year)	43	18.00p	14.03p

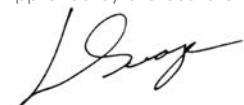
The Notes and information on pages 140 to 213 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

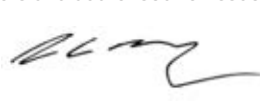
31 December	Note	2021 £000	2020 £000
Assets			
Intangible assets			
Deferred acquisition costs	18	63,327	69,051
Acquired value of in-force business	19	49,629	61,655
Acquired value of customer relationships		320	409
Software assets	20	8,885	8,508
Property and equipment	21	7,830	8,718
Investment properties		1,071	1,124
Reinsurers' share of insurance contract provisions	28	247,750	197,068
Amounts deposited with reinsurers	29	38,295	37,026
Financial assets			
Equity securities at fair value through income	22	6,352	10,180
Holdings in collective investment schemes at fair value through income	22	6,858,054	6,714,303
Debt securities at fair value through income	22	978,199	1,098,559
Policyholders' funds held by the group	22	990,700	332,117
Financial assets held at amortised cost	23	293,811	344,918
Derivative financial instruments	22/25	264	830
Total financial assets		9,127,380	8,500,907
Insurance and other receivables	24	35,613	45,048
Prepayments	24	13,245	13,349
Reinsurers' share of accrued policyholder claims	35	16,340	12,716
Income taxes		7,233	4,566
Cash and cash equivalents	26	70,087	105,351
Total assets		9,687,005	9,065,496
Liabilities			
Insurance contract provisions	28	3,818,412	3,958,037
Other provisions		992	613
Financial liabilities			
Investment contracts at fair value through income	29	4,120,572	4,035,040
Liabilities relating to policyholders' funds held by the group	30	990,700	332,117
Lease contract liabilities	31	2,019	2,844
Borrowings	32	47,185	66,955
Derivative financial instruments	25	-	3
Total financial liabilities		5,160,476	4,436,959
Deferred tax liabilities	33	15,699	19,086
Reinsurance payables	34	70,414	2,863
Payables related to direct insurance and investment contracts	35	129,262	96,337
Deferred income	36	2,809	3,355
Income taxes		6,527	9,427
Other payables	37	23,991	50,107
Bank overdrafts	26	256	1,645
Total liabilities		9,228,838	8,578,429
Net assets	7	458,167	487,067
Shareholders' equity			
Share capital	38	7,496	43,768
Merger reserve	1/38	36,272	-
Share premium	38	142,085	142,085
Other reserves	39	7,262	30,772
Retained earnings	40	265,052	270,442
Total shareholders' equity		458,167	487,067

The Notes and information on pages 140 to 213 form part of these financial statements.

Approved by the board of directors and authorised for issue on 30 March 2022 and signed on its behalf by:



Luke Savage
Chair



Steve Murray
Chief Executive Officer

Company number: 04947166

COMPANY BALANCE SHEET

31 December	Note	2021 £000	2020 £000
Assets			
Non-current assets			
Financial assets			
Investments in subsidiaries	22	354,720	354,720
Deferred tax asset		732	620
Total non-current assets		355,452	355,340
Current assets			
Property and equipment		164	224
Financial assets			
Holdings in collective investment schemes at fair value through income	22	39,456	57,945
Receivables and prepayments		1,153	123
Income taxes		6,514	3,819
Cash and cash equivalents	26	6,655	1,915
Total current assets		53,942	64,026
Total assets		409,394	419,366
Current liabilities			
Lease contract liabilities		158	216
Borrowings	32	31,273	15,402
Other payables	37	3,324	1,859
Total current liabilities		34,755	17,477
Non-current liabilities			
Borrowings	32	–	23,608
Total non-current liabilities		–	23,608
Total liabilities		34,755	41,085
Net assets		374,639	378,281
Shareholders' equity			
Share capital	38	7,496	7,496
Share premium	38	142,085	142,085
Other reserves	39	50	50
Retained earnings	40	225,008	228,650
Total shareholders' equity		374,639	378,281

The Notes and information on pages 140 to 213 form part of these financial statements.

The profit for the financial year of the parent company was £29.0m (2020: £32.7m).

The financial statements of Chesnara plc (registered number 4947166) were approved by the board of directors and authorised for issue on 30 March 2022 and signed on its behalf by:



Luke Savage
Chair

Steve Murray
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December			
	Note	2021 £000	2020 £000
Profit for the year		27,294	21,191
Adjustments for:			
Depreciation of property and equipment	21	749	637
Amortisation of deferred acquisition costs	18	13,370	12,845
Impairment of acquired value of in-force business	19	–	27,623
Amortisation of acquired value of in-force business	19	8,184	9,562
Amortisation of acquired value of customer relationships		55	63
Amortisation of software assets	20	1,382	1,292
Depreciation on right of use assets	21	739	757
Interest on lease liabilities	16	95	55
Share based payment		593	492
Tax paid		1,518	3,128
Interest receivable		(2,269)	(2,987)
Dividends receivable		(614)	(1,929)
Interest expense	16	2,177	2,244
Impairment losses		–	1,019
Fair value gains on financial assets		(990,914)	(138,119)
Increase in intangible assets related to insurance and investment contracts		(8,938)	(15,316)
Interest received		2,493	5,335
Dividends received		1,930	3,241
Changes in operating assets and liabilities:			
Increase in financial assets		(187,975)	(150,789)
Increase in reinsurers' share of insurance contract provisions		(37,747)	(6,981)
Decrease in amounts deposited with reinsurers		5,858	304
Decrease in insurance and other receivables		5,980	6,763
Increase in prepayments		(873)	(4,227)
Increase in insurance contract provisions		15,534	233,055
Increase in investment contract liabilities		1,098,809	36,539
Increase in provisions		445	39
Increase/(decrease) in reinsurance payables		67,766	(523)
Increase in payables related to direct insurance and investment contracts		35,701	7,451
(Decrease)/increase in other payables		(24,950)	6,188
Net cash generated from operations		36,392	58,952
Income tax paid		(9,796)	(6,456)
Net cash generated from operating activities		26,596	52,496
Cash flows from investing activities			
Development of software		–	2,734
Purchases of property and equipment		(3,636)	(857)
Net cash (utilised)/generated by investing activities		(3,636)	1,877
Cash flows from financing activities			
Proceeds from issue of share capital		–	1
Proceeds from the issue of share premium		–	32
Repayments of borrowings		(16,102)	(26,094)
Repayment of lease liabilities		(598)	(695)
Dividends paid		(33,276)	(32,294)
Interest paid		(2,271)	(2,295)
Net cash utilised by financing activities		(52,247)	(61,345)
Net decrease in net cash and cash equivalents		(29,287)	(6,972)
Net cash and cash equivalents at beginning of year	26	103,706	106,782
Effect of exchange rate changes on net cash and cash equivalents		(4,588)	3,896
Net cash and cash equivalents at end of the year	26	69,831	103,706

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 140 to 213 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2021 £000	2020 £000
Profit for the year		29,042	32,692
Adjustments for:			
Tax recovery		(2,830)	(1,504)
Interest receivable		1,092	1,087
Share based payment		593	492
Dividends receivable		(38,844)	(40,553)
Depreciation on right of use assets		60	60
Decrease in financial assets		18,489	16,813
Changes in operating assets and liabilities:			
(Increase)/decrease in loans and receivables		(112)	729
Increase in prepayments		(1,030)	(100)
Increase in provisions		4	25
Increase/(decrease) in other payables		1,348	(341)
Net cash generated by operating activities		7,812	9,400
Income tax received		-	-
Net cash generated by operating activities		7,812	9,400
Cash flows from investing activities			
Dividends received from subsidiary company		38,844	40,553
Purchases of property and equipment		-	(21)
Net cash generated from investing activities		38,844	40,532
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		(7,485)	(15,376)
Repayment of lease liabilities		(62)	(62)
Dividends paid		(33,277)	(32,294)
Interest paid		(1,092)	(1,087)
Net cash utilised by financing activities		(41,916)	(48,786)
Net increase in net cash and cash equivalents		4,740	1,146
Net cash and cash equivalents at beginning of year		1,915	769
Net cash and cash equivalents at end of the year	26	6,655	1,915

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 140 to 213 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021								
	Note	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021 (as previously stated)		43,768	142,085	-	30,772	-	270,442	487,067
Transfer to merger reserve	38	(36,272)	-	36,272	-	-	-	-
Equity shareholders' funds at 1 January 2021 (restated)		7,496	142,085	36,272	30,772	-	270,442	487,067
Profit for the year		-	-	-	-	-	27,294	27,294
Dividends paid		-	-	-	-	-	(33,277)	(33,277)
Foreign exchange translation differences	4	-	-	-	(23,879)	-	-	(23,879)
Revaluation of land and buildings		-	-	-	369	-	-	369
Share based payment		-	-	-	-	-	593	593
Equity shareholders' funds at 31 December 2021		7,496	142,085	36,272	7,262	-	265,052	458,167

Year ended 31 December 2020								
	Note	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2020		43,767	142,053	-	8,618	-	281,053	475,491
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
Equity shareholders' funds at 31 December 2020		43,768	142,085	-	30,772	-	270,442	487,067

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021							
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000	
Equity shareholders' funds at 1 January 2021	7,496	142,085	50	-	228,650	378,281	
Profit for the year	-	-	-	-	29,042	29,042	
Issue of share capital	-	-	-	-	-	-	
Issue of share premium	-	-	-	-	-	-	
Dividends paid	-	-	-	-	(33,277)	(33,277)	
Share based payment	-	-	-	-	593	593	
Equity shareholders' funds at 31 December 2021	7,496	142,085	50	-	225,008	374,639	

Year ended 31 December 2020							
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000	
Equity shareholders' funds at 1 January 2020	7,495	142,053	50	-	227,760	377,358	
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	
Equity shareholders' funds at 31 December 2020	7,496	142,085	50	-	228,650	378,281	

The Notes and information on pages 140 to 213 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 advisors.

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 30 March 2022.

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 United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with United Kingdom adopted international accounting standards.

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 22 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.

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:

Title	Subject
IFRS 17	Insurance contracts
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)
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) (effective date: 1 January 2023)
Definition of Accounting Estimates (Amendments to IAS 8)	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates (effective date: 1 January 2023).

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:

- The new accounting standard for insurance contracts, IFRS 17, is effective for periods ending on or after 1 January 2023. IFRS 9 Financial Instruments is also effective for insurers from that date. IFRS 17 will significantly change how the group measures and reports its insurance contracts. Implementation activities continued during the year with the groupwide calculation engine going live and divisions engaging in testing and completing initial dry runs. We have also continued to work with our auditors on the technical decisions underpinning the implementation. These implementation activities are ongoing and 2022 is a year that will see us finalising technical and operational changes and perform dry runs of the group's numbers.

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 40 and page 136.

(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 when the company is exposed or has rights to the variable returns from the involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**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 combination

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) 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 other comprehensive income 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.

(f) 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 (now part of the Phoenix Group), 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.

(g) 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 28.

2 Significant accounting policies (continued)**(g) Insurance contracts (continued)****(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 Limited. 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.

(h) 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 is 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.

(i) 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.

(j) 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.

Other operating income:

Fee income from investment managers is recognised in accordance with IFRS 15 and is in relation to Movestic, and is 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.

(k) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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).

(s) Financial assets

Investments in subsidiaries are carried in the Company Balance Sheet at cost less impairment.

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 and mortgage loan portfolio cash deposit held by the Waard Group are 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.

(t) 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)**(u) 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.

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.

(v) 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.

(w) 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.

(x) Impairment

The carrying amounts of the group's assets other than reinsurance assets (refer to (i) on page 145) 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 of the cash generating unit is the higher of its fair value less costs to sell and its 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.

(y) 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.

(z) 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.

(aa) 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 during 2021 is 1.9% for the UK division, 2.1% for the Swedish division and 2.0% for the Dutch division.

2 Significant accounting policies (continued)**(bb) 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.

(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.

(cc) 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.

(dd) 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.

(ee) 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.

(ff) 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.

(gg) 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.

(hh) 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.

(ii) 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. A review of the UK's application of Solvency II is currently underway and is being led by HM Treasury. To support this the PRA oversaw a Quantitative Impact Study (QIS) over the course of 2021 which will be used to inform a potential 'comprehensive package of reforms' which is expected to be issued for consultation during 2022. As a consequence, the Solvency II regime as applied in the UK may diverge from the EU's approach going forward. We are monitoring this closely and future financial statements will report on the UK specific application of Solvency II in future years. 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.

(jj) Climate change

In our climate-related financial disclosures on pages 67 to 75 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 judgements 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 estimation uncertainty.

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.

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(f) – Product Classification on page 143.

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(n) on page 146 and Note 19 on page 178.

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 2021, material carrying values of acquired in-force business, net of amortisation, are £19.1m in respect of Movestic (31 December 2020: £23.5m) and £23.8m in respect of Scildon (31 December 2020: £21.6m).

A 100bps increase in the effective discount rate would reduce the underlying value of in-force business by £0.9m for Movestic and £1.2m for Scildon. A 10% fall in projected future profits would reduce the underlying value of in-force business by £2.0m for Movestic and £3.5m 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(j) on page 145 and Note 18 on page 177.

As at 31 December 2021, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £1.1m and £2.3m respectively (as at 31 December 2020: £1.4m and £2.7m 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 2021, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £53.6m (as at 31 December 2020: £58.5m). An increase in the length of the amortisation period by 1 year would have increased profit before tax for the year ended 31 December 2021 by £3.3m and shareholders' equity as at 31 December 2021 by £3.3m.

