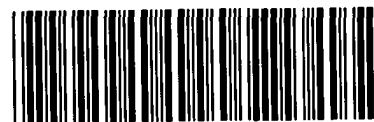


ANNUAL REPORT & ACCOUNTS

2019

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COMPANIES HOUSE

Chesnara plc

Company Number: 04947166

WELCOME TO THE CHESNARA ANNUAL REPORT & ACCOUNTS

FOR YEAR ENDED 31 DECEMBER 2019

I OUR COMPANY HISTORY

2004

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

2005

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

2009

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

2010

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

2013

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

2015

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

2016

Building upon our entry to the Dutch market we announce the acquisition of Legal & General Nederland, an open business.

2017

Completion of Legal & General Nederland acquisition, renamed Scildon, at a 32% discount to its Economic Value of £202.5m.

2019

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

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

SYMBOL GUIDE

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

 IFRS

 Economic Value Earnings

 Compliance

 Cash generation

 Solvency

 Acquisitions

 Economic Value

 Customer

 Risk appetite

 Operational performance

 Dividend/Total Shareholder Return

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Uddevalla, Sweden

AN INTRODUCTION TO CHESNARA

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

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

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

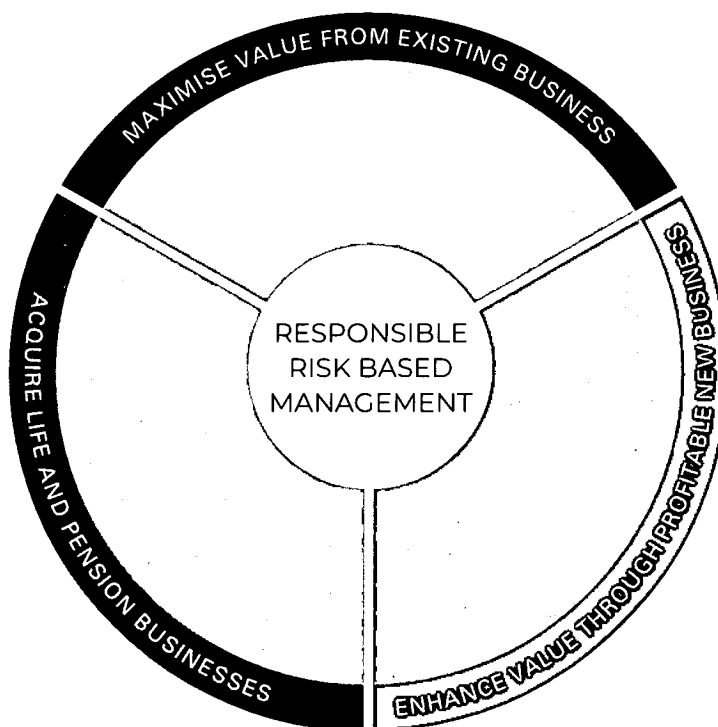
The group comprises both open-book and closed-book operations. We write new business where we are confident that conditions will ensure the sales are value adding. The new business operations will always be based on realistic market share expectations and hence the writing of new business will not detract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

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

WHO WE ARE

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

WHAT WE DO



HOW WE OPERATE

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

HOW WE CREATE VALUE

Customer

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

Shareholder

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

UK

FUNDS UNDER MANAGEMENT
£2.5bn

POLICIES
c260,000

SWEDEN

FUNDS UNDER MANAGEMENT
£3.2bn

POLICIES
c350,000

NETHERLANDS

FUNDS UNDER MANAGEMENT
£2.1bn

POLICIES
c290,000

DELIVERING OUR STRATEGY

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



DIVIDEND HISTORY

15 SUCCESSIVE YEARS OF DIVIDEND GROWTH

We recognise the importance of providing stable and attractive dividends to our shareholders. A full year 2019 dividend of 21.30p per share represents an increase of 3% on the prior year and is Chesnara's 15th successive year of dividend growth.



VALUE GROWTH

314% OF VALUE GROWTH SINCE 2004

Value growth is achieved through a combination of efficient management of the existing policies, acquisitions and writing profitable new business. The growth since incorporation includes £148m of new equity since 2004 but is net of £329m of cumulative dividend payments. The value of the group is affected by investment market conditions at any given point in time.

Dividend per share history Pence per share

2019	21.3
2018	20.7
2017	20.1
2016	19.5
2015	18.9

Value history £m

2019	670
2018	626
2017	723
2016	603
2015	455

What we've done

7 successful acquisitions across 3 territories

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

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

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

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



CASH GENERATION

CASH GENERATION CONTINUES TO SUPPORT DIVIDENDS

Ultimately the group needs to generate cash to service its dividends. We define cash generation as the movement in the group's surplus own funds above the group's internally required capital. Cumulative cash generation over the last five years represents 174% of the total dividends over the same period.



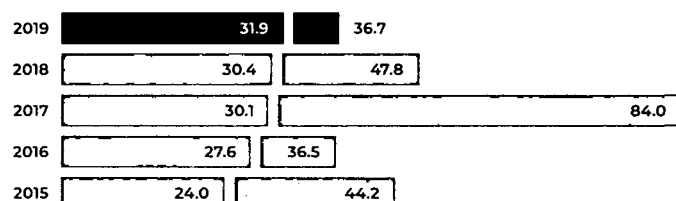
CUSTOMERS

OUR PRIMARY RESPONSIBILITIES REMAIN TO OUR CUSTOMERS

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

Business as usual cash generation £m

— Dividend



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

2019 HIGHLIGHTS

Financial highlights



IFRS

£96.1M IFRS PRE-TAX PROFIT

2018 £27.0m

The 2019 result includes £49.1m of profits relating to economic market conditions, predominantly asset growth in Scildon. Conversely, economic conditions created a £15.5m loss in 2018.

£60.6M TOTAL COMPREHENSIVE INCOME

2018 £23.7m

The 2019 result includes a foreign exchange loss of £18.7m (2018: loss of £0.8m). [Financial review p48](#)



SOLVENCY

155% GROUP SOLVENCY

2018 158%

We are well capitalised at both group and subsidiary level under Solvency II. We have applied the volatility adjustment for the first time in 2019 in both of our Dutch subsidiaries (see page 40 for more detail). [Capital management p40](#)



ECONOMIC VALUE

£670.0M ECONOMIC VALUE

2018 £626.1m

Movement in the year is stated after dividend distributions of £31.3m and includes a foreign exchange loss of £28.8m.

[Financial review p47](#)

£104.0M ECONOMIC VALUE EARNINGS

2018 £(60.9)m

The result includes £121.1m of earnings resulting from investment market movements (2018: investment market loss of £(49.7)m). [Financial review p46](#)

£14.4M COMMERCIAL NEW BUSINESS PROFIT

2018 £15.4m

Note 1 – page 11

This new metric is deemed to better reflect the commercial impact of writing new business than the previous measure that was based more directly on Solvency II rules. Scildon has reported a 65% year on year improvement due to record term assurance policy sales and a reduction in acquisition costs. Pricing pressures and changes in transfer regulations have driven a 37% reduction in Movestic's new business value.

[Business review p34 to 37](#)

CASH GENERATION

£36.7M GROUP CASH GENERATION

2018 £47.8m

The 2019 result includes a cash strain of £24.7m from the symmetric adjustment impact [Note 2 page 11](#). Enhanced cash analysis on page 45 identifies the material components of this headline cash result. The prior year benefited from a positive symmetric adjustment impact and £20m of net releases from the with-profits fund (2019: £5.1m net growth in restricted surplus).

[Financial review p44](#)

£50.8M DIVISIONAL CASH GENERATION

2018 £63.9m

Operational and capital optimisation management actions together with modestly beneficial economic conditions have resulted in a strong divisional cash outcome.

[Financial review p44](#)

I Operational & Strategic highlights



DIVIDEND

FULL YEAR DIVIDEND INCREASE

Total dividends for the year increased by 3% to 21.30p per share (7.43p interim and 13.87p proposed final). This compares with 20.67p in 2018 (7.21p interim and 13.46p final).



ECONOMIC BACKDROP

2019 SAW EQUITY MARKET GROWTH, FALLING INTEREST RATES, STERLING RECOVERY

The financial results for 2019 reflect rising equity markets and narrowing bond spreads which have supported significant investment returns and economic earnings. The economic conditions, including further downward pressure on interest rates, have been less beneficial for cash generation and in particular the rising equity markets driving a negative symmetric adjustment. A strengthening of sterling against the euro and Swedish krona has led to foreign exchange translation losses.



DUTCH ACQUISITIONS

EXPANSION IN THE NETHERLANDS WITH TWO PORTFOLIO ACQUISITIONS

Operations in the Netherlands continued to grow following the successful completion and integration of our first small policy portfolio acquisition from Monuta Insurance and the announcement of a more significant portfolio acquisition from Argenta Bank (subject to regulatory approval), at a discount to EcV of c22%.

Notes

These financial highlights include the use of Alternative Performance Measures (APMs) that are not required to be reported under International Financial Reporting Standards. The definition for each of these items has been included on page 12 and in further detail within the Financial Review section on pages 42 to 48.

1. During the year we have assessed our new business profitability measurement criteria. This review was initiated to ensure the figures reported, which were previously directly linked to the Solvency II measurement regime, are in fact a fair commercial reflection of value being added. As part of the assessment we also compared how our peers report new business profits to ensure market consistency. As a result of the assessment we have made two changes to how we quantify new business profits. Firstly, we now base the future cash flows on assuming a modest level of return over and above risk-free returns. No premium to risk-free was applied in the past. Secondly, we now exclude the incremental risk margin that Solvency II modelling assigns to the new business. We believe the revised profitability measurement better reflects the value of the best estimate cash flows we expect to emerge from new business written. The 2018 comparatives have been restated to the new basis.

We now adopt the more commercially relevant figures within our business and financial performance reviews of the report and accounts, including the Chairman's Statement, as well our internal reporting. Within the Solvency II and EcV analysis sections, where the guidelines have to be applied, the impact of new business on movements during the year will remain on the technically imposed basis.

2. Symmetric adjustment: the Solvency II capital requirement calculation includes an adjusting factor that reduces or increases the level of the equity capital required depending on historical market conditions. Following periods of market growth, the factor tends to increase the level of capital required and conversely, in falling markets the capital requirement becomes less onerous.

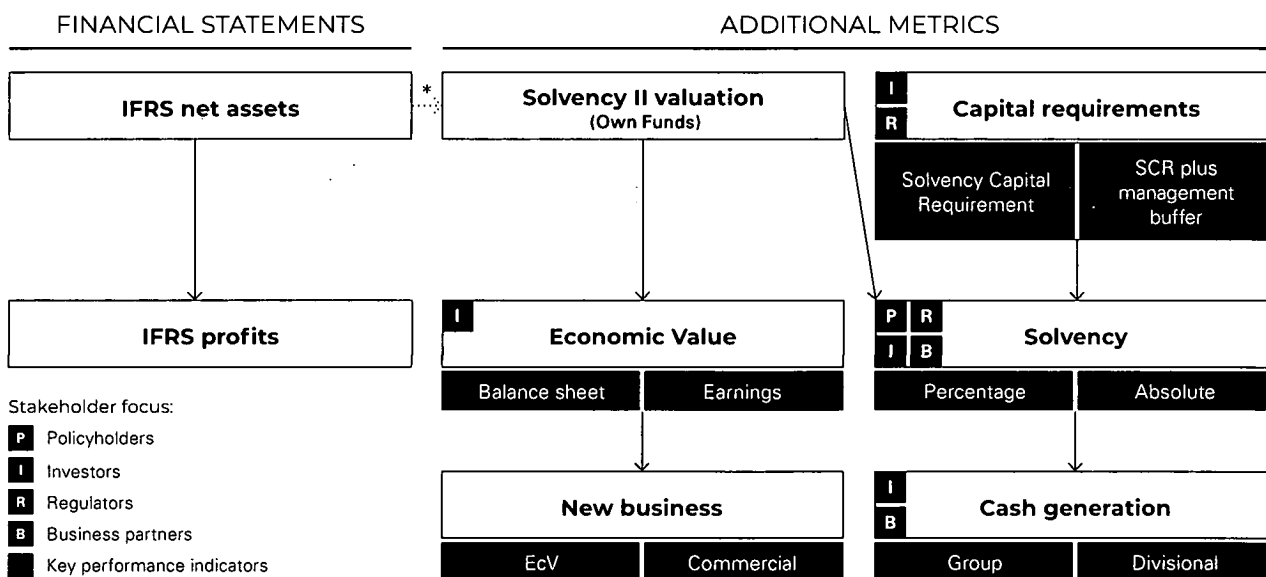
MEASURING OUR PERFORMANCE

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

FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

Whilst the IFRS results form the core of the Report & Accounts and hence retain prominence as a key financial performance metric, there is a general acceptance that the IFRS results in isolation do not adequately recognise the wider financial performance of a typical life and pensions business. In light of the limitations of IFRS reporting, this Report & Accounts adopts several Alternative Performance Measures (APMs) to present a more meaningful view

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



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).