As at 31 December 2021, the carrying values of deferred acquisition costs, net of amortisation, in respect of Scildon, was £8.6m (as at 31 December 2020: £9.2m). An increase in the length of the amortisation period by 1 year would have increased profit before tax for the year ended 31 December 2021 by £4.2m and shareholders' equity as at 31 December 2021 by £3.3m.

(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 2021 this included a net of costs benefit of £5.9m (31 December 2020: £6.0m) in relation to changes to IT systems and processes in Scildon. The technical provisions for such contracts arise in CA, Waard Group and Scildon, and are summarised in Note 28 on page 190. The total carrying value at 31 December 2021 was £3,758.6m (31 December 2020: £3,888.9m). 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 28 on page 195.

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 2021, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £257.6m (31 December 2020: £273.3m). This amount is part of the technical provisions for CA in Note 28(a) on page 190. Key sensitivities for this balance are included within the sensitivities disclosure for CA in Note 28 on page 195.

(d) Investment in Subsidiary CA

The group applies accounting estimates and judgements in determining the holding value and recoverability of its investment in subsidiaries, in particular that of Countrywide Assured plc. An annual impairment test is performed which requires a degree of estimation and judgement, and for which management have determined that the reported EcV of the UK business is appropriate to be used as a proxy for the IAS 36 'value in use' assessment, as this value takes into account the future cashflows and hence future profitability of the business. This assessment shows that as at the balance sheet date, there was circa £14.0m of headroom over the carrying value of the investment in subsidiary value and hence the conclusion drawn is that no impairment of the carrying value was necessary.

As at 31 December 2021, the carrying value of the investment in subsidiary for CA was £167.9m and EcV was £181.9m. A 1% increase in EcV would increase the headroom by £1.8m to £15.8m. A 1% decrease in EcV would reduce the headroom by £1.8m to £12.2m.

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 (2020: £1 = SEK 11.80) for the Swedish business and £1 = EUR 1.16 (2020: £1 = EUR 1.13) for the Dutch business.

Assets and liabilities have been translated at the year-end rate of £1 = SEK 12.21 (31 December 2020: £1 = SEK 11.15) for the Swedish business and £1 = EUR 1.19 (31 December 2020: £1 = EUR 1.11) for the Dutch business.

Total foreign currency exchange rate losses for the year ended 31 December 2021 recognised in the Consolidated Statement of Comprehensive Income of £23.9m (year ended 31 December 2020: gain of £22.6m).

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

	2021		2020	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,627,050	1,462,498	1,682,545	1,508,592
Long-term non-linked without DPF (sums assured)	7,547,127	950,035	8,795,071	1,093,115
Immediate annuities (benefits per annum)	4,916	34	5,256	5,220
Deferred annuities with DPF (benefits per annum)	1,767	1,767	1,828	1,828
Long-term with DPF (sums assured)	268,082	261,817	281,441	274,240

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 and pandemics (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 75% (2020: 71%) 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. Including a large concentration of the immediate annuities. 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 Limited 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 CA 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 28 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	2021		2020	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	5,871	4,992	7,581	6,702
Norway	11	2	11	2
Individual				
Death	3,187	1,859	3,768	2,344
Waiver of premium	1,485	500	1,948	(107)
Income protection	2,822	407	3,032	1,019
	13,376	7,760	16,340	9,960

Claims outstanding As at 31 December	2021		2020	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	28,935	22,361	32,798	25,206
Norway	131	28	223	48
Individual				
Death	1,234	994	531	274
Waiver of premium	8,165	2,962	7,551	2,622
Income protection	21,504	10,121	20,112	9,072
	59,969	36,466	61,215	37,222

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 2021: SEK 47,600, being approximately £3,898) although most policies are between 5 to 20 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (31 December 2021 NOK: 106,399 being approximately £8,713) although most policies are between 5 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 1% 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 £0.4m) and SEK 150m (approximately £12.0m).

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 271m (approximately £22.2m) 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 28 Insurance Contract Provisions.

(c) Waard Group

Sums assured/benefits per annum – gross and net of reinsurance 31 December	2021		2020	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	791,980	461,425	1,049,186	616,710
Long-term non-linked without DPF (sums assured)	3,459,369	1,498,384	3,026,174	1,838,907

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 28 Insurance Contract Provisions.

(d) Scildon
**Sums assured/benefits per annum – gross and net of reinsurance
31 December**

	2021		2020	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,618,087	1,430,318	1,658,661	1,435,164
Long-term non-linked without DPF (sums assured)	39,631,901	17,195,631	39,470,854	17,349,438
Immediate annuities (benefits per annum)	52,626	34,227	46,645	32,334
Deferred annuities	4	4	5	5

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. Catastrophe reinsurance is in place to mitigate the loss arising from a catastrophe risk event. The national NHT cover in case of terrorism 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 28 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' 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 2021	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	–	–	–	7,830	7,830
Investment properties	–	–	–	1,071	1,071
Reinsurers' share of insurance contract provisions	9,446	38,157	69,949	130,198	247,750
Amounts deposited with reinsurers	38,295	–	–	–	38,295
Financial assets					
Equity securities at fair value through income	6,352	–	–	–	6,352
Holdings in collective investment schemes at fair value through income	6,208,981	230,262	–	418,811	6,858,054
Debt securities at fair value through income	9,453	61,803	21,981	884,962	978,199
Financial assets held at amortised cost	274,014	–	–	19,797	293,811
Derivative financial instruments	94	170	–	–	264
Total financial assets	6,498,894	292,235	21,981	1,323,570	8,136,680
Insurance and other receivables	1,480	2,284	–	31,849	35,613
Prepayments	105	46	–	13,094	13,245
Reinsurers' share of accrued policyholder claims	5,178	118	–	11,044	16,340
Income taxes	–	–	–	7,233	7,233
Cash and cash equivalents	5,544	873	532	63,138	70,087
Total assets	6,558,942	333,713	92,462	1,589,027	8,574,144
Liabilities					
Insurance contract provisions	2,755,508	297,650	90,736	674,518	3,818,412
Other provisions	–	–	–	992	992
Financial liabilities					
Investment contracts at fair value through income	4,116,514	–	–	4,058	4,120,572
Lease liabilities	–	–	–	2,019	2,019
Borrowings	–	–	–	47,185	47,185
Derivative financial instruments	–	–	–	–	–
Total financial liabilities	4,116,514	–	–	53,262	4,169,776
Deferred tax liabilities	–	–	–	15,699	15,699
Reinsurance payables	297	7	–	70,110	70,414
Payables related to direct insurance and investment contracts	31,765	6,128	1,726	89,643	129,262
Income taxes	5,427	–	–	1,100	6,527
Other payables	2,715	1,804	–	19,472	23,991
Bank overdrafts	7	20	–	229	256
Total liabilities	6,912,233	305,609	92,462	925,025	8,235,329

*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 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
Financial assets held at amortised cost	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.

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 Limited 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 a large concentration of this risk with the use of reinsurance on most of its book of annuities in CA. The interest rate risk on non-reinsured annuity contracts is minimised by holding fixed interest debt securities of a suitable duration and quality so as to match the asset and liability cashflows as close as practically possible. 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.

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 2021									
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	2,755,508	2,755,508	-	-	-	-	-	-	2,755,508
With DPF	297,650	70,957	30,836	85,106	65,310	35,956	6,587	4,499	299,251
Annuities in payment	90,736	4,890	4,680	13,144	18,312	13,443	8,957	8,316	71,742
Other non-linked	674,518	99,018	87,239	234,748	269,417	161,614	77,287	54,091	983,414
Total insurance contract liabilities	3,818,412	2,930,373	122,755	332,998	353,039	211,013	92,831	66,906	4,109,915
Investment contract liabilities									
Unit-linked	4,116,514	4,116,514	-	-	-	-	-	-	4,116,514
Other	4,058	4,058	-	-	-	-	-	-	4,058
Total investment contract liabilities	4,120,572	4,120,572	-	-	-	-	-	-	4,120,572
Liabilities relating policyholder's fund held by the group	990,700	990,700	-	-	-	-	-	-	990,700
Lease liabilities	2,019	843	479	661	44	-	-	-	2,027
Borrowings	47,185	47,185	-	-	-	-	-	-	47,185
Derivatives	-	-	-	-	-	-	-	-	-
Total financial liabilities	5,160,476	5,159,300	479	661	44	-	-	-	5,160,484
Other liabilities									
Other provisions	992	992	-	-	-	-	-	-	992
Deferred tax liabilities	15,699	15,699	-	-	-	-	-	-	15,699
Reinsurance payables	70,414	70,414	-	-	-	-	-	-	70,414
Payables related to direct insurance and investment contracts	129,262	129,262	-	-	-	-	-	-	129,262
Deferred income	2,809	2,809	-	-	-	-	-	-	2,809
Income taxes	6,527	6,527	-	-	-	-	-	-	6,527
Other payables	23,991	23,991	-	-	-	-	-	-	23,991
Bank overdrafts	256	256	-	-	-	-	-	-	256
Total	9,228,838	8,339,623	123,234	333,659	353,083	211,013	92,831	66,906	9,520,349

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 to 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

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 159 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 Limited 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 165. 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	2021	2020
	£000	£000
Swedish krona		
Assets	4,553,626	3,858,099
Liabilities	(4,461,968)	(3,764,667)
Net assets	91,658	93,432
Euro		
Assets	2,598,222	2,653,919
Liabilities	(2,304,904)	(2,338,853)
Net assets	293,318	315,066
Norwegian krone		
Assets	162	694
Liabilities	(122)	(226)
Net assets	40	468
US dollar		
Assets	673	2,839
Liabilities	(97)	(739)
Net assets	576	2,100

(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 on the next page.

Net of reinsurance

Variation in/arising from	2021		2020	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 basis point increase in market rates of interest	(59.1)	(45.0)	(51.0)	(38.6)
100 basis point decrease in market rates of interest	39.4	30.2	7.1	5.4
10% increase in equity and property prices	6.5	5.2	13.9	11.0
10% decrease in equity and property prices	(6.8)	(5.4)	(14.5)	(11.5)
10% favourable movement in SEK: sterling exchange rate	1.3	10.2	1.4	10.4
10% adverse movement in SEK: sterling exchange rate	(1.1)	(8.3)	(1.2)	(8.5)
10% favourable movement in EUR: sterling exchange rate	(0.1)	32.6	2.1	35.0
10% adverse movement in EUR: sterling exchange rate	0.1	(26.7)	(1.7)	(28.6)

The sensitivity to a 100 basis point decrease in market rates of interest is notably different in 2021 compared against 2020, driven by the impact of Scildon's liability adequacy test. This caused less of an increase in Scildon's reserve at 2021 relative to 2020. The 10% increase and decrease in equity sensitivities have fallen relative to 2020 for CA due to a reduction in the proportion of assets invested in equities, and hence a lower asset impact under the sensitivity.

Gross of reinsurance

Variation in/arising from	2021		2020	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 basis point increase in market rates of interest	(45.8)	(34.2)	(44.8)	(33.5)
100 basis point decrease in market rates of interest	25.6	19.0	0.1	(0.3)
10% increase in equity and property prices	2.5	1.9	9.9	7.7
10% decrease in equity and property prices	(2.8)	(2.2)	(10.4)	(8.2)
10% favourable movement in SEK: sterling exchange rate	1.3	10.2	1.4	10.4
10% adverse movement in SEK: sterling exchange rate	(1.1)	(8.3)	(1.2)	(8.5)
10% favourable movement in EUR: sterling exchange rate	(0.1)	32.6	2.1	35.0
10% adverse movement in EUR: sterling exchange rate	0.1	(26.7)	(1.7)	(28.6)

(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. The group limits its exposure to reinsurance counterparties with a credit rating lower than BBB- and the creditworthiness of reinsurance exposures is regularly monitored as part of the group's risk framework.

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						
		2021	Balance sheet carrying value		2020	Balance sheet carrying value
	Policyholder linked	Amount subject to credit risk	£000	Policyholder linked	Amount subject to credit risk	£000
	£000	£000		£000	£000	
Reinsurers' share of insurance contract liabilities	–	247,750	247,750	–	197,068	197,068
Amounts deposited with reinsurers	–	38,295	38,295	–	37,026	37,026
Holdings in collective investment schemes	6,547,136	310,918	6,858,054	6,630,000	84,303	6,714,303
Debt securities	9,455	968,744	978,199	11,402	1,087,157	1,098,559
Policyholders' funds held by the group	990,700	–	990,700	332,117	–	332,117
Financial assets held at amortised cost	293,811	–	293,811	344,918	–	344,918
Derivative financial instruments	–	264	264	–	830	830
Insurance and other receivables	14,842	20,771	35,613	23,340	21,708	45,048
Reinsurers' share of accrued policyholder claims	119	16,221	16,340	1	12,715	12,716
Income taxes	21	7,212	7,233	744	3,822	4,566
Cash and cash equivalents	2,396	67,691	70,087	9,940	95,411	105,351
Total	7,858,480	1,677,866	9,536,346	7,352,462	1,540,040	8,892,502

The amounts presented above as policyholder linked 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.

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 2021							
	AAA	AA	A	BBB	Below BBB	Unrated	Total
	£000	£000	£000	£000	£000	£000	£000
Reinsurers share of insurance contract liabilities	–	170,076	–	3,822	–	73,852	247,750
Amounts deposited with reinsurers	–	38,295	–	–	–	–	38,295
Holdings in collective investment schemes	439,477	279,300	2,508,789	352,639	137,722	3,140,127	6,858,054
Debt securities at fair value through income	214,886	365,487	303,109	94,621	–	96	978,199
Policyholders' funds held by the group	–	66,006	309,634	22,600	73,320	519,140	990,700
Financial assets held at amortised cost	–	–	–	–	–	293,811	293,811
Derivative financial instruments	–	–	170	–	–	94	264
Insurance and other receivables	2,574	9,421	8,954	887	–	13,777	35,613
Reinsurers share of accrued policyholder claims	–	14,924	–	832	–	584	16,340
Income taxes	–	–	–	–	–	7,233	7,233
Cash and cash equivalents	–	5,868	64,389	175	–	(345)	70,087
Total	656,937	949,377	3,195,045	475,576	211,042	4,048,369	9,536,346

Credit rating							
As at 31 December 2020							
	AAA	AA	A	BBB	Below BBB	Unrated	Total
	£000	£000	£000	£000	£000	£000	£000
Reinsurers share of insurance contract liabilities	–	147,552	42,299	4,469	–	2,748	197,068
Amounts deposited with reinsurers	–	–	37,026	–	–	–	37,026
Holdings in collective investment schemes	391,333	574,669	2,565,205	411,588	102,149	2,673,359	6,718,303
Debt securities at fair value through income	298,545	406,001	262,779	130,342	–	892	1,098,559
Policyholders' funds held by the group	–	25,502	147,551	9,785	815	148,464	332,117
Financial assets held at amortised cost	–	–	–	–	–	344,918	344,918
Derivative financial instruments	–	–	679	–	–	151	830
Insurance and other receivables	2,961	11,027	10,767	1,467	–	18,826	45,048
Reinsurers share of accrued policyholder claims	–	6,310	5,750	419	–	236	12,715
Income taxes	–	–	–	–	–	4,567	4,567
Cash and cash equivalents	–	131	103,223	90	–	1,907	105,351
Total	692,839	1,171,192	3,175,279	558,160	102,964	3,196,068	8,896,502

The 'Financial assets held at amortised cost', which consists of the two mortgage loan portfolios, 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 at 31 December 2021.

Included within reinsurers' share of insurance contract provisions and amounts deposited with reinsurers (in respect of investment contracts) above is a total significant exposure of £76.0m as at 31 December 2021 (31 December 2020: £74.0m) to ReAssure, which has been included within the 'AA' rating category.

Of the ReAssure amount £50.0m (31 December 2020: £49.0m) 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 plc 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 2021 and 31 December 2020.

Monument Re makes up £69.9m of the unrated exposure to reinsurers share of insurance contract liabilities as at 31 December 2021 (31 December 2020: nil). This is protected through the use of a funds withheld arrangement under which the reinsurer has deposited collateral to CA plc in respect of the value of expected future reinsured claim payments.

Debt securities				
As at 31 December 2021				
	Policyholder linked	Policyholder with-profit	Non-linked/ shareholder	Total
	£000	£000	£000	£000
Austria	–	–	30,849	30,849
Belgium	–	–	34,183	34,183
France	825	3,965	170,026	174,816
Germany	–	480	161,920	162,400
Italy	–	–	31,148	31,148
Ireland	–	–	24,263	24,263
Netherlands	551	2,339	79,981	82,871
Poland	–	–	616	616
Portugal	–	–	1,738	1,738
Spain	–	495	18,620	19,115
UK	4,556	38,044	136,634	179,234
Other	2,931	5,906	110,657	119,494
Europe	8,863	51,229	800,635	860,727
USA	590	9,547	82,665	92,802
Other	–	174	1,101	1,275
North America	590	9,721	83,766	94,077
Australia	–	–	7,436	7,436
Other	–	–	15,959	15,959
Asia Pacific	–	–	23,395	23,395
Total	9,453	60,950	907,796	978,199

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 2020				
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

There are no direct holdings in debt securities within Russia or Ukraine.

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 2021, further interim distributions totalling £2,500 (2020: £3,261) 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 2021 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 company Movestic Kapitalförvaltning AB (investment fund management company) which are open to new business, and which are responsible for conducting both unit-linked and pensions and savings business and providing some life and health product offerings.

Waard Group: This segment represents the group's closed Dutch life and general insurance business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. On 1 October 2019, the Waard Group acquired a small portfolio of policies from Monuta insurance, which consists of term and savings policies. On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies. The completion took place on the 31 August 2020, at which stage Waard Group obtained control. On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, unit-linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The portfolio was successfully migrated on 10 April 2021.

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 2021.

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

	CA (UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance premium revenue	36,004	13,796	32,546	229,700	-	312,046
Insurance premium ceded to reinsurers	(87,353)	(5,374)	(3,406)	(19,748)	-	(115,881)
Net insurance premium revenue	(51,349)	8,422	29,140	209,952	-	196,165
Fee and commission income	22,140	18,029	76	49,730	-	89,975
Net investment return	179,662	821,381	11,928	160,006	11	1,172,988
Other operating income	13,681	32,887	-	-	-	46,568
Segmental revenue, net of investment return	164,134	880,719	41,144	419,688	11	1,505,696
Net insurance contract claims and benefits incurred	(34,545)	(2,787)	(35,849)	(396,718)	-	(469,899)
Net change in investment contract liabilities	(77,568)	(820,901)	-	-	-	(898,469)
Fees, commission and other acquisition costs	(316)	(23,598)	(713)	(1,816)	-	(26,443)
Administrative expenses:						
Amortisation charge on software assets	-	(1,306)	-	(36)	-	(1,342)
Depreciation charge on property and equipment	-	(115)	(54)	(577)	-	(746)
Other	(16,090)	(12,794)	(4,407)	(20,992)	(11,554)	(65,837)
Operating expenses	5	(5,972)	-	-	3	(5,964)
Financing costs	-	(1,179)	(1)	-	(1,092)	(2,272)
Profit/(loss) before tax and consolidation adjustments	35,620	12,067	120	(451)	(12,632)	34,724
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(1,443)	(2,467)	(838)	(3,436)	-	(8,184)
Charge for amortisation of acquired value of customer relationships	-	(55)	-	-	-	(55)
Fees, commission and other acquisition costs	-	1,878	-	542	-	2,420
Segmental income less expenses	34,177	11,423	(718)	(3,345)	(12,632)	28,905
Post completion gain on portfolio acquisition	-	-	(93)	-	-	(93)
Profit/(loss) before tax	34,177	11,423	(811)	(3,345)	(12,632)	28,812
Income tax (expense)/credit	(4,979)	(1)	188	444	2,830	(1,518)
Profit/(loss) after tax	29,198	11,422	(623)	(2,901)	(9,802)	27,294

Further analysis of the segmental profit before tax and consolidation adjustments can be found on page 52 of the financial review section.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Operating segments (continued)

(ii) Segmental balance sheet as at 31 December 2021

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

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(g).

(iii) 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

(iv) Segmental balance sheet as at 31 December 2020

	CA (UK) £000	Movestic (Sweden) £000	Waard 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

8 Fees and commission income

Year ended 31 December		2021 £000	2020 £000
Fee income			
Policy-based fees		43,620	44,277
Fund management-based fees recognised under IFRS 15		27,318	29,230
Fund management-based fees recognised under IFRS 4		5,964	2,450
Benefit-based fees		10,242	11,493
Change in deferred income – gross		508	589
Change in deferred income – reinsurers' share		(41)	(34)
Total fee income		87,611	88,005
Commission income		2,364	4,693
Total fee and commission income		89,975	92,698

9 Net investment return

Year ended 31 December		2021 £000	2020 £000
Dividend income		12,325	23,557
Interest income		33,150	27,658
Rental income from investment properties		100	-
Net fair value gains and losses			
Equity securities designated as at fair value through income on initial recognition		1,145,279	124,125
Debt securities designated as at fair value through income on initial recognition		(18,492)	82,670
Derivative financial instruments		605	(3,486)
Investment properties		21	44
Net investment return		1,172,988	254,568

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 2020: £nil).

10 Other operating income

Year ended 31 December	2021 £000	2020 £000
Fee income from investment managers	40,932	35,487
Charges to policyholder funds for yield tax	5,561	4,165
Other	75	529
Total other operating income	46,568	40,181

11 Insurance contract claims and benefits

Year ended 31 December	2021 £000	2020 £000
Claims and benefits paid to insurance contract holders	506,490	420,031
Increase/(decrease) in insurance contract provisions	23,577	(6,869)
Total insurance contract claims and benefits	530,067	413,162
Reinsurer's share of claims and benefits	(60,168)	(48,178)
Net insurance contract claims and benefits incurred	469,899	364,984

12 Change in investment contract liabilities

Year ended 31 December	2021 £000	2020 £000
Changes in the fair value of investment contracts designated on initial recognition as fair value through income	707,119	96,424
Changes in the fair value of policyholders' funds held by the group designated on initial recognition as fair value through income	195,460	14,454
Total increase in investment contract liabilities	902,579	110,878
Reinsurers' share of investment contract liabilities	(4,110)	(1,340)
Net increase in investment contract liabilities	898,469	109,538

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	2021 £000	2020 £000
Directly expensed costs:		
Insurance contracts		
Commission, new business and renewal costs	6,235	6,151
Deferred amount	(4,483)	(3,929)
	1,752	2,222
Investment contracts		
Commission, new business and renewal costs	17,818	16,705
Deferred amount	(8,891)	(9,144)
	8,927	7,561
Amortisation of deferred acquisition costs:		
Insurance contracts	4,441	4,226
Investment contracts	8,929	8,619
Investment contracts-reinsurance	(26)	(22)
Impairment losses	-	1,019
Total	24,023	23,625

14 Administrative expenses

Year ended 31 December	Note	2021 £000	2020 £000
Personnel-related costs	41	31,358	32,976
Investment management fees		2,055	3,479
Amortisation charge on software assets		1,382	1,292
Depreciation charge on property and equipment		749	637
Costs paid to third-party administrators		11,246	11,248
Depreciation of right-of-use assets		739	757
Other goods and services		20,396	20,563
Total		67,925	70,952

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	2021 £000	2020* £000
Fees payable to the company's auditor for the audit of the company's financial statements	443	391
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**	836	804
Audit-related assurance services	217	216
Total	1,496	1,411

*The 2020 fees have been updated from those published last year to include fee overruns due to scope change.

**Includes £112k (2020: £111k) audit fees in respect of the Movestic audit in the year performed by EY.

15 Other operating expenses

Year ended 31 December	2021 £000	2020 £000
Charge for impairment of acquired value of in-force business	–	27,623
Charge for amortisation of acquired value of in-force business	8,184	9,562
Charge for amortisation of acquired value of customer relationships (AVCR)	55	63
Other		
Payment of yield tax relating to policyholder funds	5,561	4,165
Other	403	897
Total	5,964	5,062

The review of the Scildon AVIF in 2020 concluded that the gross AVIF asset was required to be written down by £26.6m.

16 Financing costs

Year ended 31 December	2021 £000	2020 £000
Interest expense on bank borrowings	1,036	1,083
Interest expense on financial reinsurance	1,138	1,161
Interest expenses on lease liabilities	95	55
Other interest	3	–
Total financing costs	2,272	2,299

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		
Total income tax comprises:	2021 £000	2020 £000
CA and other group activities – net expense	(2,149)	(4,577)
Movestic – net expense	(1)	(235)
Waard Group – net credit/(expense)	188	(883)
Scildon – net credit	444	2,301
Total net expense	(1,518)	(3,394)

UK business**CA and other group activities**
Year ended 31 December

	2021	2020
	£000	£000
Current tax		
Current year	(2,732)	(5,093)
Overseas tax	–	(280)
Adjustment to prior years	(2)	–
Net expense	(2,734)	(5,373)
Deferred tax		
Origination and reversal of temporary differences	585	796
Total income tax expense	(2,149)	(4,577)

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2021	2020
	£000	£000
Profit before tax	21,545	22,906
Income tax using the domestic corporation tax rate of 19.0% (2020: 19.0%)	(4,094)	(4,352)
Other permanent differences	414	(276)
Effect of UK tax bases on insurance profits		
Offset of franked investment income	1,435	286
Variation in rate of tax on amortisation of acquired in-force value	(8)	(123)
Foreign tax	–	(255)
Effect of change in tax rate	29	97
Other	77	46
Under provided in previous years	(2)	–
Total income tax expense	(2,149)	(4,577)

There has been no change in tax rate during the year (tax rate 19%). On 3 March 2021, the Chancellor announced plans to increase the corporation tax rate from 19% to 25% with effect from 1 April 2023, which has been substantively enacted.