ECONOMIC VALUE

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

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

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

* See page 205 for a reconciliation between IFRS net assets and Solvency II Own Funds

CASH GENERATION

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

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

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

Further details on p39 to 41

Further details on p46 to 47

Further details on p44 to 45

OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

Measure	KEY STAKEHOLDERS				What is it and why is it important?	Page
	Policyholder	Investor	Regulators	Business partner*		
Customer service levels	🔒	🔒	🔒	🔒	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report & Accounts refer to a number of indicators of customer service levels.	32-37
Broker satisfaction	🔒	🔒	🔒	🔒	Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Report & Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	34-37
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.	32-37
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.	32-37
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.	34-35
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.	49
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'.	34-37
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.	34-37
Gearing ratio		🔒	🔒		The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources. The appropriate use of debt is an efficient source of funding but in general Chesnara seeks to avoid becoming overly dependent on permanent debt on the balance sheet.	49
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.	64-65

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

Key: 🔒 Primary interest 🔒 Secondary interest

CHAIRMAN'S STATEMENT

I'm pleased to report a further
3% growth in the
proposed annual dividend.

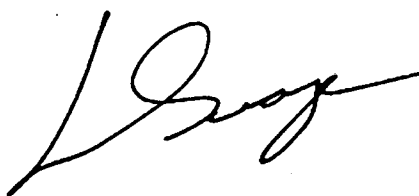
I join Chesnara very much aware of its impressive track record, in particular regarding dividend growth. My predecessor, Peter Mason, has been a huge part of Chesnara's success to date and Peter and the board have created a culture which ensures customer, risk and stakeholder impact are at the heart of all decisions. Based on my initial observations, I inherit a strong balance sheet, a healthy risk profile, good cash reserves, experienced management teams across the group and a robust approach to governance. I am confident that the foundations are strong and we can continue to deliver positive outcomes for all our stakeholders in the future.

Against a backdrop of continued falling interest rates, I am particularly pleased to report a 7% post dividend growth in Economic Value and a cash generation to dividend ratio of 115%, despite the impact of currency fluctuations. Our divisions are proposing total dividends to the parent company of £50.1m. I am pleased to report that the financial performance has

enabled us to recommend a 3% increase in total dividend.

Management teams have been extremely busy across all the divisions delivering our digitalisation, efficiency improvement and customer communication programmes.

Chesnara takes its environmental responsibilities very seriously and we have taken meaningful steps during the year to minimise any adverse impact our operations have on the environment. As a result, I am proud to announce that Chesnara has gained carbon neutrality for its 2019 emissions.



LUKE SAVAGE
CHAIRMAN

Against a backdrop of continuing political uncertainty over the year, further downward pressure on interest rates and during a period of significant operational development, the Chesnara business model has performed robustly.

Economic Value has increased by 7%, with earnings of £104.0m significantly exceeding the payment of the total 2019 dividend and a foreign exchange loss of £28.8m. From an IFRS results perspective, the profit before tax of £96.1m is significantly up on the comparative result in 2018 of £27.0m. This is predominantly due to the strong Scildon results, which benefited from valuation gains in its bond portfolio as a result of narrowing spreads.

At the heart of Chesnara's proposition as a reliable income stock, the UK book has continued to generate sufficient cash to support the Chesnara dividend. This, combined with a total positive cash contribution from the overseas divisions, has resulted in a solid group cash generation of £36.7m (2018: £47.8m).

The dynamics of this year's cash result are particularly complex, and the total result represents the net impact of many individually significant items. In light of this and given the importance of cash, we have included enhanced cash analysis on page 45. This analysis shows an adjusted cash result, which excludes the impact of technical items such as the 'symmetric adjustment' and other non-recurring modelling and technical items, of £75.3m.

The Solvency II standard formula capital model is more onerous regarding capital requirements for equity exposure during a period of strong equity market recovery as has been the case in 2019. This dynamic, termed the 'symmetric adjustment' is therefore a key feature of the cash result in the year having increased capital requirements during the period, with a corresponding cash strain of £24.7m. During the final quarter of 2018 when equity markets fell sharply, we experienced a material opposite positive impact from the 'symmetric adjustment'.

Total new business profits of £14.4m ^{Note 1 page 11} are slightly lower than the prior year (2018: £15.4m). The Scildon contribution has continued to improve as the business improvement programme begins to have a positive impact on volumes and profitability. Movestic has maintained volumes in a competitive market but fee pressures and the impact of regulatory changes have led to a reduction in their total new business profit. We retain our expectation to replace a meaningful proportion of the value lost from payment of the dividend through writing new business.

The resilience of the closed book business units creates a strong foundation to support the continued development programme in Scildon and Movestic.

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

01

MAXIMISE VALUE FROM EXISTING BUSINESS

The financial performance of our divisions has enabled all of them to propose dividend payments to group. The total expected dividends of £50.1m represents 157% coverage of the total 2019 shareholder dividend.

See pages 32 to 37 for further information.

Cash generated is reassuring especially considering the material adverse impact (c£36.5m) of continued reductions in interest rates. Excluding the impact of the 'symmetric adjustment' and foreign exchange losses, all divisions have made positive cash contributions which in turn has enabled all divisions to propose dividend payments to Chesnara with a total value of over £50m.

The UK business has generated £33.6m of cash, which continues to more than fund the dividend strategy.

On a cumulative basis Scildon has generated £21.0m of cash since it was acquired in 2016, which confirms our initial assessment that through a combination of business performance and capital management actions the division would make a meaningful contribution to Chesnara dividend funding requirements.

In Movestic, excluding the impact of the 'symmetric adjustment' and foreign exchange losses, the underlying result is a gain of £11.5m. This together with the positive cash outcomes in 2017 and 2018, has enabled Movestic to propose a record dividend of £6.2m.

Segmental analysis of the cash result is shown on pages 44 to 45.

All divisions have made material positive contributions to the overall Economic Value earnings of £104.0m. Much of the improvement is driven by an increase in equity and fixed interest investment valuations. It is pleasing to see the Economic Value losses in 2018 being more than fully recovered. Movestic has delivered 11% growth despite fully recognising the adverse future impact of regulatory changes regarding policy transfer processes and charges. The total pre dividend growth in Economic Value of £75.2m includes foreign exchange losses of £28.8m.

02

ACQUIRE LIFE AND PENSIONS BUSINESSES

The acquisition of Argenta Insurance in the Netherlands, is expected to add c£6.9m of Economic Value and future cash potential when it completes in 2020.

See page 38 for further information.

ANNOUNCEMENT OF OUR ACQUISITION OF ARGENTA INSURANCE AT A 22% DISCOUNT TO ECONOMIC VALUE CONFIRMS OUR PRESENCE IN THE DUTCH MARKET AND THAT DEALS ARE AVAILABLE WITHIN OUR PRICING CRITERIA

We have seen a rise in seller's valuations and prices paid for potential targets. Against this backdrop and following our acquisition and transfer of a small portfolio in the Netherlands, we were pleased to announce a further addition to our Dutch portfolio, acquired at a 22% discount to Economic Value. This confirms that it remains feasible to do deals whilst retaining our price discipline.

I CHAIRMAN'S STATEMENT (CONTINUED)

We are committed to maintaining our discipline when assessing potential acquisitions and ensuring that any offer we make is in the interests of all of our stakeholders, with suitable reward for the additional risks taken on. Chesnara has strong support from shareholders and lending institutions to progress our acquisition strategy. We also believe that our operating model has the flexibility to accommodate a wide range of potential target books. We believe our good network of contacts in the adviser community, who understand the Chesnara acquisition model, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are well positioned to continue the successful acquisition track record in the future.

03

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

New business profits of £14.4m Note 1 page 11

See pages 34 to 37 for further information.

TOTAL NEW BUSINESS PROFITS OF £15.1M NOTE 1 PAGE 11 REPLACE 46% OF THE REDUCTION IN ECV CAUSED BY THE DIVIDEND PAYMENTS IN THE YEAR

Chesnara writes new business in both Sweden and the Netherlands. The ultimate aim is to create sufficient annual profits, either through returns on the existing business, or through writing new business, to replace a significant proportion of the Economic Value lost by way of dividend payments. Movestic continues to deliver within its target volume range although profits of £6.9m Note 1 page 11 for 2019 are lower than the prior year (2018: £10.9m Note 1 page 11). This is due to several factors, including a shift away from single premium transfers, pressure on fee levels and legislative changes regarding transfer-out charges and processes. Movestic has progressed several key initiatives during the year and these are expected to help protect the business from any future price pressures and enhance volumes by modernising the customer and broker experience. These include:

- Further roll-out of the ongoing digitalisation programme with the specific objective to enhance the broker experience e.g. extending access to robot advice functionality to brokers;
- Adding new funds and functionality, including the recent launch of funds with protected return features and the plan to launch further products to broaden the customer offering; and
- Simplifying the corporate structure.

Scildon are not yet delivering to their full potential regarding new business profits. That said, further improvements in performance in the period combined with adopting a more commercially meaningful assessment of new business profits (Note 1 page 11) does mean that current new business value represents a meaningful contribution to replacing dividend payments. The new business profit for 2019 of £7.5m has improved by 65% from the prior year with positive development in both volumes and operational efficiency. There remains much to do but seeing some real rewards from the hard work to date gives cause for optimism that increasingly meaningful new business profits are attainable.

Solvency

The group continues to show a robust solvency ratio of 155% at 31 December 2019 (31 December 2018: 158%). To continue to manage capital effectively and as a result of the ongoing volatility that has been witnessed in bond spreads over recent periods, we have applied the Volatility Adjustment for the first time within Scildon's and Waard's results, which has had a modest positive impact and will also help protect against future volatility. The closing solvency position is stated after recognising the £20.8m cost of the final dividend, which will be paid in June 2020.

Regulation and governance

IFRS 17

Our programme has progressed well in the year, with our immediate focus being on assessing the key areas of technical judgement and identifying the necessary operational changes. From an operational and risk management perspective, the further proposed one-year implementation delay helps due to the complexity of the implementation but we believe it could cause additional costs.

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

Regulatory compliance

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

Governance framework

We continue to maintain a strong risk and governance culture across the group. Our current focus is on enhancing our operational resilience to improve understanding of any vulnerabilities and to strengthen and test our contingency options, providing greater assurance that all important business services can continue following any unexpected disruption.

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

Corporate purpose and Section 172 reporting

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

Business model

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

The products and services we provide

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

Sustainability

- Driven in part by consumer demand, especially in our Dutch and Swedish operations, there is a continued positive shift towards an increased focus on sustainable fund investments.
- The nature of our business is such that in general we have a relatively low carbon footprint, even so we choose to fully offset our carbon emissions.

Shareholder proposition

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

Taxation

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

Staff

- We provide high quality jobs with competitive remuneration and good working conditions both directly and through outsourced arrangements.

Suppliers and partners

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

Local community

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

OUR VIEW IS THAT CHESNARA FULFILS A POSITIVE CORPORATE PURPOSE.

Outlook

Since the end of 2019, Covid-19 has emerged as a pandemic. This has had a significant impact on investment markets and society in general, and we have been closely assessing the impact on Chesnara and our stakeholders. Whilst the market impacts have been extreme, the scale of impact remains within the ranges we test as a matter of course within our established governance procedures. It is also useful to note that the Solvency II regime is designed specifically to ensure that we hold sufficient capital to withstand the kind of adverse conditions we are currently experiencing. Chesnara remains well

capitalised and, based on the closing market position on 31 March 2020, our solvency cover ratio is estimated at approximately 163%, after allowing for payment of our proposed final dividend. The estimate does not allow for any increase in insurance claims because analysis suggests the increase in the level of claims experience will not be material.

Whilst the solvency position post year end has held up well, the Economic Value of the group is estimated to have dropped by approximately c£90m, in line with our reported sensitivities.

The Chesnara parent company had cash and near cash balances at the end of 2019 of over £75m. This balance had built in part as a result of our disciplined historical dividend strategy whereby we have prioritised the ability to sustain the dividend during difficult times over the payment of special dividends. In addition to this, these accounts show that we are foreseeing dividend income from our divisions during 2020 of £50.1m. Based on divisional solvency and liquidity estimates as at 31 March 2020 this amount is still expected to be paid during the second quarter, although we will await the results from our full quarter one valuation prior to making the payments. There is a degree of risk that following the deferral period and on reassessment a proportion of the total expected divisional dividends is not paid. Even assuming a realistic worst case outcome regarding divisional dividends Chesnara retains a healthy post dividend cash balance.

It remains too early to quantify the potential long-term impact on our financial performance arising from Covid-19, although we continue to have a strong and viable business. At this point, we remain focused on supporting our customers and colleagues while maintaining our financial and operational resilience. To date, our operations in all divisions and at group have undertaken a fairly smooth transition to remote working conditions, with no significant or prolonged disruption to key business services anticipated.

Beyond the Covid-19 situation, based on my early assessment of the business, Chesnara has a clear strategic direction and the ability to deliver against its objectives, which in turn fund our well-established dividend strategy. In particular:

- value and cash are expected to continue to emerge from our existing books of business, both in the UK and our overseas divisions;
- we have sufficient scale and presence in both the UK and the Netherlands to continue our focus on acquisition activity in those territories. We also remain open minded about new territories, but the benefits would need to outweigh the inherent challenge of adding another regulatory environment into our business model; and
- we remain committed to writing new business in both Sweden and the Netherlands with a view to replacing a meaningful proportion of the dividend strain through our new business operations.

From a Brexit perspective, the structure of the group, with established regulated entities in three European countries, together with the fact we do not trade or share resource across territories, means I share the previously stated Chesnara view that whatever the outcome from the Brexit negotiations, we expect it to have little direct impact on our business model.

In light of the above, I am confident that after we have overcome the short-term challenges from Covid-19 including doing everything in our power to keep colleagues and business partners safe and sound, Chesnara is well positioned to continue to provide value to policyholders and shareholders and I look forward to working with a business that has been handed over to my Chairmanship in such good condition.



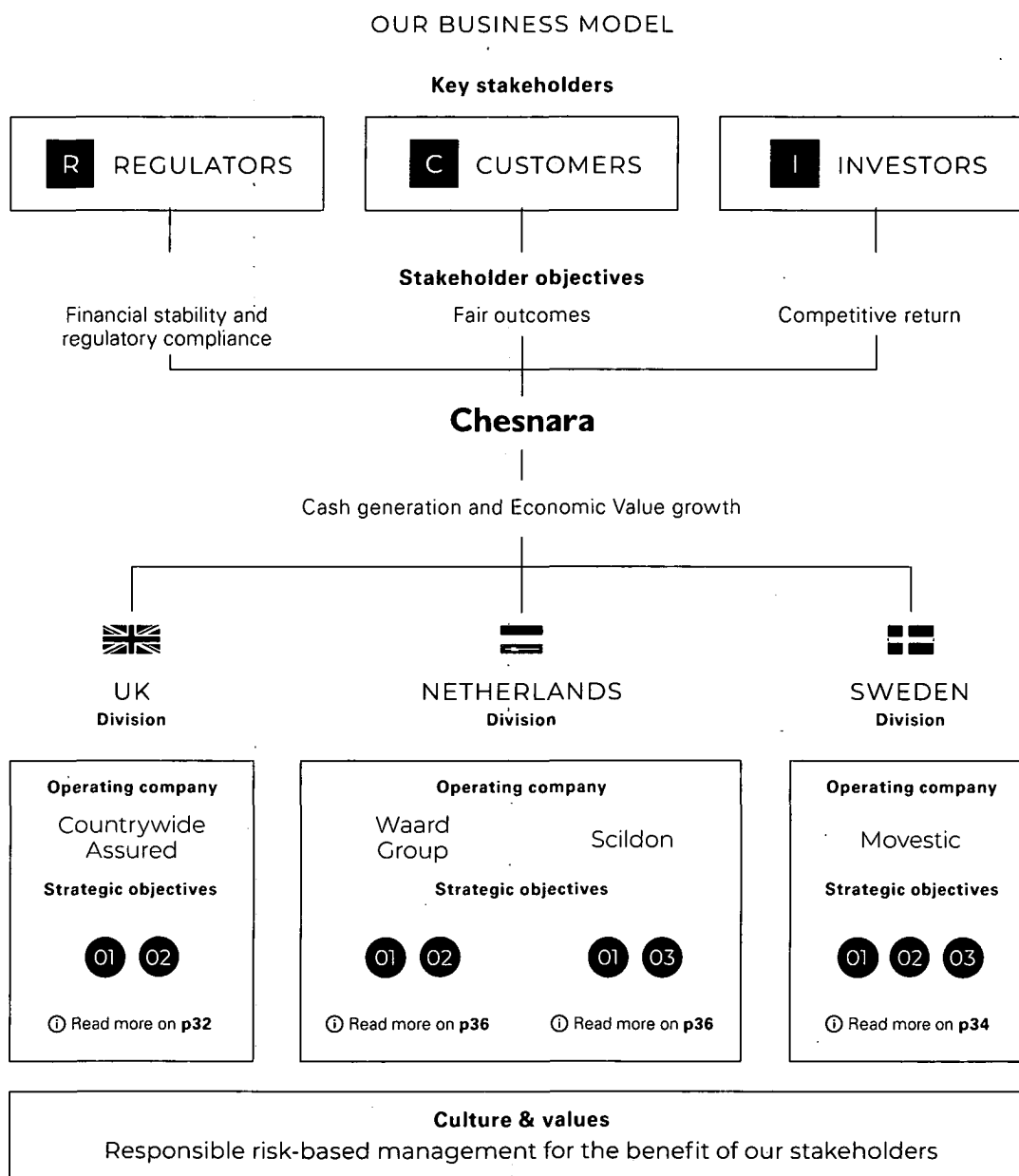
Luke Savage
Chairman
14 April 2020

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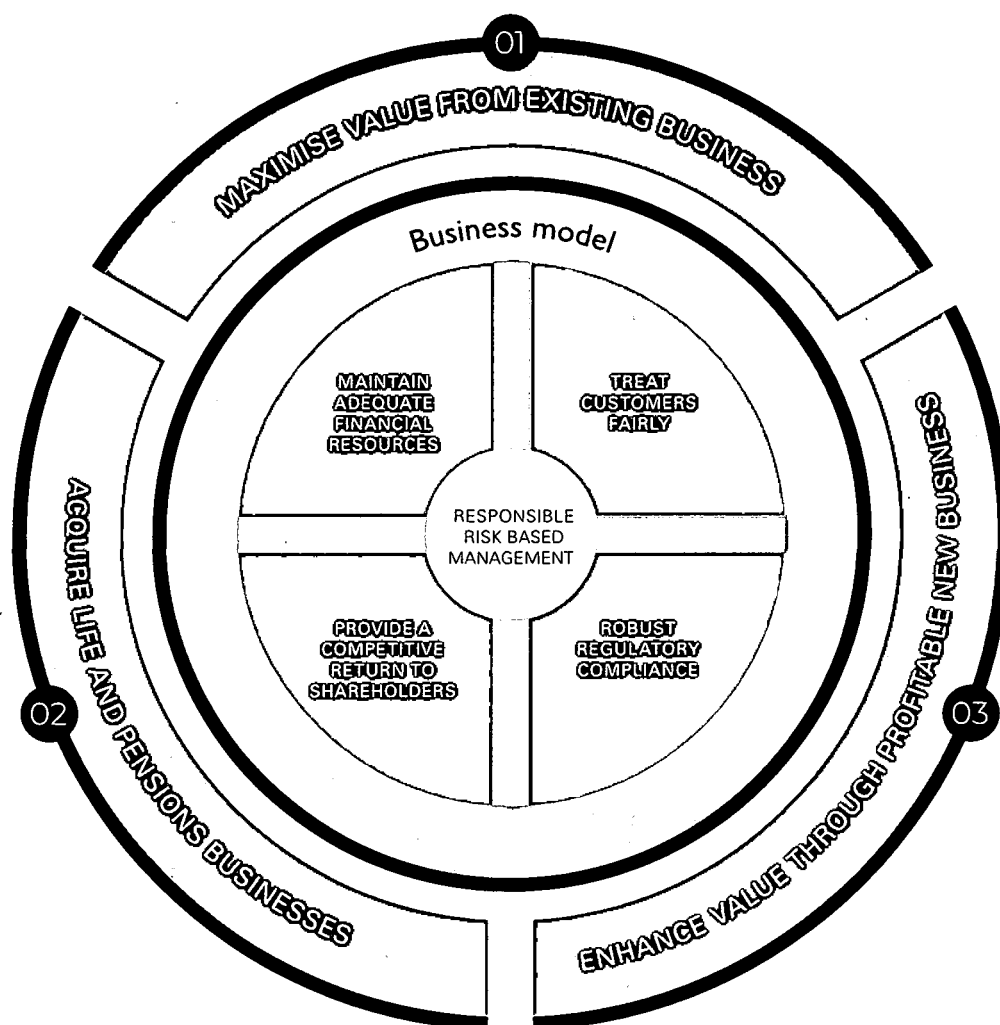
Preston Dock

OVERVIEW OF OUR STRATEGY, CULTURE & VALUES AND BUSINESS MODEL

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



OUR STRATEGIC OBJECTIVES



01

MAXIMISE 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.

I OUR STRATEGY

STRATEGIC OBJECTIVE	WHY THIS MATTERS	HOW WE DELIVER OUR BUSINESS MODEL
MAXIMISE VALUE FROM EXISTING BUSINESS 01	The existing books of policies are the principal source of cash generation and are hence at the heart of the investment case for our shareholders.	A centralised governance oversight and corporate management team ensure robust and consistent governance across the group. Operating autonomy is devolved to the divisions to ensure we benefit from our strong divisional management teams. The UK business adopts an outsourced business model. Core operations are not outsourced in Sweden or the Netherlands.
ACQUIRE LIFE AND PENSION BUSINESSES 02	Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the longer-term cash generation potential of the group.	– Identify potential deals through an effective network of advisers and industry associates. – We assess deals applying well established criteria which consider the impact on cash generation and Economic 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.
ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS 03	The primary focus of our operations is to ensure we manage the existing policy base in an efficient and compliant manner. That said, the Chesnara financial model supports modest incremental value generation through writing new business. New business profits are an important and welcome source of regular value growth which supplements the growth delivered from our existing policy base and periodic acquisitions.	Our two operating subsidiaries that are open to new business are Movestic in Sweden and Scildon in the Netherlands. Movestic primarily focuses on unit-linked pensions and savings business, distributed largely through IFAs, and has a profitability model based upon realistic market shares. Scildon sells protection products, individual savings and group pensions contracts via a broker-led distribution model, and as with Movestic, new business operations assume realistic market shares. For both open businesses, we believe that to achieve higher volumes would require a pricing strategy that may compromise the keen focus on ensuring the business we write is profitable.

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.

Value optimisation

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.

- 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.
- Increased lapses on cash generative / value enhancing products.
- Loss of key brokers can result in increases in the level of customers moving to competitors.
- Regulatory change can potentially impact the cash flows arising from the existing business.
- Expenditure levels could exceed those assumed.
- 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 32-33



Sweden
Pages 34-35



Netherlands
Pages 36-37

**Cash generation**

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

Value enhancement

Acquisitions are required to have a positive impact on the Economic Value per share under best estimate and certain more adverse scenarios.

Customer outcomes

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

Risk appetite

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

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

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

Page 38

Value enhancement

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

- The attractiveness of products can be influenced by economic conditions, politics and the media.
- New business volumes are sensitive to the quality of service to intermediaries and the end customer.
- In Sweden, new business remains relatively concentrated towards several large IFAs.
- A competitive market puts pressure on new sales margins.

- In Sweden, continue to extend the breadth of IFA support and develop more direct to customer capabilities.
- Ensure high quality of service to existing network of intermediaries.
- Focus on other margin drivers beyond product pricing, such as the fund management operation.
- In the Netherlands, enhance business processes and product offering to be attractive to brokers and consumers.

Sweden
Pages 34-35



Netherlands
Pages 36-37



OUR CULTURE & VALUES

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

CULTURE & VALUES		WHY IMPORTANT?
FAIR TREATMENT OF CUSTOMERS	Maintaining adequate financial resources is at the heart of good business conduct. Effective capital management is a key requirement that underpins our cultural objectives. Further information regarding the group's solvency position is included on pages 39 to 41.	The fair treatment of customers across the group is our primary responsibility. It is also important to the Chesnara business strategy as it promotes stronger relationships with our customers, distributors and regulators. When applying the terms of our customer contracts, coupled with guidance and requirements set out by our local regulators, we place a high priority on taking account of the fair treatment of our customers.
RESPONSIBLE RISK-BASED MANAGEMENT FOR THE BENEFIT OF ALL OF OUR STAKEHOLDERS		Risk taking is a key part of our business model - taking the 'right risks' and managing them well is essential to our success. We achieve this by understanding the key risk drivers of the business plan and strategy and by making sure we monitor these risks and take appropriate risk-based decisions in a timely fashion, for the benefit of all of our stakeholders.
PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS		As a public company, it is imperative that we offer an attractive investment proposition. Given the majority of our investors hold our shares in 'income funds', it is important that we deliver an attractive and sustainable dividend. We also recognise the benefit of being an investment that offers clarity and consistency of performance.
ROBUST REGULATORY COMPLIANCE		Working constructively with our regulators and complying with regulatory requirements 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 directors.