Movestic**Movestic**
Year ended 31 December

	2021	2020
	£000	£000
Current tax		
Current year expense	–	(241)
Adjustments for prior years	(7)	(19)
Net expense	(7)	(260)
Deferred tax		
Origination and reversal of temporary differences	6	25
Total income tax expense	(1)	(235)

17 Income tax (continued)*Movestic (continued)*

Reconciliation of effective tax rate on profit before tax		
Year ended 31 December	2021	2020
	£000	£000
Profit before tax	11,423	12,358
Income tax using the domestic corporation tax rate of 20.6% (21.4%)	(2,353)	(2,645)
Non-taxable income in relation to unit-linked business	2,737	2,736
Impact of different tax rate for subsidiaries	–	–
Non-taxable fair value adjustment	(108)	(96)
Temporary differences	(19)	–
Permanent differences	–	(7)
Unrecognised tax recoverable	(175)	–
Non-deductible expenses	(76)	(204)
Under provided in prior years	(7)	(19)
Total income tax expense	(1)	(235)

Ward Group

Ward Group		
Year ended 31 December	2021	2020
	£000	£000
Current tax		
Current year expense	(349)	(505)
Adjustment to prior years	(66)	–
Net expenses	(415)	(505)
Deferred tax		
Origination and reversal of temporary differences	603	(378)
Total income tax expense	188	(883)

Reconciliation of effective tax rate on profit before tax		
Year ended 31 December	2021	2020
	£000	£000
Profit before tax	(811)	3,897
Income tax using the domestic corporation tax rate of 25%	243	(975)
Impact of different tax rate for subsidiaries	–	92
Permanent differences	(55)	–
Total income tax expense	188	(883)

Scildon

Scildon Year ended 31 December	2021 £000	2020 £000
Current tax	(1,032)	(1,899)
Adjustments for prior year	–	–
Net expense	(1,032)	(1,899)
Deferred tax		
Origination and reversal of temporary differences	1,789	5,534
Impact to changes in tax rates	(313)	(1,334)
Total income tax credit/(expense)	444	2,301

Reconciliation of effective tax rate on profit before tax Year ended 31 December	2021 £000	2020 £000
(Loss)/profit before tax	(3,345)	(14,574)
Income tax using the domestic corporation tax rate of 25%	863	3,644
Non-taxable fair value adjustment	(94)	–
Permanent differences	(15)	(8)
Non-deductible expenses	(310)	(1,335)
Total income tax credit/(expense)	444	2,301

18 Deferred acquisition costs

Year ended 31 December	2021 £000	2020 £000
Balance at 1 January	69,051	63,885
Additions arising from new business	13,420	13,073
Amortisation charged to income	(13,370)	(12,845)
Impairment losses	–	(1,019)
Foreign exchange translation difference	(5,774)	5,957
Balance at 31 December	63,327	69,051
Current	10,927	11,802
Non-current	52,400	57,249
Total	63,327	69,051

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	2021 £000	2020 £000
Cost:		
Balance at 1 January	221,886	211,364
Addition	771	2,287
Foreign exchange translation difference	(8,196)	8,235
Balance at 31 December	214,461	221,886
Amortisation and impairment losses:		
Balance at 1 January	160,231	120,541
Amortisation for the year	8,184	9,562
Impairment charge	–	27,623
Foreign exchange translation difference	(3,583)	2,505
Balance at 31 December	164,832	160,231
Carrying amounts:		
At 1 January	61,655	90,823
At 31 December	49,629	61,655

The amortisation charged to the Consolidated Statement of Comprehensive Income is recognised in other operating expenses (see Note 15).

20 Software assets

31 December	2021 £000	2020 £000
Cost:		
Balance at 1 January	28,790	25,774
Additions	2,540	3,112
Disposals	–	(2,714)
Foreign exchange translation difference	(2,574)	2,618
Balance at 31 December	28,756	28,790
Amortisation and impairment losses:		
Balance at 1 January	20,282	19,786
Amortisation charge for the year	1,382	1,292
Disposal	–	(2,714)
Foreign exchange translation difference	(1,793)	1,918
Balance at 31 December	19,871	20,282
Carrying amounts at 31 December	8,885	8,508

21 Property and equipment

31 December	2021 £000	2020 £000
Cost:		
Balance at 1 January	14,114	13,547
Additions	1,833	3,109
Disposals	(954)	(3,546)
Revaluation	570	(630)
Foreign exchange translation difference	(1,101)	1,634
Balance at 31 December	14,462	14,114
Amortisation and impairment losses:		
Balance at 1 January	5,396	6,504
Addition	1,089	–
Depreciation charge for the year	1,488	1,394
Disposals	(849)	(3,513)
Foreign exchange translation difference	(492)	1,011
Balance at 31 December	6,632	5,396
Carrying amounts at 31 December	7,830	8,718

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	2021 Total £000
Carrying amounts at 1 January	2,583	51	102	92	–	2	2,830
Additions	98	–	8	–	–	16	122
Disposals	–	–	(17)	–	–	–	(17)
Depreciation charge	(619)	(20)	(49)	(46)	–	(5)	(739)
Foreign exchange translation difference	(189)	(2)	(7)	(7)	–	–	(205)
Carrying amounts at 31 December	1,873	29	37	39	–	13	1,991

Amount recognised in profit and loss	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2021 Total £000
Interest expense on lease liabilities	43	–	1	1	–	–	45
Fixed lease expense	645	19	48	47	–	6	765
Total cash outflow for leases	688	19	49	48	–	6	810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Property and equipment (continued)

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

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
Total cash outflow for leases	655	20	66	48	–	9	798

During 2020, Movestic entered into a new agreement in regards to its office floorspace, which impacted the right-of-use asset and lease liability values.

22 Financial instruments

Group

Financial assets by measurement category at 31 December	2021 £000	2020 £000
Fair value through income		
Designated at fair-value through income on initial recognition	7,842,605	7,823,042
Policyholders' funds held by the group	990,700	332,117
Derivative financial instruments	264	830
Total assets measured at fair value through income	8,833,569	8,155,989
Financial assets held at amortised cost	293,811	344,918
Total	9,127,380	8,500,907

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.

Financial assets that are not held at fair value or managed on a fair value basis consist of mortgage loan portfolio cash deposits and a mortgage loan portfolio, which are both held at amortised cost. The fair value of these assets as at 31 December 2021 was £294.7m (31 December 2020: £345.0m) and the change in fair value in the year was a decrease of £50.1m. All other financial assets are held on a fair value basis and have a value of £8,833.6m as at 31 December 2021 (31 December 2020: £8,156.0m) with a change in fair value in the year of an increase of £677.6m (31 December 2020: £438.5m).

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 2021				
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities – Listed	6,352	–	–	6,352
Holdings in collective investment schemes	6,602,615	65,210	190,229	6,858,054
Debt securities – fixed rate:				
Government bonds	554,146	96	–	554,242
Listed	406,608	–	–	406,608
Debt securities – floating rate listed	17,349	–	–	17,349
Total debt securities	978,103	96	–	978,199
Policyholders' funds held by the group	990,700	–	–	990,700
Derivative financial instruments	–	264	–	264
Total	8,577,770	65,570	190,229	8,833,569
Current				2,309,678
Non-current				6,523,891
Total				8,833,569
Financial liabilities				
Investment contracts at fair value through income	–	4,120,573	–	4,120,573
Liabilities related to policyholders' funds held by the group	990,700	–	–	990,700
Derivative financial instruments	–	–	–	–
Total	990,700	4,120,573	–	5,111,273

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

22 Financial instruments (continued)**Holdings in collective investment schemes**

The fair value of holdings in collective investment schemes classified as Level 2 in 2021 are related to our UK operation, and Scildon operation for the prior year. These 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 (£173.9m) also relate to our Scildon operation, and represent investments held in a mortgage fund. These are classified as Level 3 as the fair value is derived from valuation techniques that include inputs that are not based on observable market data. There is also a small holding of assets classified as Level 3 (£16.3m) from our Movestic operation which are unlisted. The valuation of the vast majority of these assets is based on unobservable prices from trading on the over-the-counter market.

Debt securities

The debt securities classified as Level 2 at 2020 and 2021 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 25.

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 instruments valuations

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

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

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

The projected prepayment cash flows per loan are then combined to derive an average expected lifetime CPR, which is then applied to the outstanding balance of the fund. The CPR used in the valuation of the fund as at 31 December 2021 was 6.1% (31 December 2020: 5.1%).

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

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

At 31 December 2021 this resulted in discounting the cash flows in each mortgage using a range from 1.29% to 2.02% (31 December 2020: 1.31% to 2.13%).

An impairment percentage is applied to those loan cashflows which are in arrears, to reflect the chance of the loan actually going into default. For those loans which are 1, 2 or 3 months in arrears, an impairment percentage is applied to reflect the chance of default. This percentage ranges from 0.60% for 1 month in arrears to 13.70% for loans which are 3 months in arrears (31 December 2020: 0.90% for 1 month in arrears to 32.50% for loans which are 3 months in arrears). Loans which are in default receive a 100% reduction in value.

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

A 1 percent increase in the CPR would reduce the value of the asset by £3.5m (31 December 2020: £3.7m).

A 1 percent decrease in the CPR would increase the value of the asset by £5.2m (31 December 2020: £5.6m).

A 1 percent increase in the discount rate would reduce the value of the asset by £13.7m (31 December 2020: £15.6m).

A 1 percent decrease in the discount rate would increase the value of the asset by £15.8m (31 December 2020: £17.8m).

Reconciliation of Level 3 fair value measurements of financial instruments
Level 3 movement

31 December	2021	2020
	£000	£000
At start of period	185,424	–
Transfers into Level 3	16,314	32,463
Total gains and losses recognised in the income statement	796	3,249
Purchases	–	143,589
Settlements	–	–
Exchange rate adjustment	(12,305)	6,123
At the end of period	190,229	185,424

31 December	Carrying amount		Fair value	
	2021	2020	2021	2020
	£000	£000	£000	£000
Financial liabilities				
Borrowings	47,185	66,955	46,588	68,371

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.

The fair values of the borrowings reflect quoted prices in active markets, and they are classified as Level 1 in the fair value hierarchy.

Company

Fair value measurement at 31 December	2021	2020
	£000	£000
Holdings in collective investment schemes	39,456	57,945
Total	39,456	57,945
Current	39,456	57,945
Non-current	–	–
Total	39,456	57,945

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	2021	2020
	£000	£000
Balance at 1 January	354,720	354,720
Balance at 31 December	354,720	354,720
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 47.

23 Financial assets held at amortised cost

Year ended 31 December	2021 £000	2020 £000
Mortgage loan portfolio cash deposits	274,014	319,246
Mortgage loan portfolio	19,797	25,672
	293,811	344,918
Current	1,764	2,357
Non-current	292,047	342,561
Total	293,811	344,918

24 Insurance and other receivables and prepayments**Group**

Insurance and other receivables 31 December	2021 £000	2020 £000
Receivables arising from insurance contracts		
Brokers	980	766
Policyholders	665	495
Receivables arising from investment contracts		
Policyholders	2,510	8,061
Reinsurance receivables	8,651	9,639
Commission receivables	75	76
Other receivables		
Accrued interest income	13,898	8,554
Receivables from fund management companies	1,399	7,341
Other	7,435	10,116
Total	35,613	45,048
Current	34,797	44,277
Non-current	816	771
Total	35,613	45,048

The carrying amount is a reasonable approximation of fair value.

Prepayments 31 December	2021 £000	2020 £000
Prepayments	13,245	13,349
Current	12,771	13,099
Non-current	474	250
Total	13,245	13,349

The carrying amount is a reasonable approximation of fair value.

25 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	2021		2020	
	Asset £000	Liability £000	Asset £000	Liability £000
Interest rate swaps	–	–	–	–
Exchange-traded futures	170	–	679	(3)
Financial reinsurance embedded derivative	94	–	151	–
Total	264	–	830	(3)
Current	203	–	724	(3)
Non-current	61	–	106	–
Total	264	–	830	(3)

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 22.

Exchange-traded futures (by geographical investment market)				
31 December	2021		2020	
	Asset £000	Liability £000	Asset £000	Liability £000
Australia	–	–	–	–
Switzerland	–	–	–	–
Europe	12	–	2	(2)
UK	–	–	–	–
Hong Kong	–	–	–	–
Japan	133	–	627	(1)
USA	25	–	50	–
Total	170	–	679	(3)

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 22.

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 year 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 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Cash and cash equivalents

Group

31 December	2021 £000	2020 £000
Bank and cash balances	69,569	104,965
Call deposits due within 1 month	518	386
Total cash and cash equivalents	70,087	105,351
Bank overdrafts	(256)	(1,645)
Cash and cash equivalents in the statement of cash flows	69,831	103,706

The effective interest rate on short-term bank deposits was 0.00% (2020: 0.00%), with an average maturity of 1 day (2020: 1 day). All deposits included in cash and cash equivalents were due to mature within 1 month of their acquisition.

Included in cash and cash equivalents held by the group are balances totalling £5.5m (2020: £8.1m) held in unit-linked policyholders' funds.

31 December	1 January 2021 £000	Financing cash flows £000	Foreign exchange translation differences £000	New leases £000	Other changes (ii) £000	31 December 2021 £000
Bank loan (i)	39,010	(7,485)	(1,563)	–	1,311	31,273
Financial reinsurance	27,945	(9,928)	(2,105)	–	–	15,912
Lease liabilities	2,844	(660)	(218)	–	53	2,019
Total	69,799	(18,073)	(3,886)	–	1,364	49,204

(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	2021 £000	2020 £000
Bank and cash balances	6,558	1,818
Cash deposits due within 1 month	97	97
Total	6,655	1,915

31 December	1 January 2021 £000	Financing cash flows £000	Foreign exchange translation differences £000	New leases £000	Other changes (ii) £000	31 December 2021 £000
Bank loan (i)	39,010	(7,485)	(1,563)	–	1,311	31,273
Lease liabilities	216	(62)	–	–	4	158
Total	39,226	(7,547)	(1,563)	–	1,315	31,431

(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.

27 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, albeit the PRA has made some changes to the provision of technical information such as the risk-free yield curve, which is now based on SONIA swap rates, and the volatility adjustment and symmetric adjustment, which are now derived using indices more relevant to the UK. A more thorough review of Solvency II by the PRA is underway with the aim of adapting the regulatory framework to reflect the UK's position outside the EU and ensure it is fit for the future. 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	Waard Group	Scildon	Group
Dividend paying limit: Own Funds stated as % of SCR	120%	120%	150%	175%	110%
Management actions limit: Own Funds stated as % of SCR	110%	110%	135%	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)

27 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 2021, and at 31 December 2020, 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.

Region	31 December 2021 (unaudited)					Group £m
	CA £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments £m	
Own Funds (pre dividends)	158.3	234.4	50.5	151.5	(15.2)	579.6
Proposed dividend	(27.5)	–	(6.1)	(5.0)	16.5	(22.1)
Own Funds (post dividends)	130.8	234.4	44.4	146.5	1.3	557.5
SCR	100.4	158.6	11.1	76.4	20.3	366.8
Solvency surplus	30.4	75.8	33.3	70.1	n/a	190.7
Solvency ratio	130%	148%	400%	192%	n/a	152%
Dividend paying limit (% of SCR)	120%	120%	150%	175%	n/a	110%
Dividend paying limit (£)	120.5	190.3	16.7	133.7	n/a	403.5
Surplus over dividend paying limit	10.3	44.1	27.8	12.8	n/a	154.0

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

(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 2021 (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)	130.8	234.4	44.5	146.5	1.3	557.5
Add Back: Ring-fenced fund surplus restrictions	7.9	–	–	–	–	7.9
Add Back: Intangible assets	(0.6)	81.9	4.2	32.4	–	117.9
Add Back: Foreseeable dividends	27.5	–	6.1	5.0	(16.5)	22.1
Add Back: Difference in valuation of technical provisions	(48.5)	(210.8)	(16.0)	(21.8)	47.9	(249.2)
Add Back: Difference in deferred tax	13.4	(0.2)	4.5	(2.7)	(11.5)	3.5
Add Back: Other valuation differences	0.3	0.9	(1.3)	–	(1.4)	(1.5)
IFRS Net Assets	130.8	106.2	42.0	159.4	19.8	458.2

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

Further information on how the group uses Solvency II, and metrics derived from Solvency II, as Alternative Performance Measures can be found in Section E on pages 224 to 227.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December	2021			2020		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
CA	1,529,259	228,704	1,300,555	1,627,983	171,853	1,456,130
Movestic	59,813	23,381	36,432	69,702	26,234	43,468
Waard Group	341,787	2,628	339,159	385,633	2,501	383,132
Scildon	1,887,553	(6,963)	1,894,516	1,874,719	(3,520)	1,878,239
Total insurance contract provisions	3,818,412	247,750	3,570,662	3,958,037	197,068	3,760,969
Current	517,557	11,753	505,804	215,558	15,849	199,709
Non-current	3,300,855	235,997	3,064,858	3,742,479	181,219	3,561,260
Total	3,818,412	247,750	3,570,662	3,958,037	197,068	3,760,969

(b) Analysis of movement in insurance contract provisions

Year ended 31 December	2021			2020		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	3,958,037	197,068	3,760,969	3,610,415	188,452	3,421,963
Arising on portfolio acquisition	11,731	–	11,731	298,361	–	298,361
Premiums received	283,952	15,764	268,188	261,710	14,413	247,297
Fees deducted	(62,021)	(1,250)	(60,771)	(65,838)	(1,222)	(64,616)
Reserves released in respect of benefits paid	(450,808)	39,122	(489,930)	(375,715)	(34,446)	(341,269)
Movements in provisions for contracts sold – Movestic						
in current year	11,077	5,406	5,671	14,526	5,338	9,188
in prior years	(10,214)	(3,930)	(6,284)	(16,238)	(5,239)	(10,999)
Investment return	260,433	(2,459)	262,892	80,921	1,798	79,123
Other movements	(25,255)	151	(25,406)	32,892	25,315	7,577
Foreign exchange translation difference	(158,520)	(2,122)	(156,398)	117,003	2,659	114,344
Balance at 31 December	3,818,412	247,750	3,570,662	3,958,037	197,068	3,760,969

(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.

Where reinsurance exists, the value of reinsurance assets are calculated by considering the cash flows to and from the reinsurers and applying the principles used for the calculation of gross technical provisions.

(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. The mortality assumptions used on the blocks of business most sensitive to changes in mortality assumptions are disclosed below. Ex-Protection Life, Life Business: 65% TMN00 select and 65% TFN00 select (non-smokers), 65% TMS00 select and 65% TFS00 select (smokers). Annuitant mortality: 105% PMA08 table and 105% PFA08 table, with 100% CMI_2018 improvements with a 1.5% long-term convergence rate from 31 December 2021.

Morbidity

Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistency

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	2021		2020	
	SPI**	SPP**	SPI	SPP
Assurances:				
Regular premium plans	2.063%	3.000%	2.063%	3.000%
Single premium contracts	2.250%	3.938%	2.813%	3.938%
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 2021 for the material product types, these lay between 0.65% and 1.70% (31 December 2020: between -0.05% and 1.45%).

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)

28 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 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	2021	2020
	£000	£000
At beginning of the year	18,812	17,322
Charge/(credit) to income	(8,331)	1,490
At the end of year	10,481	18,812

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 £3.5m. A 10% fall in equities would decrease net profit and net equity by £2.6m.

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 £914,000 as at 31 December 2021 (31 December 2020: £1,653,000).

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 3.1% 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 £0.2m.

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 2021 was £3.5m (31 December 2020: £3.7m). 410 policies invested in the fund (31 December 2020: 426), of which 19 (31 December 2020: 25) were paying premiums (for a total of approximately £6,000 per annum (31 December 2020: £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	2.26% pa
Rate of return on cash	0.18% pa
Discount rate	1.00% 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 2021 was £0.1m (31 December 2020: £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 2021 was £1.0m (31 December 2020: £4.3m). The reason for the fall in reserves relative to 2020 is due to with-profit modelling improvements.

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 2021 was £0.03m (31 December 2020: £0.3m).

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 2021 was £0.3m (31 December 2020: £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 2021 is £0.1m (31 December 2020: £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 overleaf 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)

28 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)****Sweden (continued)****(iii) Analysis of claims development – gross**

	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000
Estimate of ultimates						
End of accident year	31,494	29,308	26,833	17,867	15,046	11,890
One year later	22,992	21,747	17,572	12,834	11,954	
Two years later	20,117	21,158	17,196	10,907		
Three years later	19,465	18,755	16,618			
Four years later	16,969	17,612				
Five years later	16,432					
Current estimate of ultimate claims	16,432	17,612	16,618	10,907	11,954	11,890
Cumulative payments	(12,113)	(11,869)	(9,410)	(7,586)	(4,603)	(3,038)
In balance sheet	4,319	5,743	7,208	3,321	7,351	8,852
Provision for prior years						21,163
Liability in balance sheet						57,956

Analysis of claims development – net

	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000
Estimate of ultimates						
End of accident year	10,096	10,348	8,818	8,791	9,724	6,549
One year later	6,316	1,873	9,581	4,932	7,463	
Two years later	5,329	10,163	9,192	4,305		
Three years later	9,421	8,849	8,699			
Four years later	7,407	8,118				
Five years later	7,144					
Current estimate of ultimate claims	7,144	8,118	8,699	4,305	7,463	6,549
Cumulative payments	(4,429)	(4,397)	(4,063)	(2,884)	(3,227)	(2,258)
In balance sheet	2,715	3,721	4,636	1,421	4,236	4,291
Provision for prior years						14,223
Liability in balance sheet						35,242

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.

Different assumptions are used for each portfolio (e.g. Waard Leven has different assumptions for the following portfolios: DSB, HW UL portfolio/DSB Index UL, MGL, Argenta, BND). As an example, the most material portfolio (Argenta Savings Mortgages) uses the following mortality and discount rate assumptions:

Interest: EIOPA curve at 31 August 2020, without VA

Mortality: 80% of the generational prognosis table AG2018

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.

(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 assumptions differ by product type, and there are also different assumptions applied within each product type depending on when the contract was written. The unit-linked products are the most material, and an example of the mortality tables used are the GBM 1976-1980 (males) and GBV 1976-1980 (females). For annuities, an example of the mortality tables applied are the GBM 1980-1985 (males) and GBV 1980-1985 (females) tables and the discount rate assumption is the Solvency II curve (including VA) less investment costs, where investment costs are determined annually.

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	
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(2.0)	(1.9)	(22.5)	(20.8)	n/a	n/a
100 basis point increase in investment return	2.9	1.0	(33.2)	(32.9)	(1.3)	0.3
100 basis point decrease in investment return	(3.2)	(4.5)	19.5	4.7	1.1	(0.5)
10% increase in mortality/morbidity	(15.6)	(18.9)	(3.2)	(16.7)	n/a	n/a
10% increase in mortality alone	(12.6)	(15.3)	(3.2)	(16.7)	n/a	n/a
10% increase in morbidity alone	(3.0)	(3.6)	-	-	n/a	n/a
10% increase in policy maintenance expenses	(4.1)	(5.2)	(0.8)	(9.1)	n/a	n/a
10% mass lapse	13.4	15.3	0.4	n/a	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(2.3)	(2.6)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	2.3	2.6

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	
	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(3.7)	(2.3)	(22.2)	(20.6)	n/a	n/a
100 basis point increase in investment return	(8.0)	(4.3)	(32.2)	(32.2)	(2.3)	(0.1)
100 basis point decrease in investment return	8.5	1.8	17.9	3.6	2.2	(0.0)
10% increase in mortality/morbidity	(0.1)	2.3	(3.7)	(16.6)	n/a	n/a
10% increase in mortality alone	0.4	2.8	(3.7)	(16.6)	n/a	n/a
10% increase in morbidity alone	(0.5)	(0.6)	-	-	n/a	n/a
10% increase in policy maintenance expenses	(3.8)	(4.7)	(1.6)	(9.5)	n/a	n/a
10% mass lapse	5.2	6.4	(1.0)	n/a	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(1.4)	(1.6)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	1.4	1.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 Insurance contract provisions (continued)**(d) Sensitivity to changes in assumptions (continued)****Impact on reported profits and equity to changes in key variables (continued):****UK business (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 overleaf 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 overleaf sensitivities are calculated as an expected impact on IFRS-based profits, both net and gross reinsurance and net of 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 overleaf 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 2021 is negative £2.5m.

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 the case for year-end 2021, though it was not at year-end 2020 when the liability adequacy test was biting and so the IFRS provision included a LAT deficit reflecting the excess of best-estimate Solvency II provisions above the IFRS provision. The key driver in the difference between the 2021 and 2020 year-end sensitivities is due to the impact of the change in LAT deficit on the results. 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. At year-end 2020 this caused the LAT deficit to increase further. At year-end 2021, the LAT is not biting in the reserves though does bite under 100 basis point decrease in investment return sensitivity.

29 Investment contracts at fair value through income and amounts deposited with reinsurer**Analysis by operating segment**

31 December	2021		2020		Net £000
	Investment contract liability £000	Amount deposited with reinsurer £000	Investment contract liability £000	Amount deposited with reinsurer £000	
CA	738,458	38,295	715,276	37,026	678,250
Movestic	3,382,114	–	3,319,764	–	3,319,764
Total	4,120,572	38,295	4,035,040	37,026	3,998,014
Current	78,580	38,295	146,352	37,026	109,326
Non-current	4,041,992	–	3,888,688	–	3,888,688
Total	4,120,572	38,295	4,035,040	37,026	3,998,014

The fair values of the group's investment contract liabilities have been disclosed according to a three-level valuation hierarchy in Note 22.

30 Liabilities relating to policyholders' funds held by the group

Unit-linked 31 December	2021 £000	2020 £000
Balance at 1 January	332,117	299,375
Deposits received	603,487	41,214
Fees deducted from account balances	(2,775)	(2,858)
Investment yield	197,739	29,925
Foreign exchange translation difference	(87,004)	30,795
Other movements	(52,864)	(66,334)
Balance at 31 December	990,700	332,117
Current	16,404	7,120
Non-current	974,296	324,997
Total	990,700	332,117

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 22.

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 22.

31 Lease liabilities

The group leases several assets including office buildings, office and IT equipment and motor vehicles.

Maturity analysis 31 December 2021							
	Carrying value £000	0-1 year £000	1-2 years £000	2-5 years £000	5-10 years £000	>10 years £000	Total £000
Non-investment property	1,901	592	609	659	44	-	1,904
Property and equipment	28	19	10	-	-	-	29
Motor vehicles	38	29	11	-	-	-	40
Hardware	40	36	5	-	-	-	41
Other	12	7	5	-	-	-	12
Total	2,019	683	640	659	44	-	2,026
Current	685						
Non-current	1,334						
Total	2,019						

Maturity analysis 31 December 2020							
	Carrying value £000	0-1 year £000	1-2 years £000	2-5 years £000	5-10 years £000	>10 years £000	Total £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						

32 Borrowings

Group 31 December	2021 £000	2020 £000
Bank loan	31,273	39,010
Amount due in relation to financial reinsurance	15,912	27,945
Total	47,185	66,955
Current	36,907	43,347
Non-current	10,278	23,608
Total	47,185	66,955

Company 31 December	2021 £000	2020 £000
Bank loan	31,273	39,010
Current	31,273	15,402
Non-current	–	23,608
Total	31,273	39,010

The bank loan as at 31 December 2021 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. During the year, the London Inter-Bank Offer Rate changed to Sterling Overnight Index Average (SONIA) as a reference point. The proceeds of this loan facility were utilised, together with existing group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- On 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten 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 2021 was £12.0m (31 December 2020: £15.0m).

The fair value of the euro denominated bank loan at 31 December 2021 was £18.5m (31 December 2020: £24.1m).

The fair value of amounts due in relation to financial reinsurance at 31 December 2021 was £16.4m (31 December 2020: £27.5m).

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

In 2022, the bank loan was fully repaid and replaced by a Tier 2 Subordinated Notes Debt. Further information can be found Note 49.