WHAT WE HAVE DONE

THE OUTCOMES

- Across the group, we have continued to deliver a good standard of customer service.
- The UK division is finalising the implementation of its customer strategy in support of regulatory guidelines.
- The UK's administrative outsource service partners have delivered within stringent service level requirements.
- Service standards in Sweden remain strong, as evidenced by external surveys of brokers undertaken by independent organisations.
- Unit-linked policy returns remain competitive based on both fund benchmarks and external unit-linked policy performance surveys.
- Where complaints do arise across the group, 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.

- Generally low level of complaints across the group has continued.
- Improved customer communications, supporting better customer outcomes.
- Service standards and customer outcomes in Sweden mean we continue to meet our targets for market share range.
- In the Netherlands, Scildon has again received an award from Afdiz, the Dutch broker organisation. In 2019, the business was awarded 'Best Investment Policy Provider' continuing a long run of winning awards across its product range.
- The recently launched mortgage term product in the Netherlands won a five-star rating and best product award from independent research agency, MoneyView.

- Continued to enhance our Own Risk and Solvency Assessments (ORSAs), further supporting the group and divisions in making informed risk-based decisions.
- Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review.
- We have assessed the capital efficiency of the assets held by Scildon and de-risked assets held.
- We have agreed with the Dutch regulator, the DNB, to reduce the internal capital management buffer for the Dutch entities from 100% to 85%.

- Strengthened controls, reducing risk likelihood and impact of adverse outcomes for shareholders and policyholders.
- Constructive dialogue with regulators across the different territories in which the group operates.
- Continued improvement in the understanding of the group's Solvency II balance sheet, which provides a stronger linkage between risk, capital and strategy aiding more risk-based decision-making.

- Continued our dividend strategy of increasing our dividend each year, even during turbulent investment market conditions.
- Maintained a robust solvency position in all divisions and at group level which supports the continued dividend strategy.

- Dividend track record continues, with 3% dividend growth in 2019.
- Over the past five years, £144.0m of dividends have been paid.

- 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.

- Ongoing constructive relationships with UK, Swedish and Dutch regulators.
- Continued adherence to internal governance policies and principles.

SECTION 172 • THE BOARD'S APPROACH

Section 172 reporting is a new requirement for the Report & Accounts this year. It was introduced through amendments to the Companies (Miscellaneous Reporting) Regulations 2018. Whilst the requirement for directors to consider the matters within Section 172 of the Companies Act is not new, the disclosure of how this has been applied in practice is.

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 2019. The disclosures have been split into three key sections:

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

THE BOARD'S APPROACH

Role of the Chairman

As described on page 68 within the Corporate Governance Report, it is the role of the Chairman to lead the board in the determination of the group's strategy, to ensure that the board is furnished with sufficient information in order to support its decision making, and to ensure that relevant stakeholders have been taken into account when making decisions.

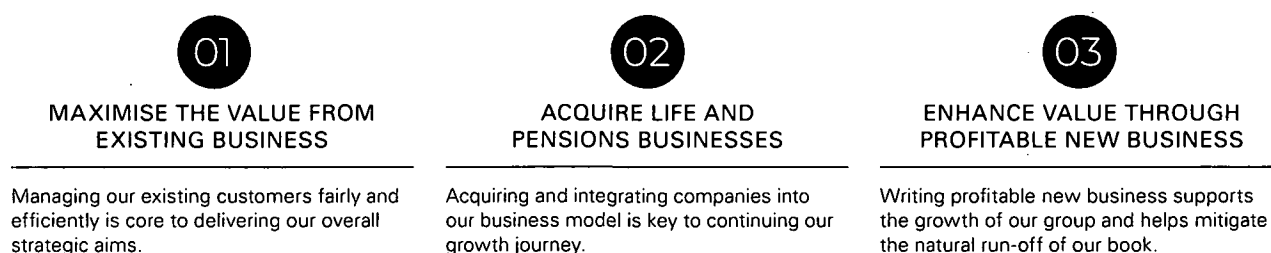
Business planning

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

STAGE 1 Strategic planning 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.	STAGE 2 Review and challenge of divisional and group operational plans Following completion of the group driven strategic planning process, and any associated feedback to the operating divisions of the group, operational plans are developed and critically reviewed by the group. The key objectives within the operational plans are explicitly linked to the strategic objectives of the group in order to ensure that the key management actions that have been identified support delivery of the group strategy.	STAGE 3 Detailed business plans supported by financial projections 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.
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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 2019 confirmed that the board wishes to continue to pursue the following strategy:



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

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

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

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

Further information on how the board considers each key stakeholder group is provided on pages 28 to 29.

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 those 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 both a group board and divisional board level. The objectives of the maps are to '...set out the mechanisms of governance for Chesnara and the framework of governance requirements to be observed across the group, including principles, policies, delegations of authority and decision-making arrangements.' Each map contains a framework that supports decision making and includes relevant guidance on what decisions can be made locally and what requires escalation to the Chesnara board. It also provides guidance on what information is required to support board decision making.

Board papers and matters discussed

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

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

SECTION 172 • KEY STAKEHOLDERS

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

	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER
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.	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. 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. 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). We obtain feedback from on the way we engage with our customers through periodic market research or customer focus groups.
SHAREHOLDERS	Having a strong and stable shareholder base is seen as critical for the long-term success of the group. Our shareholder support facilitates pursuing our long-term strategy, including the potential for raising new capital for acquisition purposes.	Any business decision that is made that affects either the future dividend payments of the group, or its long-term sustainability will be of significant interest to our shareholders. If either of those elements are put under pressure, it is likely to reduce confidence in the group, and could lead to a reduction in shareholder returns.	We primarily engage with shareholders through the following key channels: – 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. In the event that we are looking to raise additional equity our shareholders are engaged at the appropriate point in the process.
BANKS	Maintaining a strong relationship with our banks is key. This helps to ensure that day-to-day banking remains efficient and cost effective; longer term lending remains accessible and compliant and potential new facilities are competitive and readily available. We are required to manage our finances in such a way that complies with the covenants attached to our debt facilities.	The banks earn a return on the facilities that are provided to the group. Chesnara's role is to ensure that we manage our finances and strategy in a way that minimises the risk of loss to our lenders, whilst also enabling further funding opportunities by continuing to grow our business.	Our regular engagement with banks takes the form of quarterly covenant compliance reporting, which is required for our existing debt arrangements. On a more ad-hoc basis we will engage with our bankers in the event of a change in our business or to seek new funding, say to support an acquisition. In the event of an acquisition where we would like to secure more funding, we work with our bankers to ensure that we are providing relevant information in order to support the banks' loan decision making process.
INTERMEDIARIES	The new business operations of Scildon and Movestic utilise intermediaries in order to distribute their products, with most new business being derived from this channel rather than directly sales to the end customer. As a result we rely on good quality intermediaries who understand our products and customers well.	Selling our products will be a source of revenue for our intermediaries. When dealing with the end customer, intermediaries will rely on quality information being provided by us in a timely manner.	We strive to work closely with our intermediaries, engaging in a number of ways. In Movestic, all intermediaries have access to a partner web site, where they can administer customer processes and obtain information as required. Regularly intermediary newsletters are issued, providing information on current matters, such as new products or regulatory updates. The Swedish division also host an annual conference to engage with intermediaries, facilitating two-way discussion around products, services and market developments. Other areas of engagement include frequent meetings with intermediaries, on an individual basis.

	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER
OUTSOURCERS	Outsourcers play a significant part in the day to day operations of our activities, especially in the UK. Without our outsourcers operating effectively, we may see an impact on our performance, and our relationship with customers, which could lead to potential regulatory issues.	Our outsourcers have an opportunity to share in the growth of the group through further acquisitions or portfolio transfers. Our outsourcers rely on the ongoing financial stability of the group in order to ensure that the services provided under any existing arrangements continue to be paid for by Chesnara.	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.
EMPLOYEES	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.	Chesnara, and its subsidiaries have various mechanisms in place to ensure appropriate levels of engagement exist with employees. This involves: – 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. Our corporate and social responsibility statement on pages 58 to 61 provides further information.
REGULATOR	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.	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.	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.
SUPPLIERS	The group has a relatively small but stable set of suppliers, who provide quality and efficiency, and whom we rely upon. Most of our suppliers are those providing professional services to which the group rely upon high quality support and advice.	For those key suppliers of Chesnara, we are likely to be an important source of revenue, and therefore Chesnara's ongoing success in terms of delivering its growth plans and remaining financially stable will be of significant interest to our suppliers.	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.
ENVIRONMENT	The environment and more specifically the impact of climate change, is an emerging risk that is high up on our radar, as the risk of climate change and global warming affects Chesnara like all other organisations.	Primarily, our operations have an impact on the environment, through carbon emissions. As documented on page 61, our impact is broadly split into energy use from our offices and emissions from both business travel and commuting.	Chesnara's aim is to take reasonable steps to minimise the impact that its day to day operations have on the environment. This involves consideration of initiatives such as only making essential business travel and offsetting our carbon emissions through the planting of trees (carbon offsetting). We also encourage a paperless office wherever possible. We have taken steps to become a carbon neutral group during the year. Climate change is recognised as an emerging risk, and so is monitored/ reported as part of the risk management function also. For policyholders who choose where they invest, we provide access to a range of ethical and environmentally sustainable funds.

SECTION 172 • SIGNIFICANT DECISIONS

As referred to on page 26, the principal process that the board uses to make shorter-term 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 the year 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

INTERIM AND FINAL
DIVIDENDS

- **Overview:** The longer-term dividend strategy of the group is set as part of the annual business planning process. Prior to actually paying a dividend, consideration of actual performance, supported by a revised outlook, is made.
- **Key considerations and decision:** The key considerations made by the board prior to the approval of the dividend are cash generation; solvency; the acquisition strategy; and investor expectations. Further information on each of these considerations is provided on page 103. Based on all of the above, during 2019 the board approved the continuation of the current dividend growth strategy, which resulted in an uplift of 3% on the total dividend compared with the prior year.
- **Primary beneficiary:** Dividends are made for the benefit of Chesnara *shareholders*.
- **Other stakeholder considerations:**
 - **Regulators and customers:** These are considered by the board in the context of ensuring that the solvency position post dividend remains robust.

ACQUISITIONS IN THE YEAR

- **Overview:** During the course of 2019 the following key acquisition related decisions have been made:
 - the decision to acquire and transfer part of the term life and endowment portfolio of Monuta Insurance into the Waard Group; and
 - the decision to acquire a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V, which is due to complete in summer 2020.
 Several other acquisition opportunities were also considered but were not pursued through to completion.
- **Key considerations and decision:** Each acquisition was separately considered in the context of our primary acquisition assessment criteria, which are cash generation, value enhancement, customer outcomes and risk appetite (see page 38 for further information). In light of these considerations, the board approved the decisions to enter into a sale and purchase agreement with Argenta Bank and to enter into the asset purchase agreement with Monuta Insurance.
- **Primary beneficiary:** The above acquisitions were performed for the benefit of our *shareholders*.
- **Other stakeholder considerations:**
 - **Banks:** Our banks were considered as part of these processes in order to ensure that the security over existing debt arrangements is not compromised.
 - **Regulators:** Considered by the board largely from the perspective of ensuring the regulator is aware of the transaction at the appropriate time, and is apprised of the solvency consequences and hence policyholder protection.
 - **Staff:** The impact on staff is considered in the context of delivering the acquisition and ensuring appropriate resourcing is in place, coupled with the impact of the staff in the book or company being sold. In relation to the latter, on these two acquisitions no staff are expected to transfer from the seller to Chesnara. From the perspective of existing staff, on a longer-term basis, acquisitions lead to longevity of the business as a whole and therefore provided additional job security to our staff.
 - **Customers:** Customers are expected to benefit from these acquisitions. The terms of the transferring policies will remain intact, the policies are being transferred into a very solvent company, and the overall per policy costs of running the enlarged book will reduce, which help keep the policy administration costs low, which will ultimately benefit customers.

CONTINUATION OF ONGOING INVESTMENT
IN I.T. ACROSS THE GROUP

- **Overview:** The group has decided that it should continue with its ongoing investment in various aspects of its IT infrastructure across the group. This includes replacing the current policyholder administration system in Scildon to support achieving the longer-term plans of the business and developing more automated processes in our Swedish business to support its overall operating efficiency and hence competitiveness.
- **Key considerations and decision:** The board considered the pros and cons of these two key IT and process developments, including the associated risks, the financial impact and viable alternatives. Based on this, the board decided to progress with updating the Scildon policyholder administration system and to continue with the digitalisation of Movestic's processes.
- **Primary beneficiaries:** There are two primary beneficiaries:
 - **Shareholders:** The ongoing investment in IT is designed to provide value enhancements to the business and hence our shareholders. The target IT infrastructure is designed to be more robust and more efficient to run.
 - **Customers:** Of equal prominence is the benefit to customers. The new system will support a more digitalised service, increasing speed, optionality and efficiency for the customer.
- **Other stakeholder considerations:**
 - **Employees:** The staff impact was appropriately considered by the board in making this decision, both in terms of the delivery of the programme and the target employee operating model.
 - **Suppliers:** Having reliable suppliers to support the implementation and, where relevant, ongoing maintenance of any new systems is an important consideration when making this decision.