33 Deferred tax assets and liabilities

Deferred tax liabilities comprise:

31 December	2021	2020
	£000	£000
Net deferred tax liabilities:		
CA and other group activities	106	(339)
Movestic	(206)	(206)
Waard Group	921	357
Scildon	(16,520)	(18,898)
Total	(15,699)	(19,086)
Current	(395)	(1,489)
Non-current	(15,304)	(17,597)
Total	(15,699)	(19,086)

CA and other group activities**(a) Recognised deferred tax assets and liabilities**

31 December	2020	Credit/	2021
	Assets/	(charge)	Assets/
	(liabilities)	in year	(liabilities)
	£000	£000	£000
Profit arising on transition to new tax regime	(436)	161	(275)
Deferred acquisition costs	(230)	(3)	(233)
Deferred income	470	26	496
Acquired value in-force	(763)	149	(614)
Unrealised and deferred investment gains	(4,094)	(11,251)	(15,345)
Excess expenses of management	4,094	11,251	15,345
Share-based payments	620	112	732
Right of use-assets/lease liabilities	-	-	-
Total	(339)	445	106
Comprising:			
Net deferred tax liabilities	(339)	445	106
Total	(339)	445	106

31 December	2019	Credit/	2020
	Assets/	(charge)	Assets/
	(liabilities)	in year	(liabilities)
	£000	£000	£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)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Deferred tax assets and liabilities (continued)**CA and other group activities (continued)****(a) Recognised deferred tax assets and liabilities (continued)**

Note (i) The deferred tax credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December	2021 £000	2020 £000
Income tax credit	445	774

(b) Items for which no deferred tax asset is recognised

31 December	2021 £000	2020 £000
BLAGAB transitional amounts	479	955
Unrelieved expenses	31,532	78,318
Total	32,011	79,273

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 2020: £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 2020: nil).

Ward Group**(d) Recognised deferred tax assets and liabilities**

31 December	2020 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Foreign exchange translation difference £000	2021 Assets/ (liabilities) £000
Intangible assets				
Fair value adjustment on acquisition	(765)	(365)	59	(1,071)
Valuation differences	1,122	968	(98)	1,992
Total	357	603	(39)	921
Comprising:				
Net deferred tax asset	357	603	(39)	921
Total	357	603	(39)	921

Scildon

(e) Recognised deferred tax assets and liabilities

31 December	2020 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Recognised through equity £000	Foreign exchange translation difference £000	2021 Assets/ (liabilities) £000
Fair value adjustment on acquisition	(7,023)	658	–	251	(6,114)
Deferred acquisition costs	4,277	(452)	–	(273)	3,552
LAT reserve	2,503	(2,392)	–	(111)	–
Defined benefit pension scheme obligations	(11)	(1)	–	1	(11)
Revaluation of buildings and investment properties	(500)	(85)	–	35	(550)
Valuation differences on technical provisions	(9,143)	(3,372)	–	690	(11,825)
Valuation differences on investments at fair value through profit and loss	(9,001)	7,120	–	309	(1,572)
Total	(18,898)	1,476	–	902	(16,520)
Comprising:					
Net deferred tax liabilities	(18,898)	1,476	–	902	(16,520)
Total	(18,898)	1,476	–	902	(16,520)

34 Reinsurance payables

Payable to reinsurers 31 December	2021 £000	2020 £000
Payables in respect of insurance contracts	3,742	2,676
Payables in respect of investment contracts	13	13
Liability for assets withheld	66,510	–
Reinsurers' share of deferred acquisition costs and claims deposits	149	174
Total	70,414	2,863
Current	70,414	2,863
Non-current	–	–
Total	70,414	2,863

The carrying value of payables to reinsurers is a reasonable approximation of fair value.

During the year, CA plc entered into a new annuity reinsurance arrangement with Monument Re, which seeks to cover the vast majority of future annuity claims. As part of this arrangement, a one-off upfront premium amount has been incurred by the company, for which a corresponding amount of ring-fenced financial assets is being held on the company's balance sheet, under a collateral arrangement. The liability for assets withheld amount presented above, represents the amount in respect of these assets, which is ultimately due to Monument Re but not yet settled. The amount of this reinsurance payable balance will reduce over time as the reinsured policies run off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Payables related to direct insurance and investment contracts

31 December	2021			2020		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Accrued claims	82,332	16,340	65,992	72,593	12,716	59,877
Intermediaries' liabilities	1,452	–	1,452	1,309	–	1,309
Policyholder liabilities	22,338	–	22,338	20,129	–	20,129
Other	23,140	–	23,140	2,306	–	2,306
Total	129,262	16,340	112,922	96,337	12,716	83,621
Current	129,262	16,340	112,922	96,337	12,716	83,621
Non-current	–	–	–	–	–	–
Total	129,262	16,340	112,922	96,337	12,716	83,621

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value.

36 Deferred income

31 December	2021 £000	2020 £000
Balance at 1 January	3,355	3,907
Additions	–	–
Release to income	(508)	(589)
Foreign exchange translation difference	(38)	37
Balance at 31 December	2,809	3,355
Current	331	390
Non-current	2,478	2,965
Total	2,809	3,355

The release to income is included in fees and commission income (see Note 8). These are initial fees that relate to future provision of services that are deferred and amortised over the anticipated period.

37 Other payables

Group 31 December	2021 £000	2020 £000
Accrued expenses	10,952	10,041
VAT	50	42
Employee tax	3,077	3,455
Other	9,912	36,569
Total	23,991	50,107
Current	23,991	50,107
Non-current	–	–
Total	23,991	50,107

Company 31 December	2021 £000	2020 £000
Accrued expenses	3,001	1,501
Other	323	358
Total	3,324	1,859
Current	3,324	1,859
Non-current	–	–
Total	3,324	1,859

The carrying value of other payables is a reasonable approximation of fair value.

38 Share capital and share premium

Group 31 December	2021		2020	
	Number of shares issued	Share capital £000	Number of shares issued	Share capital £000
Share capital	150,145,602	7,496	150,065,457	43,768
		Share premium £000		Share premium £000
		142,085		142,085
		Merger reserve £000		Merger reserve £000
		36,272		–

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2020: nil).

Following a reverse acquisition in 2004 the group share capital was previously reflected as being that of the legal acquiree rather than that of the legal acquirer, Chesnara plc. To rectify this, £36.3m has been transferred from share capital to a merger reserve. This change in presentation has had no impact on any assets, liabilities, gains or losses. The change in presentation, which has been shown as of 1 January 2021 for the purposes of clarity, is not considered to have a material impact on the financial statements.

Company 31 December	2021		2020	
	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	150,145,602	7,496	150,065,457	7,496
		Share premium £000		Share premium £000
		142,085		142,085

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other reserves

Group		
31 December	2021	2020
	£000	£000
Capital redemption reserve	50	50
Foreign exchange translation reserve	7,212	30,722
Balance at 31 December	7,262	30,772

Company		
31 December	2021	2020
	£000	£000
Capital redemption reserve	50	50

40 Retained earnings

Group		
Year ended 31 December	2021	2020
	£000	£000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	270,442	281,053
Profit for the year	27,294	21,191
Share based payment	593	492
Dividends		
Final approved and paid for 2019	–	(20,814)
Interim approved and paid for 2020	–	(11,480)
Final approved and paid for 2020	(21,446)	–
Interim approved and paid for 2021	(11,831)	–
Balance at 31 December	265,052	270,442

The interim dividend in respect of 2020, approved and paid in 2020, was paid at the rate of 7.65p per share. The final dividend in respect of 2020, approved and paid in 2021, was paid at the rate of 14.29p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2020 was made at the rate of 21.94p per share.

The interim dividend in respect of 2021, approved and paid in 2021, was paid at the rate of 7.88p per share to equity shareholders of the parent company registered at the close of business on 22 October 2021, the dividend record date.

A final dividend of 14.72p per share in respect of the year ended 31 December 2021 payable on 24 May 2022 to equity shareholders of the parent company registered at the close of business on 8 April 2022, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £22.1m 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 2020 and 31 December 2021:

Year ended 31 December	2021	2020
	p	p
Interim – approved and paid	7.88	7.65
Final – proposed/paid	14.72	14.29
Total	22.60	21.94

Company Year ended 31 December	2021 £000	2020 £000
Balance at 1 January	228,650	227,760
Profit for the year	29,042	32,692
Share based payment	593	492
Dividends paid		
Final approved and paid for 2019	–	(20,814)
Interim approved and paid for 2020	–	(11,480)
Final approved and paid for 2020	(21,446)	–
Interim approved and paid for 2021	(11,831)	–
Balance at 31 December	225,008	228,650

Details of dividends, approved and paid, are set out in the group section on previous page.

41 Employee benefit expense, including directors

Year ended 31 December	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	2021 £000	2020 £000
Wages and salaries	2,502	7,482	1,409	7,087	4,243	22,723	24,929
Social security costs	269	2,897	156	1,152	456	4,930	4,772
Pension costs-defined contribution plans	195	1,873	156	1,151	330	3,705	3,275
Pension costs-defined benefit plans	–	–	–	–	–	–	–
Total	2,966	12,252	1,721	9,390	5,029	31,358	32,976
Monthly average number of employees							
Company						42	35
Subsidiaries						280	270
Total						322	305

Directors

The Directors' Remuneration Report and Note 42 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 42 – Share-based payments on page 206.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Employee benefit expense, including directors (continued)*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 2020, totalled £5.1m.

During 2021 further contributions of KSEK £0.4m 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 2020. The Annual Report states that the Scheme's surplus is £250.9m as at 31 December 2020 (31 December 2019 £201.5m). As at 31 December 2020, the fund had assets under management of £1.4bn (£1.5bn as a 31 December 2019).

During 2020 there have been 103 (31 December 2019: 108) employer insurance companies participating in the Scheme and 26,000 (31 December 2019: 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.

42 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 2021, 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) 2021 award made under the Short-Term Incentive (STI) Scheme

Details of the short-term incentive awards made in the year are as follows:

2021 Short-Term Incentive Scheme Awards made in year	2021 £000	2020 £000
Amount paid as cash bonus through the income statement (65%)	607	255
Amount deferred into shares for 3 years and subject to forfeiture (35%)	327	137
Total bonus award for the year	934	392
Amount of deferred expense recorded in the current year	236	59

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.

(b) 2021 award made under the Long-Term Incentive (LTI) Scheme

In April 2021, the group granted 260,000 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 278.50p, which was the share price as at 28 April 2021, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2021 Long-Term Incentive Scheme	Options number 000	2021 Weighted average exercise price £
Outstanding at the beginning of the year	–	–
Granted during the year	675	–
Lapsed during the year	(92)	–
Outstanding at the end of the year	583	–

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)	278.50
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	160.56
Expected volatility	30.01
Expected life	3 years
Risk free rate	0.48%
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 £216,000 related to equity-settled share-based payments transactions in 2021.

(c) 2020 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £77,000 with regards to the 35% element that has been deferred over the vesting period.

(d) 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	Options number 000	2021 Weighted average exercise price £	Options number 000	2020 Weighted average exercise price £
Outstanding at the beginning of the year	224	–	–	–
Granted during the year	119	–	224	–
Lapsed during the year	(32)	–	–	–
Outstanding at the end of the year	311	–	224	–

The weighted average contractual life is 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Share-based payments (continued)**(d) 2020 award made under the Long-Term Incentive (LTI) Scheme (continued)**

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 £30,000 related to equity-settled share-based payments transactions in 2021.

(e) 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.

(f) 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

	2021		2020	
	Options	Weighted	Options	Weighted
	number	average	number	average
	000	exercise	000	exercise
		price		price
		£		£
Outstanding at the beginning of the year	196	–	196	–
Granted during the year	–	–	–	–
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 2021.

(g) 2018 award made 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.

(h) 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 Economic 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	2021		2020	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	168	–	168	–
Lapsed during the year	(168)	–	–	–
Outstanding at the end of the year	–	–	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 £21,000 related to equity-settled share-based payments transactions in 2021.

(i) 2017 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £12,000 with regards to the 35% element that has been deferred over the vesting period.

(j) 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 Economic 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	2021		2020	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	41	–	174	–
Exercised during the year	(15)	–	(133)	–
Outstanding at the end of the year	26	–	41	–

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Share-based payments (continued)**(j) 2017 award made under the Long-Term Incentive (LTI) Scheme (continued)**

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 2021.

(k) 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	2021		2020	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	90	–	90	–
Lapsed during the year	–	–	–	–
Outstanding at the end of the year	90	–	90	–

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 no expense related to equity-settled share based payments transactions in 2020 and 2021.

43 Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2021	2020
Profit for the year attributable to shareholders (£000)	27,294	21,191
Weighted average number of ordinary shares	150,118,548	150,062,807
Basic earnings per share	18.18p	14.12p
Diluted earnings per share	18.00p	14.03p

The weighted average number of ordinary shares in respect of the year ended 31 December 2021 is based upon 150,145,602 shares. No shares were held in treasury.

There were 1,501,566 share options outstanding at 31 December 2021 (2020: 1,026,664). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2020 and 2021.

44 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.

45 Capital commitments

There were no capital commitments as at 31 December 2021 or as at 31 December 2020.

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

(b) Related party transactions

(i) Transactions with key management personnel.

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

	2021 £000	2020 £000
Short-term employee benefits	2,342	1,614
Post-employment benefits	85	70
Share-based payments	593	492
Total	3,020	2,176

The share-based payments charge comprises £0.2m (2020: £0.2m) of Short-Term Incentive (STI) Scheme, and £0.2m (2020: £0.3m) 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 42.

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:

	2021 £000	2020 £000
Annual bonus scheme (included in the short-term employee benefits above)	934	392

These amounts have been included in Accrued Expenses as disclosed in Note 35. 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 103.

(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	2021 £000	2020 £000
Recovery of expenses	4,771	4,553

(iii) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel (31 December 2020: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 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 2021	Ownership interest 31 December 2020	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 (6)	100% of all share capital (6)	Swedish krona
Movestic Försiktig	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Global ESC	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Offensiv	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Global	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Avancera 75	Sweden	100% of all share capital (6)	–	Swedish krona
Movestic Avancera 85	Sweden	100% of all share capital (6)	–	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 (5)	100% of all share capital (5)	Swedish krona
Registered address 12 Rue Gabriel Lippmann, L-5365 Munsbach, 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) Company formed in March 2017. It has been put into liquidation.

(6) Investment funds held indirectly by Movestic Livförsäkring AB.

48 Portfolio acquisition

On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, unit-linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The portfolio was accompanied by cash assets of EUR 10,059,503 and the unit-linked assets of EUR 3,488,343.42.

The transaction has given rise to a post completion loss on acquisition of £0.1m calculated as follows:

Fair value	£000
Assets	
Unit-linked asset	2,994
Cash	8,635
Total assets	11,629
Liabilities	
Insurance contract provisions	11,722
Total liabilities	11,722
Net assets	(93)
Net liabilities acquired	(93)
Total consideration, paid in cash	-
Post completion loss on portfolio acquisition	(93)

Loss on acquisition: A loss of £0.1m has been recognised on acquisition. This loss on acquisition has been recorded as a 'post completion loss on portfolio acquisition' on the face of the Statement of Comprehensive Income.

Acquisition-related costs: Waard concluded the deal and obtained control as of 14 April 2021. The portfolio was acquired for purchase price EUR 1 as of effective cut-off date 1 July 2020. For the period between cut-off date until completion date 14 April 2021 a roll-forward period was agreed. 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.

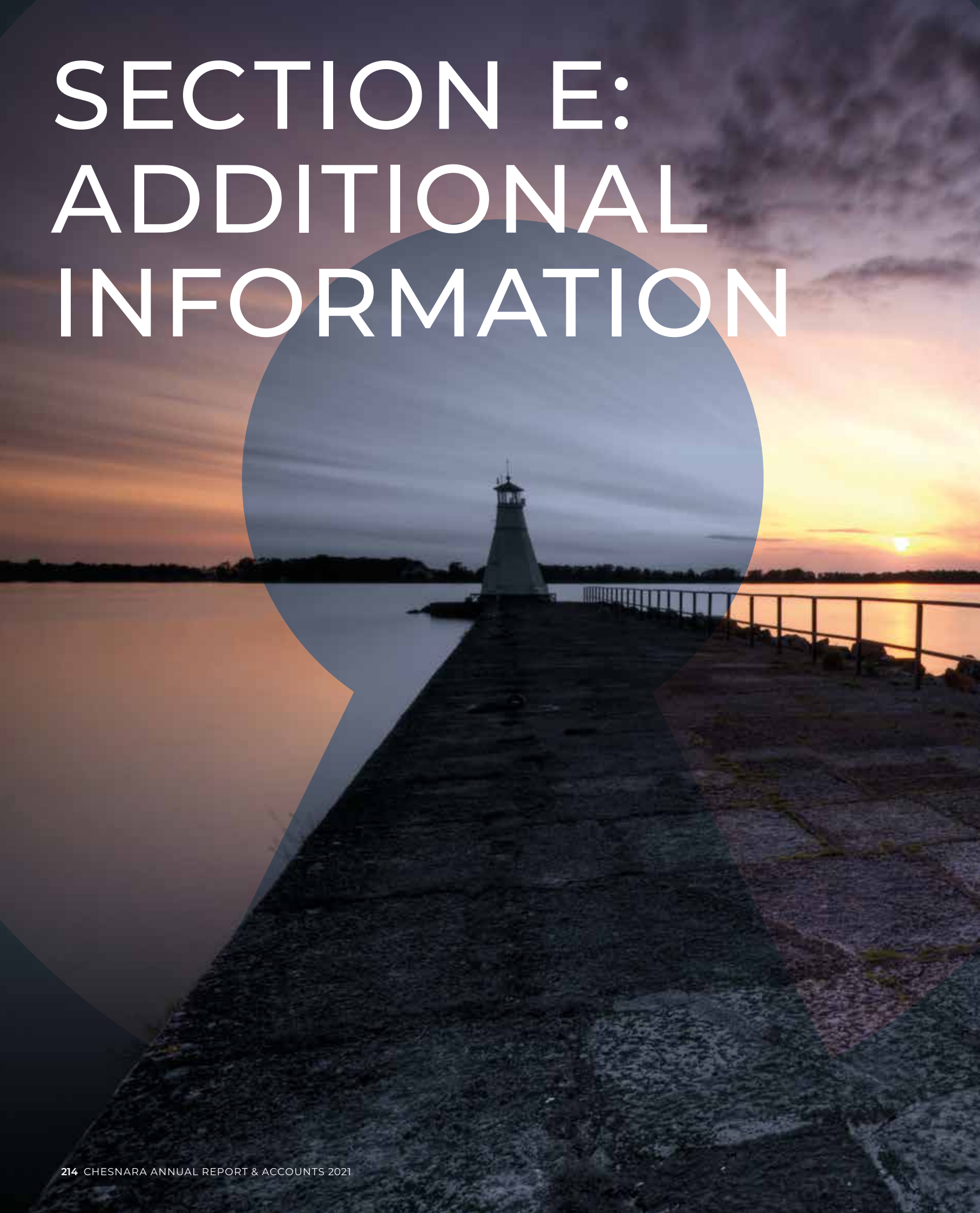
49 Post balance sheet event

Subsequent to the balance sheet date, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes (the 'Notes'). The net proceeds of the Notes will be used for corporate purposes, including investments and acquisitions. The Notes will have a 10.5 year maturity, have a coupon of 4.75%, and are expected to be recognised as Tier 2 Capital in the group's regulatory capital. The estimated impact of the Tier 2 debt on the 2021 Solvency II position would be a rise in solvency ratio from 152% (unaudited) to 202% (unaudited).

This post balance sheet event does not require adjustment to the financial statements but is important in the understanding of the company's current position, financial performance and results.

The directors consider the Ukraine/Russia conflict during 2022, as a non-adjusting post balance sheet event. The impact of the conflict has resulted in some fluctuation in global financial markets, however to date, these are within our stated sensitivities. Therefore, we do not consider this to require an adjustment to the financial statements but is important in the understanding of the company's current position, financial performance and results.

SECTION E: ADDITIONAL INFORMATION



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FINANCIAL CALENDAR

31 March 2022

Results for the year ended
31 December 2021 announced

7 April 2022

Ex-dividend date

8 April 2022

Dividend record date

26 April 2022

Last date for dividend reinvestment
plan elections

17 May 2022

Annual General Meeting

24 May 2022

Dividend payment date

31 August 2022

Half year results for the 6 months
ending 30 June 2022 announced

KEY CONTACTS

Registered and head office

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West Strand Road
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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
3 Rivergate
Temple Quay
Bristol
BS1 6GD

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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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 advisor 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 2022 Annual General Meeting of Chesnara plc will be held at the offices of Panmure Gordon, One New Change, London, EC4M 9AF on 17 May 2022 at 11am, for the business set out below. Shareholders will be kept informed via the Regulatory News System (RNS) should arrangements need to be changed in light of the continuing Coronavirus (COVID-19) pandemic and the potential for restrictions on large gatherings being in place at the time of the meeting.

Resolutions 1 to 15 inclusive will be proposed as ordinary resolutions and resolutions 16 to 20 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2021, together with the reports of the directors and auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2021.
3. To declare a final dividend of 14.72 pence per ordinary share for the financial year ended 31 December 2021.
4. To elect Steve Murray as a director.
5. To elect Carol Hagh as a director.
6. To elect Karin Bergstein as a director.
7. To re-elect David Rimmington as a director.
8. To re-elect Jane Dale as a director.
9. To re-elect Luke Savage as a director.
10. To re-elect Mark Hesketh as a director.
11. To elect Eamonn Flanagan as a director.
12. 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.
13. To authorise the directors to determine the auditor's remuneration.
14. That, from the passing of this resolution 14 until the earlier of the close of business on 30 June 2023 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.
15. That the Chesnara Savings Related Share Option Scheme 2022 (SAYE), the principal terms of which are summarised on page 223 to this notice of Annual General Meeting, and the draft rules of which are produced to the meeting and initialled by the Chair of the meeting for the purpose of identification, is approved and the directors are authorised to:
 - (a) do all acts and things which they may consider necessary or expedient to implement and operate the SAYE; and
 - (b) adopt further plans based on the SAYE, but modified, to apply in any overseas jurisdictions to take account of local tax, exchange control or securities laws, provided that any ordinary shares made available under any such further plans are treated as counting against any limits on individual or overall participation in the SAYE.

NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

16. 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 £2,502,577 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 £2,502,577; and
- (b) up to an aggregate nominal amount of £5,005,153 (such amount to be reduced by the aggregate nominal 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 2023) 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.

17. That, subject to the passing of resolution 16 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 16 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 £375,387,

and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 16 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.

18. That, subject to the passing of resolution 16 of this notice and, in addition to the power contained in resolution 17 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 16 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 £375,387; 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 16 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.

19. 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 15,015,460;
- (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 2023); 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.

20. 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

30 March 2022

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

Arrangements for the 2022 AGM

Throughout the Coronavirus pandemic the company has closely monitored all guidance and public health measures, which meant we had to introduce restrictions on physical attendance at both the 2020 and 2021 Annual General Meetings in the interests of the safety of our members and employees. At the time of writing, the company is hopeful that it will be possible to hold a physical AGM in 2022, and we are pleased to be able to invite members to attend the AGM in person this year. However, social distancing recommendations will be enforced to the extent required by government guidance prevailing at that time and the company will keep a watching brief on any developments in the intervening period. 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. It is the company's intention to give a presentation on business progress at this year's AGM should a physical meeting be held but a results presentation will also be recorded on 31 March 2022 and made available on the corporate website. As a precaution, refreshments will not be provided at the AGM.

Given the evolving nature of the Coronavirus pandemic and the possibility of changes to the government guidance that may impact on arrangements for the AGM, including the ability for members (or their proxies) to attend in person, the company continues to strongly encourage 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 are encouraged to appoint the Chair of the meeting as their proxy and give your instructions on how you wish the Chair of the meeting to vote on the proposed resolutions. Appointing the Chair as your proxy will not prevent you from attending and voting in person at the AGM should we be able to proceed with a physical meeting as intended, but will ensure that your vote is able to be cast in accordance with your wishes should you (or any other person who you might otherwise choose to appoint as your proxy) be unable to attend for any reason. 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 13 May 2022.
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, 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 Chair of the meeting as their proxy to ensure that their vote is able to be cast in accordance with their wishes should they (or any other persons who members might otherwise choose to appoint as their proxy) be unable to attend for any reason. 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 13 May 2022. Members who hold their shares in uncertificated form may also use the 'CREST' voting service to appoint a proxy electronically, as explained below.
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 13 May 2022, 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. A copy of the draft rules of the proposed Chesnara Savings Related Share Option Scheme 2022 will be available for inspection on the National Storage Mechanism from the date of this document until the conclusion of the AGM; (ii) online at www.chesnara.co.uk from the date of this document until the conclusion of the AGM; and (iii) at the place of the AGM for at least 15 minutes before, and during, the AGM.
7. 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 13 May 2022. 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.
8. 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.
9. As at 23 March 2022 (being the last practicable date prior to the publication of this document), the company's issued share capital consisted of 150,154,602 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 2022 (being the last practicable date prior to the publication of this document) were 150,154,602.
10. 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.
11. 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. The company encourages shareholders to submit their questions electronically in advance of the meeting via info@chesnara.co.uk.
12. 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.
13. 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 05 April 2022, 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 and Accounts

The Companies Act 2006 requires the directors of a public company to lay its Annual Report and Accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report and 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 2021. The Directors' Remuneration Report can be found on pages 90 to 112 of the 2021 Report and 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 106 to 112. 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 2022 Annual General Meeting approves resolution 3, the final dividend of 14.72 pence per share will be paid on 24 May 2022 to ordinary shareholders who are on the register of members at the close of business on 08 April 2022 in respect of each ordinary share.

Resolutions 4 – 11 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. Steve Murray was appointed to act as a director by the board on 19 October, and both Carol Hagh and Karin Bergstein were appointed to act as directors by the board on 14 February 2022. In line with the company's Articles of Association, Steve, Carol and Karin are each retiring and seeking election by the shareholders. Biographical details of each director can be found on pages 78 and 79 of this document. The Chair 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 12 and 13

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 12, 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 13 authorises the directors to determine the auditor's remuneration.

Resolution 14

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 15

Approval of the Chesnara Savings Related Share Option Scheme 2022

The Chesnara Savings Related Share Option Scheme 2022 (SAYE) will replace the company's existing savings related share option scheme (Existing Scheme) which was approved by shareholders on 17 May 2011. The SAYE is a savings-related share option scheme under which options to acquire ordinary shares in the company may be granted to qualifying employees. The SAYE is intended to satisfy the conditions of schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 such that options granted pursuant to the SAYE may benefit from certain tax reliefs on exercise of the options. The SAYE is similar to the Existing Scheme, but has been updated to reflect changes in the relevant legislation since the Existing Scheme was adopted. A summary of the principal terms of the SAYE is set out on page 223 to this notice of Annual General Meeting.

Resolution 16**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 2022 Annual General Meeting. The board is, therefore, seeking to renew its authority over shares having an aggregate nominal amount of £2,502,577, representing approximately one-third of the issued ordinary share capital of the company (excluding treasury shares) as at 23 March 2022 (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 £5,005,153, representing approximately two-thirds of the issued share capital of the company (excluding treasury shares) as at 23 March 2022 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 £5,005,153.

As at 23 March 2022, 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 2023.

Passing resolution 16 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 17 and 18**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 2022 Annual General Meeting and, in accordance with the Statement of Principles issued by the Pre-Emption Group, resolutions 17 and 18 (which will be proposed as special resolutions) seek to renew the directors' authority to disapply pre-emption rights as referenced below.

Resolution 17, 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 £375,387, 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 2022 (being the latest practicable date prior to the publication of this notice of Annual General Meeting).

Resolution 18 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 19**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 2022, 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 2023.