SIGNIFICANT
DECISION

DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS

SCILDON
ASSET MIX

- **Overview:** During the year some key decisions have been made relating to the mix of assets that Scildon has in place to back its long-term insurance liabilities.
- **Key considerations and decision:** One of the group's objectives is to seek to optimise its capital efficiency from a risk and reward perspective. As part of this ongoing process, facilitated by support from a third-party consultancy, some changes to the asset mix of Scildon were agreed. It was decided that it would be beneficial to sell some BBB corporate bonds holdings and some Italian government bonds to support investing in the Aegon mortgage fund. Overall this change in investment mix is expected to yield similar returns but under the Solvency II rules will require lower levels of capital to be held. In addition to this and driven by the perception that there was increased potential for future bond downgrades, a re-balancing of the credit risk within the overall corporate bond portfolio took place, thereby increasing the overall portfolio quality.
- **Primary beneficiaries:** There are two primary beneficiaries:
 - *Shareholders:* The refinements to the asset mix have been made largely for the benefit of the *shareholders* through, improvements to the solvency position and future solvency surplus generation potential.
 - *Suppliers:* The administrator of the Aegon mortgage fund will also have benefited from the decision to invest in the Aegon mortgage fund.
- **Other stakeholder considerations:**
 - *Regulators:* Given the impact that key asset mix decisions can have on the solvency position, it is also important that our regulators are aware of the impact of our decisions in this regard.

FUND MANAGER
RATIONALISATION (FMR)

- **Overview:** The UK business uses various fund managers to manage its day to day fund management requirements. During the year it was decided to assess the benefits of rationalising the number of fund managers that are used.
- **Key considerations and decision:** A review of several potential new suppliers was performed. Several factors were assessed for each fund manager, including ongoing costs, costs of moving to a new model, service levels and choice of funds available to customers. Following this review, a proposal was put to the board to move to a single fund manager for managing the UK's unit-linked funds, which was approved. The target operating model is expected to be fully implemented by the end of 2020.
- **Primary beneficiaries:** The primary beneficiaries are *shareholders* largely driven by the extra value that is expected to emerge from the reduced cost of the revised investment management operating model.
- **Other stakeholder considerations:**
 - *Customers:* The impact on customers was a key consideration when making the decision. The assessment concluded that the customer impact is expected to be neutral or beneficial as a result of this decision.
 - *Suppliers:* The decision making process factored in the long-standing relationships that we have with our current investment managers.

100% CARBON
OFFSET

- **Overview:** In November 2019, the board were presented with a paper proposing that the group engage in carbon offsetting to completely offset the carbon emissions that were generated as a result of the group's activities.
- **Key considerations and decision:** The paper considered the various options available to the group, the likely cost implications and the risks involved with verifying the offsetting method selected, along with mitigations where possible. Following review and challenge, the board approved the approach of offsetting our 2019 emissions. See our corporate and social responsibilities statement on pages 58 to 61 for more information.
- **Primary beneficiaries:** The primary beneficiary of this decision is the *environment*.
- **Other stakeholder considerations:**
 - *Employees:* Employees were a further consideration, with this initiative supporting those employees who are environmentally conscious.

APPLYING THE VOLATILITY
ADJUSTMENT

- **Overview:** During 2019 an assessment was made as to the benefits of applying the Solvency II volatility adjustment in the Netherlands, which is a solvency management tool that is designed to reduce solvency volatility arising from movements in interest rates.
- **Key considerations and decision:** The pros and cons were considered in the context of the benefit of applying the volatility adjustment and any extra costs that might be required to manage its initial and ongoing application. It was agreed that benefits outweighed the relatively minor additional costs of applying the volatility adjustment.
- **Primary beneficiaries:** The primary beneficiary of applying the volatility adjustment is the *shareholder* as it reduces our solvency volatility and hence cash generation.
- **Other stakeholder considerations:**
 - *Regulator:* Our regulators were also considered when making this decision, largely in the context of ensuring there is clear visibility of the rationale and impact of this decision.

BUSINESS REVIEW UK

The UK division is principally made up of the insurance company Countrywide Assured plc. The company manages c256,000 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 2019

- The division has continued to generate value in the year, driven by a combination of market-driven factors and operational deliverables.
- One of the key value initiatives that has progressed in the year is the consolidation of our fund manager arrangements from the current four to one. A selection process has taken place and the preferred supplier has been chosen. The division has plans in place to deliver the required operational change during 2020, and the work is progressing to plan. The 2019 results reflect the benefit of the expected future cost savings arising from the revised arrangements, amounting to £12.4m pre-tax.
- The division has benefited from positive lapse experience during the year, which has continued to support the emergence of value.

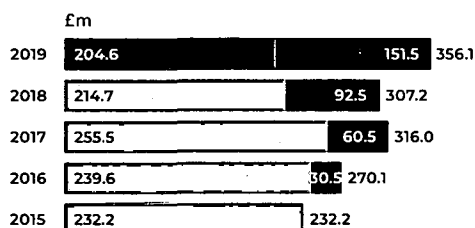
- Further improvements to the Countrywide Assured website were made during the year. This included a new fund centre, coupled with additional content to support the customer in understanding their products. Subsequent customer research in relation to these changes has been positive.
- As part of the division's customer strategy programme the following was also delivered during the year:
 - Completed our initial programme for contacting customers that have 'gone away'. This has involved a full screening of our policy base.
 - Revised some key written communications to our customers in order to meet good practice, including annual statements and retirement communications across all our books.
- Maintained good levels of customer satisfaction during the year.

- Strong delivery of the division's business as usual governance responsibilities, including open and constructive dialogue with our regulators.
- The operational resilience programme has progressed well. This programme has been established in order to ensure that we comply with the high standards expected by our regulators, who have issued further guidance during the year to support their objective of maintaining operational resilience in the financial services sector as a whole.
- Good progress made on the division's IFRS 17 programme.
- Further to the introduction of the Master Trust Authorisation & Supervision Regime, a decision was taken to wind-up five Master Trust Schemes and assign members' benefits into their own individual arrangement. We engaged with tPR and obtained legal advice to complete this with limited customer impact. Mailing to confirm the wind-up will complete in 2020.

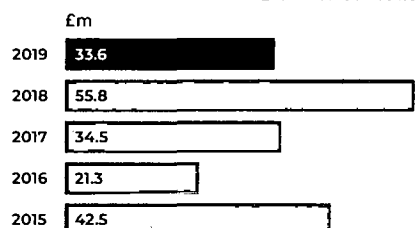
Covid-19 is not deemed to invalidate any of the future priorities reported below. There is, however, an over-arching priority to ensure business continuity through the crisis. Revised working practices and other operational challenges are not expected to have a permanent material impact on the benefits expected but delivery timeframes are likely to be extended.

KPIs

Economic Value



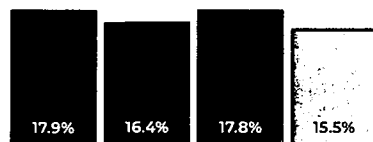
Cash generation



FUTURE PRIORITIES

- Completion of the division's fund manager rationalisation programme during 2020.
- Retaining the division's focus on maintaining an efficient and cost-effective operating model.
- Continue to support Chesnara in identifying and delivering UK acquisitions.
- Continue to ensure that our investment strategy and associated asset mix is delivering the risk and rewards that we expect as the book runs off.

Policyholder fund performance



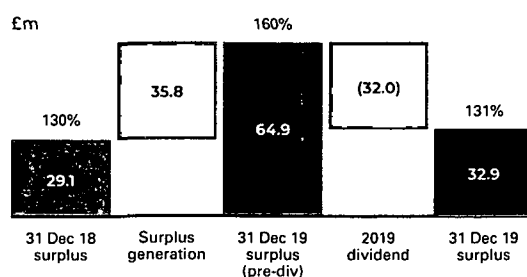
12 months ended 31 December 2019



12 months ended 31 December 2018

- Roll out the remaining updates to written customer communications.
- Key business as usual activities include:
 - Continuing to complete product reviews which are designed to support our assessment of providing fair outcomes to our customers. Deliver any resultant remediation activity as required.
 - Implementing a new routine process for continuing to stay in touch with customers who have not provided us with their most recent contact details. This will build on the one-off exercise we have completed.
- Continue to focus on ensuring we manage our policyholders in a way that minimises risk of any customer complaints and, in the instance a customer is not happy with our service, deal with these in an appropriate manner.

SOLVENCY RATIO: 160%



Surplus generated in the period increases solvency ratio from 130% to 160%. After the dividend, due to be paid in 2020, the ratio is 131%.

- 2020 will see a focus on the operational impact of the IFRS 17 programme, including a planned software supplier selection process, coupled with planning and starting to implement the process changes that will be required to embed the selected solution into our financial reporting routines.

BUSINESS REVIEW SWEDEN

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

BACKGROUND INFORMATION

INITIATIVES & PROGRESS IN 2019

01

CAPITAL & VALUE MANAGEMENT

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

- The operational changes that were made last year have led to a 9% reduction in internal operational expenses.
- Negative transfer ratio with transfers out exceeding transfers in, with new government legislation making the transfer process easier for customers.
- Despite the adverse transfer ratio, positive net client cash flows together with investment growth contributed to a 24.8% increase in assets under management.
- Positive renegotiation of reinsurance arrangements.
- Corporate structure changes in the form of progressing the acquisition of the full ownership of Modernac, an associate holding and repatriating SICAV asset management operations from Luxembourg will create future value.
- Asset data enhancements have resulted in a reduction in capital requirements of £2.5m.
- Proposed record dividend payment to Chesnara of £6.2m.

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.

- Policyholder average investment return of 18.9% in the year (2018: -6.0%).
- Launch of Movestic Avancera into the Swedish market, a new type of product linked to a fund with capital protection, in co-operation with Morgan Stanley.
- Launch of a digital occupational pension solution for SMEs.
- New website for partners and customers launched in 2019.
- Launch of a new claims system.

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.

- Introduction of digital invoice handling.
- Movestic has successfully implemented the second phase of the Insurance Distribution Directive (IDD) which applied from 1 October 2019.
- The IFRS 17 project has progressed well with delivery of first dry-run and a study of the potential effects on operations and business architecture.

03

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

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

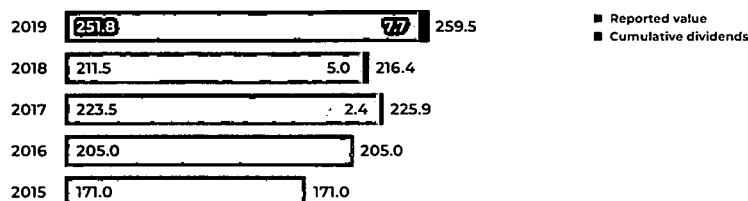
- Fee and lapse pressures have led to a reduction in new business profits with 2019 new business profits of £4.3m on our EcV and of £6.9m on our more commercially realistic metric (as detailed on page 11).
- Launch of a digital life insurance product through partnership with an insurtech company. This will be used in the broker and direct channel and as a cross selling product.
- We have remained resilient to the harsh competitive environment, with market shares remaining within long-term target throughout the year.
- An improved profitability measurement model has been implemented, as well as developing an enhanced pricing strategy with further profitability focus.

Covid-19 is not deemed to invalidate any of the future priorities reported below. There is, however, an over-arching priority to ensure business continuity through the crisis. Revised working practices and other operational challenges are not expected to have a permanent material impact on the benefits expected but delivery timeframes are likely to be extended.

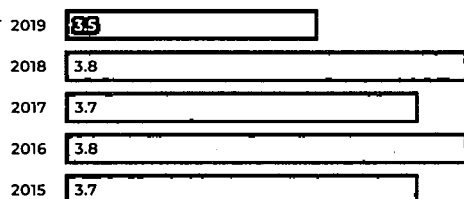
KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2019 EXCHANGE RATES)

Economic Value

£m



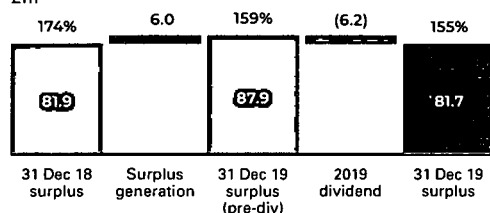
Broker assessment rating



POLICYHOLDER
AVERAGE INVESTMENT
RETURN:
18.9%

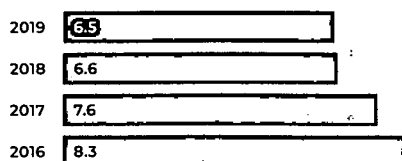
SOLVENCY RATIO 159%

£m



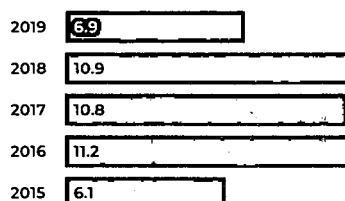
Solvency remains strong. After the dividend, due to be paid in 2020, the ratio is 155%.

Occupational pension market share %



New business profit

£m*



FUTURE PRIORITIES

- Continue the journey of digitalising and automating processes, with a view to improving both efficiency and control.
- Continue to develop more digitalised and individualised customer proposition and experience.
- Provide a predictable and sustainable dividend to Chesnara.

- Continue to develop new solutions and tools to support the brokers value enhancing customer proposition.
- Further work on the direct distribution channels.

- Design and implement a target business architecture to support the group in complying with IFRS 17.
- Implementation of a sub ledger which aims to improve and automate the process for reporting to the supervisory authority.
- Continue to deliver compliance with the new Insurance Distribution Directive (IDD). The IDD seeks to strengthen consumer protection and transparency within the distribution of insurance-based products.

- Continue to write new business within the target range.
- Ongoing digitalisation of processes to improve customer and broker experience.
- Focus on increasing brand awareness.
- Enhance processes around cross selling.
- Develop a new pricing strategy.
- Further develop a pension draw down proposition.

*2019 and 2018 new business figures have been calculated using the commercially realistic metric, as detailed on page 11. 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

INITIATIVES & PROGRESS IN 2019

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.

- The Scildon improvement plan has taken steps to reduce the cost base and headcount and enacted a new reinsurance treaty, with full year benefits expected in 2020.
- Reductions in the internal capital management buffer for both Dutch companies from 100% to 85% were approved by the DNB as at 31 December 2019.
- Waard has completed a portfolio acquisition of c6,000 policies from Monuta Insurance in October and announced the acquisition of a portfolio of term life and savings products from Argenta Bank, which is expected to complete during 2020.
- Scildon has optimised its risk-based return through de-risking its asset portfolio and investing into mortgage funds.
- Continuation of the dividend policy with dividends of £11.9m proposed.

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.

- The recently launched mortgage term product won a five-star rating and best product award from independent research agency, MoneyView.
- Scildon has continued to engage with its IFA network and has again received an award from Afdiz, the Dutch broker organisation. In 2019, the business was awarded 'Best Investment Policy Provider' continuing a long run of winning awards across its product range.
- Scildon continues work on the migration and digitalisation of its policy administration system, which is expected to complete in 2021.

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.

- We continued to support our governance structures with a new Supervisory Board chair, Haik de Jong, and with the Group CEO, John Deane, becoming a member.
- The IFRS 17 project has progressed well with delivery of first dry-run and a study of the potential effects on operations and business architectures.

03

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

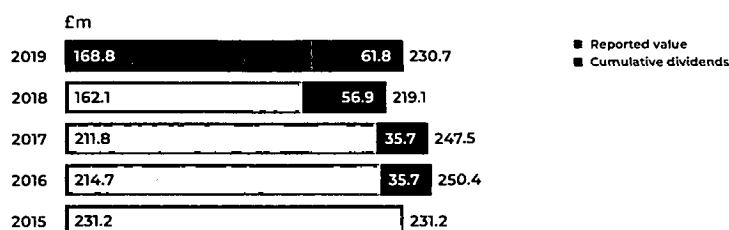
Scildon brings a 'New business' dimension to the Dutch division. Scildon sell protection, individual savings and group pensions contracts via a broker-led distribution model. The aim is to deliver meaningful value growth from realistic market share. Having realistic aspirations regarding volumes means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

- Increased new business profits in the year on both our EcV and more commercially realistic metrics (as detailed on page 11). This has been partly delivered through cost saving initiatives as detailed above.
- Average term market share for 2019 was 11.6% compared to 7.6% in 2018. In isolation, the market share for December 2019 was 13.7%.
- The number of policies managed by Scildon increased by 6%.

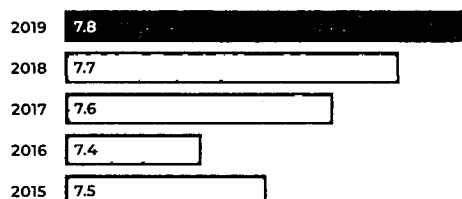
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KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2019 EXCHANGE RATES)

Scildon Economic Value



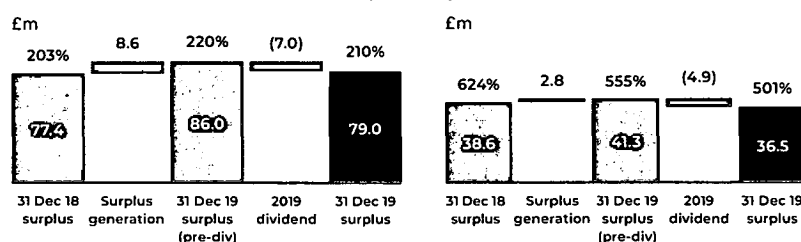
Client satisfaction rating



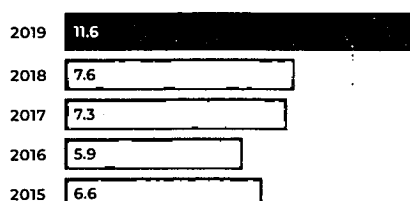
SOLVENCY RATIO SCILDON: 220%

SOLVENCY RATIO WAARD: 555%

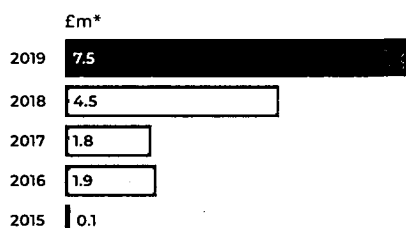
Solvency is robust in both businesses, with post-dividend solvency ratios of 210% and 501% for Scildon and Waard respectively.



Term assurance market share %



New business profit



FUTURE PRIORITIES

- Continue to provide dividends to group.
- Complete the Scildon improvement plan covering cost management, process efficiency and business model assessments.
- Continue to actively manage the investment strategy and expand the Scildon holding in mortgage funds.
- Progress capital management and cash generation initiatives across the group, particularly in Scildon.

- Regular engagement with its customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue with the migration and digitalisation of the Scildon IT platform.
- Continue to engage with its broker network to develop our processes in line with their requirements.

- IFRS 17 implementation to continue with further dry runs, technical decisions and operational implementations, including expected local migration to Dutch GAAP for Scildon.
- Continuously enhance the governance and risk management framework.

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

*2019 and 2018 new business figures have been calculated using the commercially realistic metric, as detailed on page 11. Values prior to this are retained at that which they were previously reported.

BUSINESS REVIEW • ACQUIRE LIFE & PENSIONS BUSINESS

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

How we deliver our acquisition strategy

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

HOW WE ASSESS DEALS

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

RISKS

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

WHAT WE CAN DO ABOUT THIS

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

INITIATIVES AND PROGRESS IN 2019

During 2019, the group entered into two transactions:

1. Monuta transaction

On 3 October 2019, Chesnara announced the completion of the acquisition and transfer of a term life and endowment portfolio of 6,000 policies from of Monuta Insurance, a large provider of funeral insurance products in the Netherlands.

The transaction was enacted through the Waard Group. The consideration was a nominal 1 and entailed the transfer of assets of £28.1m and liabilities of £25.7m, resulting in a reported immediate EcV gain of £2.4m.

2. Argenta transaction

On 22 November 2019, Chesnara announced the agreement to acquire a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V. The transaction is expected to be both earnings and EcV accretive on completion. Chesnara estimates that the acquired portfolio will have a positive cumulative cash generation profile over its remaining life.

The transaction, which is expected to complete in 2020, will involve the transfer of a portfolio of approximately 44,000 term and savings policies, for a consideration of 29.2m (approximately £24.8m), to be paid in cash. The consideration represents a discount of 17% to the acquired portfolio's Solvency II own funds, calculated on a Chesnara-consistent basis, and a 22% discount (c. 8.0m gain) to Chesnara's estimate of Economic Value as at 30 June 2019. As at 30 June 2019, the acquired portfolio had gross assets of c. 380m (c. £323m at 31 December 2019 exchange rates).

ACQUISITION OUTLOOK

- Overall, we have witnessed an increase in acquisition activity in the year. This increase has coincided with, what we perceive to be, a rise in seller's valuations and prices paid for potential targets.
- In light of this, it is worth reiterating that Chesnara continues to measure potential targets against its stringent acquisition assessment model which takes into account; (a) the price compared to the EcV; (b) the cash generation capability; (c) the strategic fit; and (d) the risks within the target. We are committed to maintaining our discipline when assessing potential acquisitions.
- The environment in which European life insurance companies operate continues to increase in complexity, such as the forthcoming application of IFRS 17. We believe this additional complexity will potentially drive further consolidation as institutions seek to remove operational complexity and potentially release capital or generate funds from capital intensive life and pension businesses.
- We continue to have strong support from shareholders and lending institutions to progress our acquisition strategy, and we also believe that our operating model has the flexibility to accommodate a wide range of potential target books.
- Our good network of contacts in the adviser community, who understand the Chesnara acquisition model, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

CAPITAL MANAGEMENT • SOLVENCY II

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

What is solvency and capital surplus?

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

CHESNARA GROUP OWN FUNDS



	Group solvency ratio	Group solvency surplus
31 Dec 2019	155%	£210.8m
31 Dec 2018	158%	£202.4m

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.

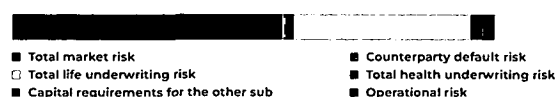
How do own funds change?

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 Own Funds include writing profitable new business, reducing the expense base and improvements to lapse rates.

WHAT IS CAPITAL REQUIREMENT?

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

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



There are three levels of capital requirement:

Minimum dividend paying requirement/risk appetite requirement
The board sets a minimum solvency level above the SCR which means a more prudent level is applied when making dividend decisions.

Solvency capital requirement

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

Minimum capital requirement

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

How does the SCR change?

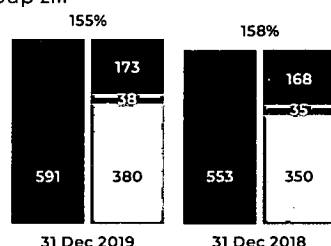
Given the largest component of Chesnara's SCR is market risk, changes in investment mix or changes in the overall value of our assets has the greatest impact on the SCR. For example, equity assets require more capital than low risk bonds. Also, positive investment growth in general creates an increase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

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 for the first time in this period 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

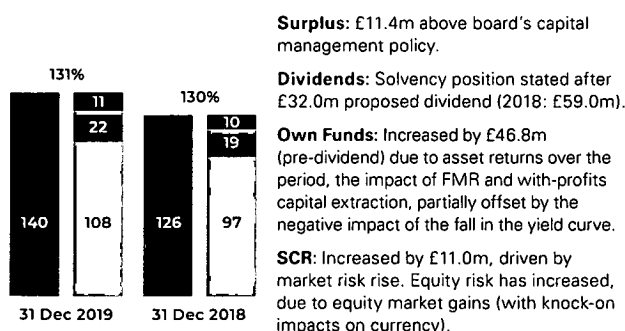


Surplus: The group has £172.8m of surplus over and above the internal capital management policy, compared to £168.0m at the end of 2018. The group solvency ratio has decreased slightly, from 158% to 155%. The growth in surplus has arisen from a rise in Own Funds, which have increased more than the rise in required capital.

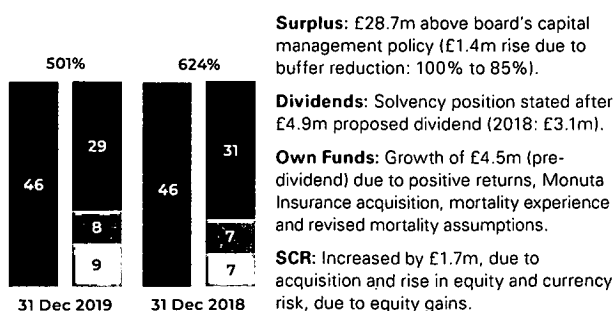
Dividends: The closing solvency position is stated after deducting the £20.8m proposed dividend (31 December 2018: £20.2m), and reflects the payment of an interim dividend of £11.1m.

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 2018 figures have been restated using 31 December 2019 exchange rates in order to aid comparison at a divisional level.