The company has options and awards outstanding under existing share schemes over an aggregate of 1,501,566 ordinary 5p shares, representing 1.00% of the company's issued ordinary share capital (excluding treasury shares) as at 23 March 2022 (the latest practicable date prior to the publication of this document). This would represent approximately 1.11% of the company's issued share capital (excluding treasury shares) if the proposed authority being sought at the Annual General Meeting to buy back 15,015,460 ordinary shares was exercised in full (and all the repurchased ordinary shares were cancelled).

Resolution 20**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 20 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.

APPENDIX TO AGM NOTICE

Summary of the principle terms of the Chesnara Savings Related Share Option Scheme 2022 (SAYE)

General

The SAYE is a savings related share option scheme designed to take advantage of the tax beneficial status of savings related share option schemes which comply with Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 (Schedule 3).

The SAYE will be administered by the board or a duly authorised committee of the board.

Eligibility

UK employees and full-time directors of the company and participating companies within the group are eligible to participate in the SAYE. The board may, however, determine that a qualifying period of service (of up to 5 years) is required before an employee or full-time director can participate in the SAYE.

Timing of invitations

Invitations to participate in the SAYE may be issued within the 42 day period after the adoption date, any general meeting of the company, the announcement of the company's results for any period, any day on which changes to the legislation affecting savings related share option plans under Schedule 3 is announced or made, or any other date on which the board resolves that exceptional circumstances exist.

The Savings Contract

To participate in the SAYE, an eligible employee must enter into a Save-As-You-Earn contract (Savings Contract) with the savings body designated by the board, agreeing to make monthly contributions of between £5 and £500 for a specified savings period of 3 or 5 years (or such other period as may be specified from time to time under Schedule 3). The board has discretion to determine the length of the savings contracts that will be available in respect of any invitation to apply for options (3 years, 5 years or both). A bonus determined by HMRC may be payable after the expiration of the savings period.

Applications to participate in the SAYE may be scaled down by the board, if applications exceed the number of shares available for the grant of options. Such scaling down may include:

- (a) excluding the HMRC bonus;
- (b) reducing monthly contributions above a certain level pro rata;
- (c) reducing monthly contributions for each eligible employee pro rata;
- (d) treating applications for 5 year savings contracts as elections for 3 year savings contracts;
- (e) applications being selected by ballot, based on the minimum contribution and excluding the bonus; or
- (f) such other steps as may be agreed in advance with HMRC, to the extent required.

Option price

The option price for each share in respect of which an option is granted shall not be less than the greater of:

- (g) 80% of the closing middle-market quotation as derived from the London Stock Exchange Daily Official List for the dealing day immediately prior to the date on which the invitation to participate in the SAYE is made (or, if the board so determines, the average of the closing mid-market quotations for the three dealing days immediately prior to the invitation date); and
- (h) the nominal value of the shares.

Grant of options

The number of shares over which options may be granted must as nearly as possible be equal to, but not in excess of, that number of shares which may be purchased out of the repayment proceeds (including, if the board so determines, any bonus payable) of the relevant savings contract at the option price.

Subject to any regulatory restrictions, options under the SAYE may only be granted within the period of 30 days following the date on which the option price is determined or, if the option price is determined over 3 consecutive dealing days, within 30 days after the earliest of those dealing days (though such period will be increased to 42 days if scaling back applies).

No options may be granted more than 10 years after the adoption of the SAYE.

Options granted under the SAYE may not be transferred (other than on death) and will not be pensionable.

No consideration will be required for the grant of the option.

Limit on the issue of shares

Options under the SAYE may not be granted on a date if it would result in the total number of shares issued or to be issued to satisfy share awards granted under the company's employee share plans during the period of 10 years ending with that date to exceed 10% of the issued ordinary share capital of the company from time to time.

For the purposes of this limit, shares transferred out of treasury to satisfy awards will be treated as new issue shares.

Exercise of options

Options will only normally be exercisable for a period of 6 months commencing on the third or fifth anniversary (as the case may be) of the starting date of the related savings contract and, if not exercised by the end of that period, the option will lapse.

Earlier exercise may, however, be permitted in specified circumstances, including:

- (a) termination of employment as a result of death, injury, disability, redundancy, retirement or the sale of the subsidiary or business for which the participant works; and
- (b) in the event of a takeover or reconstruction of the company.

In these early exercise circumstances, options will only be exercisable for a limited period to the extent of the savings in the relevant savings contract at the date of exercise.

Alternatively, in the event of a takeover or reconstruction, options may be exchanged for new equivalent options over shares in the acquiring company where appropriate.

Rights attaching to shares

All shares allotted or transferred under the SAYE will rank pari passu with all other shares of the company for the time being in issue (save as regards any rights attaching to such shares by reference to a record date prior to the date of allotment or transfer) and the company will apply for the listing of any new shares issued under the SAYE.

Variation of capital

In the event of any rights or capitalisation issue, sub-division, consolidation, reduction or other variation of the ordinary share capital of the company, the board may make such adjustments as it considers appropriate to the number of shares subject to options and/or the price payable on the exercise of options.

Amendments to the SAYE

The board may amend the provisions of the SAYE in any respect provided that the prior approval of shareholders in general meeting is required for alterations or additions which are to the advantage of participants and relate to eligibility, limits, the option price, the rights attaching to options and shares, the impact of any variation of capital or the amendment provisions. However, the requirement to obtain the prior approval of shareholders will not apply in relation to any alteration or addition which is minor and to benefit the administration of the SAYE, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the company, any of its subsidiaries or for participants.

Termination





The SAYE will terminate on the tenth anniversary of its adoption, or such earlier time as the board may determine, but the rights of existing participants will not be affected by such termination. In the event of termination, no further options will be granted.


ALTERNATIVE PERFORMANCE MEASURES

Throughout our Report and 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.

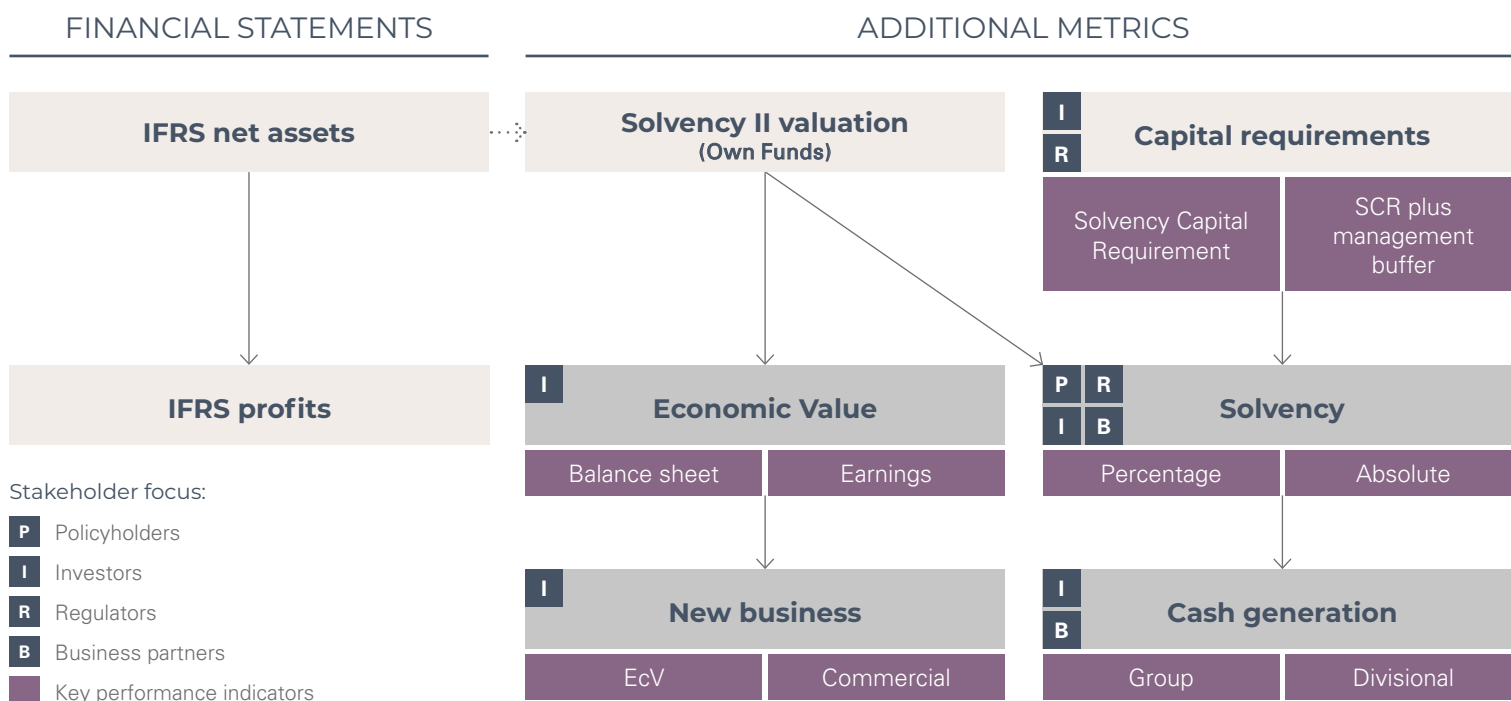
The following table identifies the key APMs used in this report, how each is defined and why we use them. Further information can be found throughout the Overview (Section A), with detailed reference within the Financial Review (pages 46 to 52).

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 48 and reconciliation on page 227
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>	It is an important indicator of the operating performance of the business before the impact of group level operations and consolidation adjustments.	See cash generation on page 48
Commercial cash generation	 <p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the inherent commercial cash generated by the business.</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 group's view of commercial performance, showing key drivers within that.	See cash generation on page 49
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 51

APM		WHAT IS IT?	WHY DO WE USE IT?	REF
Economic Value (EcV) earnings		<p>The principal underlying components of the EcV 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. 	<p>By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. EcV earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The EcV earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives.</p>	See EcV earnings analysis on page 50
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>	<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.</p>	See EcV earnings analysis on page 50
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>	<p>EcV economic earnings are important in order to measure the additional value generated from investment market factors.</p>	See EcV earnings analysis on page 50
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>	<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.</p>	See business review section on pages 36 to 42
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 is important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.</p>	See Consolidated Balance Sheet on page 135
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 52
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 52
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>	
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 debt divided by 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 53

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 valuation and the Own Funds balance is shown below:

£m	31 Dec 2021	31 Dec 2020	Rationale
Group IFRS net assets	458.2	487.1	
Removal of intangible assets; AVIF, DAC and DIL	(119.9)	(137.7)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	8,643.9	8,082.0	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II technical provisions. The main differences in methodology are discussed further below.
Inclusion of SII technical provisions, net of reinsurance	(8,394.6)	(7,856.1)	
Other valuation differences	1.4	10.9	Other immaterial valuation differences.
Deferred tax valuation differences	(1.5)	4.4	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(22.1)	(21.4)	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	(7.9)	(1.5)	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	557.5	567.7	

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.

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 2021 and 31 December 2020 is as follows:

£m	31 Dec 2021	31 Dec 2020
Group SII Own Funds (OF)	557.5	567.7
Solvency Capital Requirement (SCR)	366.8	363.7
Solvency surplus	190.7	204.0
Solvency ratio	152%	156%

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 224 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 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
Closing Solvency II surplus, including management buffer of 10%:	
Own Funds – 31 Dec 2021	557.5
SCR – 31 Dec 2021	366.8
Management buffer (10% of SCR)	36.7
Surplus available for distribution – 31 Dec 2021	154.0

The closing Solvency II position at 31 December 2021 reflects the payment of an interim dividend of £11.8m paid during the year and reflects a foreseeable dividend of £22.1m due to be paid in 2022. As these are distributions to shareholders, akin to IFRS profit reporting, these do not form part of the cash generation metric and should be excluded. Consequently, group cash generation can be derived as follows:

	£m
Closing surplus available for distribution less opening available surplus for distribution	(13.6)
Add back: Interim dividend paid	11.8
Add back: Foreseeable year-end dividend	22.1
Group cash generation	20.3

AGM	Annual General Meeting.	LACDT	Loss Absorbing Capacity of Deferred Tax.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	Leverage (gearing)	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, usually presented as a ratio, defined as debt divided by debt plus equity, as measured under IFRS.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	London Stock Exchange	London Stock Exchange plc.
CA	Countrywide Assured plc.	LTI	Long-Term Incentive Scheme – A reward system designed to incentivise executive directors’ long-term performance.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	Movestic	Movestic Livförsäkring AB.
BAU cash generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
BLAGAB	Basic life assurance and general annuity business.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
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.	Official List	The Official List of the Financial Conduct Authority.
Commercial cash generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the inherent commercial cash generated by the business.	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).
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.	Ordinary shares	Ordinary shares of 5 pence each in the capital of the company.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	ORSA	Own Risk and Solvency Assessment.
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.	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.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	PRA	Prudential Regulation Authority.
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).	QRT	Quantitative Reporting Template.
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.	ReAssure	ReAssure Limited.
FCA	Financial Conduct Authority.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	RMF	Risk Management Framework.
Form of proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	Scildon	Scildon N.V.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	Shareholder(s)	Holder(s) of ordinary shares.
Group	The company and its existing subsidiary undertakings.	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 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.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
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.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors’ short-term performance.
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.	SCR	In accordance with the UK’s regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group solvency	Group solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold in accordance with Solvency II regulations.	Swedish business	Movestic and its subsidiaries and associated companies.
HCL	HCL Insurance BPO Services Limited.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
IFRS	International Financial Reporting Standards.	TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
IFA	Independent Financial Advisor.	Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
KPI	Key Performance Indicator.	TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
		UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
		UK business	CA and S&P.
		UNSDG	United Nations Sustainable Development Goals.
		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 during 2011; 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.