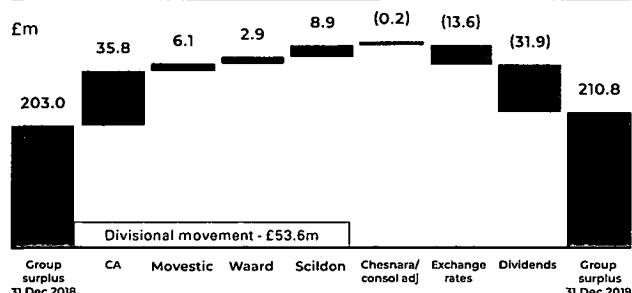
UK £m



NETHERLANDS – WAARD £m



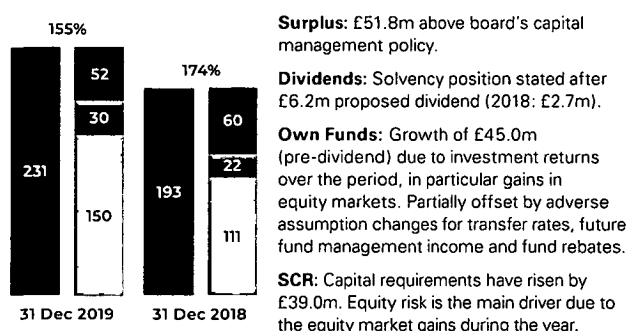
SOLVENCY SURPLUS MOVEMENT*



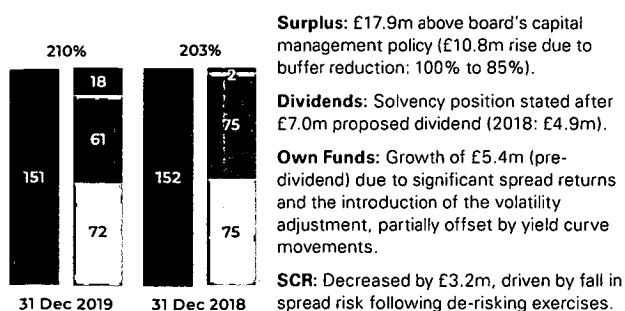
Own Funds: Own Funds have risen by £70.3m (pre-dividends). This is driven largely by equity market and spread narrowing gains during the year. In addition, management actions such as Fund Manager Rationalisation, a with-profit capital extraction and the Monuta Insurance portfolio transfer have resulted in Own Funds growth.

SCR: The SCR has risen by £30.5m this year. The key movements underlying this are increases in equity risk, currency risk and lapse risk, partially offset by reduced spread risk, in part due to Scildon de-risking activities.

SWEDEN £m



NETHERLANDS – SCILDON £m



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

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

KEY

- Positive impact
- Negative impact

Impacts	
£0m to £15m	•
£15m to £30m	◦
£30m to £50m	○
£50m to £90m	○
£90m to £140m	○

Sensitivity scenario

- 20% sterling appreciation
- 25% equity fall
- 25% equity rise
- 10% equity fall
- 10% equity rise
- 1% interest rate rise
- 1% interest rate fall
- 50bps credit spread rise
- 25bps swap rate fall
- 10% mass lapse
- 10% expense rise + 1% inflation rise
- 10% mortality increase

Solvency surplus	Cash generation	EcV
Immediate impact	5 year impact	Immediate impact
•	•	●
•	●	●
•	●	●
•	•	●
•	•	●
•	•	•
•	●	•
•	•	•
•	•	•
•	•	●
●	●	●
•	●	•

INSIGHT*

20% sterling appreciation

A material sterling appreciation reduces the value of surplus in our overseas divisions and hence has an immediate impact on group cash generation. It also reduces the value of projected Own Funds growth in our overseas divisions and also reduces the value of overseas investments in CA.

Equity sensitivities

The equity rise sensitivities cause both Own Funds and SCR to rise, as the value of the funds exposed to risk is higher. The increase in SCR is larger than Own Funds, resulting in an immediate impact on surplus. Conversely, in an equity fall, Own Funds and SCR both fall. The extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£19m to the SCR, 25% equity rise: +£39m 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.

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 cash generation impact.

50bps credit spread rise

A credit spread rise has an adverse impact on surplus and future cash generation, particularly in Scildon due to corporate and non-local government bond holdings that form part of the asset portfolios backing non-linked insurance liabilities. Scildon's sensitivity has reduced due to the asset de-risk but is still significant. 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 surplus as the reduction in Own Funds is largely offset by the SCR fall. However, with fewer policies on the books there is less potential for future profits. The division most affected is Movestic; the loss in future fee income following a mass lapse hits Own Funds by more than the reduction in SCR.

10% expense rise + 1% inflation rise

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

10% mortality increase

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

*BASIS OF PREPARATION ON REPORTING

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

FINANCIAL REVIEW

The key performance indicators are a reflection of how the business has performed in delivering its three strategic objectives. These two pages provide a 'snapshot' of our key financial measures and some insight into what is driving the outcome in 2019. Further analysis can be found on pages 44 to 46.



IFRS PRE-TAX PROFIT £96.1M

2018: £27.0m

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?

Whilst the IFRS results form the core of reporting and hence retain prominence as a key financial performance metric, there is a general acceptance that the IFRS results in isolation do not adequately recognise the wider financial performance of a typical life and pensions business.

Risks

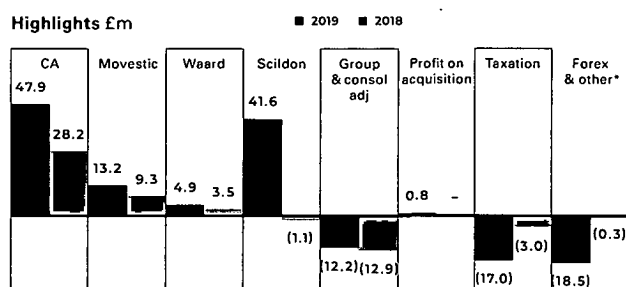
The IFRS profit can be affected by a number of our principal risks and uncertainties as set out on pages 53 to 57. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit, and foreign currency fluctuations can affect total comprehensive income. The IFRS results 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 £60.6M

2018: £23.7m

Further detail on p48

Highlights £m



*includes other comprehensive income

- Strong results in the UK and Scildon drive substantial profits in 2019, with positive contributions from all operating businesses.
- Significant earnings have been generated from both operating items (£46.2m) and economic (£49.1m) factors.
- The Waard result benefited from a one-off gain of £0.8m following the acquisition of a policy portfolio from Monuta Insurance.
- Total comprehensive income includes a foreign exchange loss of £18.7m relating to sterling's appreciation against both the euro and Swedish krona.



GROUP CASH GENERATION £36.7M

2018: £47.8m

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

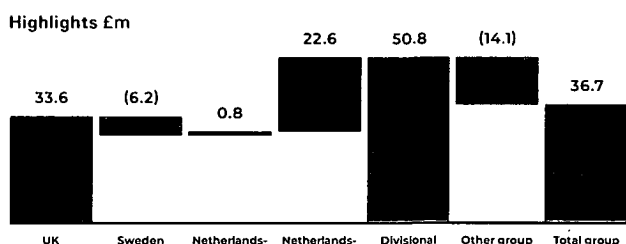
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 53 to 57. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar 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 £50.8M

2018: £63.9m

Further detail on p44

Highlights £m



Divisional cash generation

- Cash generation from both the UK and Scildon support the divisional result, with cash being utilised in Sweden.
- The UK contribution was delivered through significant growth in Own Funds, whilst the main driver in Scildon was asset optimisation and reduction in capital requirements.
- Movestic also delivered substantial growth in Own Funds, although this was outweighed by the increases in capital requirements, resulting in cash utilisation for the year.
- The result also includes the non-recurring benefit of a £7.9m capital transfer from restricted with-profit funds in the UK (net movement is c£5.1m growth in restricted surplus, 2018: net £20m release).

Group cash generation

- Total group cash generation includes the impact of other group activities, primarily the impact of group expenses on own funds and a reduction in capital requirements upon consolidation of divisions.



ECONOMIC VALUE (ECV) £670.0M

2018: £626.1m

Further detail on p47

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. Conceptually, EcV is broadly similar to EEV in that both reflect a market-consistent assessment of the value of existing insurance business, plus adjusted net asset value of the non-insurance business within the group.

Why is it important?

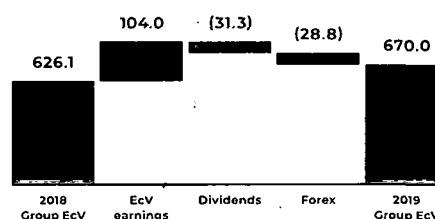
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value.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

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

Risks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example, a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group within a range of £90m-£140m, based on the composition of the group's EcV at 31 December 2019.

Highlights £m



- Economic value rose by 7% to £670.0m in 2019.
- Group EcV earnings of £104.0m, supported by substantial economic profits across the divisions.
- The movement in EcV since the start of the year includes the impact of the payment of the final 2018 and interim 2019 dividends.
- Foreign exchange losses stemmed from the translation of the Dutch and Swedish divisional results, representing the strengthening of sterling against the euro and Swedish krona since the start of the year.



ECV EARNINGS £104.0M

2018: £(60.9)m

Further detail on p46

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.

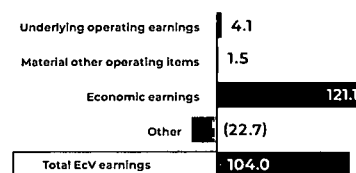
Why is it important?

By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. Economic Value earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The EcV 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, EcV profit emergence from our existing businesses, and the EcV 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 53 to 57. 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 EcV earnings of £104.0m were generated in 2019.
- Economic earnings drive the result, primarily equity market returns and the narrowing of bond spreads.
- Underlying operating activities were modest, suffering from the impact of the strengthening of assumptions in Movestic and operating experience in Scildon. The UK and Waard delivered positive operating earnings.
- Material other operating items relate to one-off strengthening of assumptions in Movestic, following changes to the transfer process and changes to local transfer legislation. This was offset by subsequent changes to trail commission expectations. Also included is a gain on completion of the acquisition of a policy portfolio from Monuta Insurance (£2.4m), under the Waard Group.
- Other mostly relates to tax and changes in risk margin.

FINANCIAL REVIEW • CASH GENERATION

The UK and Scildon have delivered significant cash contributions, driving a total divisional cash generation of £50.8m for the year. 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 £36.7M

2018: £47.8m

DIVISIONAL CASH GENERATION £50.8M

2018: £63.9m

Definition: Defining cash generation in a Life and Pensions business is complex and there is no reporting framework defined by the regulators. This leads to inconsistency across the sector. We define cash generated as being the movement in Solvency II surplus over and above the SCR, plus management buffers.

Implications of our cash definition:

Positives

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

Challenges and limitations

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

2019 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated/(utilised)	2018 £m Cash generated/(utilised)
UK	46.8	(13.2)	–	33.6	55.8
Sweden	45.8	(47.6)	(4.4)	(6.2)	18.1
Netherlands – Waard Group	4.6	(2.1)	(1.7)	0.8	7.8
Netherlands – Scildon	5.5	17.8	(0.7)	22.6	(17.8)
Divisional cash generation/(utilisation)	102.7	(45.1)	(6.8)	50.8	63.9
Other group activities	(5.3)	(3.2)	(5.5)	(14.1)	(16.1)
Group cash generation/(utilisation)	97.4	(48.3)	(12.3)	36.7	47.8

GROUP

- The headline cash results of £36.7m more than covers the annual dividend.
- Divisional cash generation supports the total proposed dividends to the Chesnara parent company of £50.1m
- The headline cash result is heavily impacted by technical matters such as the symmetric adjustment, with-profit restrictions, and model enhancements. An adjusted cash result which looks through such items, shows an underlying 'commercial cash' result of £75.3m (see adjacent page).
- The commercial cash result is made up of £37.5m from changing economic conditions, £43.3m from management actions and a residual balance of £(5.5)m from operating performance.



UK

- Good value growth significantly outweighs an increase in SCR resulting in solid cash generation that more than covers the Chesnara dividend. The prior year comparison benefitted from an unusually high release from the with-profits fund.



NETHERLANDS – WAARD

- Although Waard has reported a further strong growth in Own funds, unlike in previous years the capital requirement has also increased during the year. Much of the capital requirement increase is due to the acquisition of a policy portfolio from Monuta Insurance. Excluding the acquisition impact and before foreign exchange losses on the opening surplus, the underlying cash of £3.6m remains towards the top end of the range for steady state expectations.



SWEDEN

- As a predominately unit linked business with a high proportion of equity investments, strong equity performance has created significant asset value; however this has created a corresponding increase in SCR. The SCR increase includes £13.3m arising from the symmetric adjustment, whilst in 2018 the adjustment was a reduction in SCR. This explains much of the year on year cash movement.



NETHERLANDS – SCILDON

- Scildon is less exposed to equity markets. Unlike the other divisions, the Scildon cash result is dominated by a large reduction in management's capital requirements primarily as a result of a shift to a more capital efficient investment strategy. The Scildon result incorporates a significant loss resulting from further downward pressure on yields. Considering the yield pressures, it is reassuring to note that the Scildon cash profit in 2019 more than covers the prior year loss with cumulative cash generation of £21.0m since acquisition being in line with expectations.

FINANCIAL REVIEW • CASH GENERATION – ENHANCED ANALYSIS

Cash generation, alongside EcV growth, is critical to the Chesnara investment case. It is therefore important that the dynamics beneath the headline results are understood. Unlike other metrics such as the IFRS results, there is no prescribed disclosure framework for cash reporting. We have therefore produced some enhanced analysis with the disclosure format being broadly based upon how Embedded Value profits were historically reported.



COMMERCIAL CASH £75.3M

ECONOMIC CASH GENERATION £37.5M

All operating divisions delivered positive commercial cash generation in 2019.

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

	Insight	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	GROUP ADJ	TOTAL
Base cash generation		33.6	(6.2)	0.8	22.6	(14.1)	36.7
Symmetric adjustment	1	9.7	13.3	0.3	1.4	–	24.7
With-profits restrictions	2	5.1	–	–	–	–	5.1
Acquisition activity		–	–	1.1	–	1.0	2.1
Lapse SCR reversal	3	–	–	–	10.9	(10.9)	–
Model changes		3.8	–	–	2.8	–	6.6
Commercial cash		52.2	7.1	2.3	37.6	(23.9)	75.3
Analysed as:							
Economic	4	31.1	17.5	(0.6)	(4.6)	(6.0)	37.5
Equities		22.9	19.3	0.2	(0.3)	–	42.1
Spreads		6.4	3.3	1.1	26.1	(0.2)	36.5
Forex		–	(4.4)	(1.7)	(0.7)	(5.5)	(12.3)
Yields		(1.6)	2.5	(1.2)	(30.5)	3.3	(27.6)
Other economics		3.6	(3.2)	1.1	0.8	(3.6)	(1.3)
Operating	5	15.0	(1.1)	2.6	(6.6)	(9.0)	1.0
Material other operating items	6	–	(6.6)	–	–	–	(6.6)
Other	7	0.9	(5.2)	(1.5)	6.5	(0.7)	0.1
Management actions & other exceptional	8	5.2	2.5	1.7	42.2	(8.2)	43.3
FMR	a	5.2	–	–	–	–	5.2
Asset de-risking	b	–	–	–	24.1	–	24.1
Buffer reduction		–	–	1.4	11.1	(8.2)	4.3
Asset data enhancements	c	–	2.5	–	–	–	2.5
Impact of volatility adjustment	d	–	–	0.3	7.1	–	7.3

Insight

- Symmetric adjustment increases capital requirements during periods of equity growth (see Note 2, page 11).
- Surplus that builds up in the with-profit funds is restricted for solvency assessment purposes. This adjustment looks through this temporary restriction.
- Reduced interest rates led to a sharp increase in capital required to cover lapse risk in Scildon. This increase reverses out on consolidation.
- The cash result is sensitive to four main economic variables: equity values; country and corporate bond spreads; sterling exchange rates against the euro and Swedish krona, and yields. In summary, during 2019 the overall economic cash, including the symmetric adjustment, is only £12.8m. Despite the symmetric adjustment, equity growth created a £42.1m gain with sizeable gains from narrowing spreads broadly offsetting losses due to yield reductions and foreign exchange losses.
- Modest operating cash of £1.0m includes the operating loss in Scildon, which relates largely to the effectiveness of reinsurance arrangements. Addressing this issue is a management priority in 2020. The loss under group activities stems largely from group level expenses.
- Material other operating items are where we have drawn out the adverse impact of non-recurring regulatory changes in Sweden.
- Other generally relates to tax and movements in risk margin.
- Management actions have had a notable positive impact during the year:
 - CA have initiated a project to rationalise from the existing four external fund managers to a single partner.
 - During the year we have assessed the capital efficiency of the assets held by Scildon. The resultant shift to more capital efficient and generally lower risk assets has reduced the capital requirement materially.
 - Continued work to improve the classification of assets in Movestic has resulted in less being defaulted to more onerous capital requirement categories.
 - The application of the volatility adjustment in our Dutch divisions delivered a material increase in the value of Own Funds.

FINANCIAL REVIEW • EcV EARNINGS

The group has reported significant EcV earnings in 2019, largely by equity growth and bond spreads narrowing since the start of the year. Growth has been seen across all operating divisions.



ECV EARNINGS £104.0M

2018: £(60.9)m

Analysis of the EcV result in the period by earnings source:

	31 Dec 2019 £m	31 Dec 2018 £m	Note
Expected movement in period	(0.4)	(0.8)	
New business	7.8	10.6	
Operating experience variances	(6.8)	(9.0)	
Operating assumption changes	3.8	–	
Other operating variances	(0.3)	(0.8)	
Total underlying operating earnings	4.1	–	
Material other operating items	1.5	(22.8)	2
Total operating earnings	5.6	(22.8)	
Economic experience variances	143.1	(50.3)	1
Economic assumption changes	(22.0)	0.6	
Total economic earnings	121.1	(49.7)	
Other non-operating variances	(5.2)	1.5	
Risk margin movement	(7.0)	(1.9)	
Tax	(10.5)	12.0	
Total EcV earnings	104.0	(60.9)	

Analysis of the EcV result in the year by business segment:

	31 Dec 2019 £m	31 Dec 2018 £m	Note
UK	48.9	(8.7)	3
Sweden	43.8	(11.6)	4
Netherlands	16.7	(27.7)	5
Group and group adjustments	(5.3)	(12.9)	6
EcV earnings	104.0	(60.9)	

Notes

1. Economic conditions: The EcV result is sensitive to investment market conditions, as reflected by the £121.1m of economic earnings in the year. A significant proportion of these earnings were driven by favourable movement in equities and corporate bonds. Key movements in investment market conditions during the year are as follows:

- The FTSE All share index has increased by 14.2% (12 months to 31 December 2018: decreased by 13.0%);
- The Swedish OMX all share index has increased by 29.6% (12 months to 31 December 2018: decreased by 7.7%);
- The Netherlands AEX all share index has increased by 20.3% (12 months to 31 December 2018: increased by 11.6%); and
- 10 year UK gilt yields have decreased from 1.32% to 0.84%.

2. Material other operating items: This includes operating items that were individually material and have therefore been separately analysed to aid an understanding of the operating result. In Movestic a strengthening of assumed transfer rates (£6.0m) was undertaken to reflect recent changes in the transfer out process and to align with changes to local legislation. There was a further one-off negative adjustment of (£3.5m) relating to transfer fee modelling, also a consequence of the changes to transfer legislation. This was largely offset by a positive revision to future trail commission expectations, following the IDD legislative changes (£9.3m). The other component relates to the gain on completion of the acquisition of a policy portfolio from Monuta Insurance (£2.4m), under the Waard Group.

3. UK: The UK delivered growth of £48.9m in the year. Solid operating earnings of £22.6m stemmed from favourable movements in both mortality experience and fee income. Lower than expected rates of attrition across the books of business, resulted in higher assumed future fee income. The result also includes the benefit arising from the fund manager rationalisation exercise undertaken by the division (£12.4m pre-tax), primarily through a reduction in assumed future expenses. Economic profits of £36.6m underpin the result, supported by market conditions. The key component driving the economic result is investment returns achieved, predominantly on equity holdings offset by a fall in the yield curve.

4. Sweden: Movestic recorded substantial earnings of £43.8m in 2019, with the result underpinned by investment market returns. Economic earnings of £55.3m predominantly arose from growth in equity investments. This was reflected by average policyholder investment returns of 18.9% (2018: -6.0%). While operating experiences were favourable, the strengthening of other assumptions resulted in operating losses. The main assumption changes include increased lapse rates resulting from legislative changes regarding procedures for processing transfers, regulatory changes to transfer-out charges and reductions in assumed future performance fees and fund rebates. New business profits on an EcV basis were modest (£4.3m) and reflective of the challenging market, with lower volumes of single premiums and transfers-in, coupled with margin pressures.

5. Netherlands: The Dutch division has reported earnings of £16.7m for the year. Scildon contributed earnings of £12.0m following valuation gains in its bond portfolio and the narrowing of spreads, offsetting operational losses driven by lapse, expense and reinsurance experience. Waard delivered earnings of £4.7m, which included a £2.4m gain on acquisition of the Monuta Insurance policy portfolio. Underlying operating profits benefitted from favourable mortality experience and subsequent assumption changes, whilst economic earnings stemmed from bond performance and equity market returns.

6. Group: This component includes costs incurred at group level and the impact of consolidation activities, with a loss reported for the year.

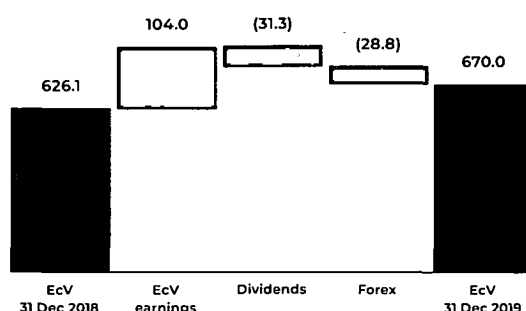
FINANCIAL REVIEW • EcV

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.

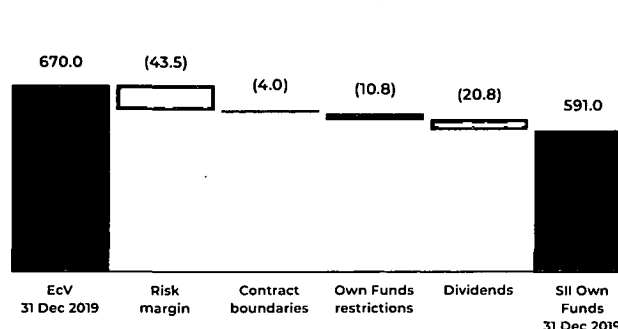
ECONOMIC VALUE (EcV) £670.0M

2018: £626.1m

Value movement: 1 Jan 2019 to 31 Dec 2019 £m



EcV to Solvency II £m

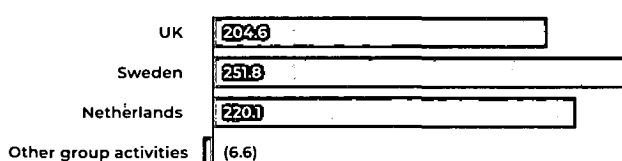


EcV earnings: Earnings of £104.0m have been reported for the year. The primary driver of this were the significant economic profits arising from market conditions in the year, particularly the impact of equity growth, return on assets and the narrowing of spreads. Further detail can be found on page 46.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £31.3m were paid during the period, being the final dividend from 2018 and the 2019 interim dividend.

Foreign exchange: The EcV of the group suffered a foreign exchange loss in the period, a consequence of the sterling appreciation against the euro and Swedish krona.

EcV by segment at 31 Dec 2019 £m



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

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

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

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

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

Dividends: The proposed final dividend of £20.8m 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 £96.1m

2018: £27.0m

IFRS TOTAL COMPREHENSIVE INCOME £60.6m

2018: £23.7m

Executive summary

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

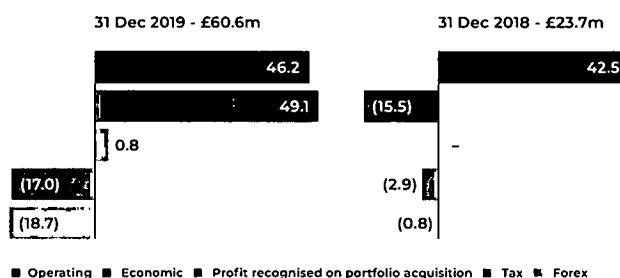
Variable element: Included within the CA segment is the S&P book. This can bring an element of short-term earnings volatility to the group, with the results being particularly sensitive to investment market movements due to product guarantees. The IFRS results of Scildon are potentially relatively volatile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

	2019 £m	2018 £m	Note
CA	47.9	28.2	1
Movestic	13.2	9.3	2
Waard Group	4.1	3.5	3
Scildon	41.6	(1.1)	4
Chesnara	(6.4)	(5.5)	5
Consolidation adjustments	(5.1)	(7.4)	6
Profit before tax and profit on acquisition	95.3	27.0	
Profit recognised on portfolio acquisition	0.8	-	3
Profit before tax	96.1	27.0	
Tax	(17.0)	(2.9)	
Profit after tax	79.1	24.1	
Foreign exchange translation differences	(18.7)	(0.8)	7
Other comprehensive income	0.2	0.3	
Total comprehensive income	60.6	23.7	
Operating profit	46.2	42.5	8
Economic profit	49.1	(15.5)	9
Profit before tax and profit on acquisition	95.3	27.0	
Profit recognised on portfolio acquisition	0.8	-	3
Profit before tax	96.1	27.0	
Tax	(17.0)	(2.9)	
Profit after tax	79.1	24.1	
Foreign exchange	(18.7)	(0.8)	7
Other comprehensive income	0.2	0.3	
Total comprehensive income	60.6	23.7	



Notes

- The CA segment result has outperformed 2018, with a particularly strong year on year movement emerging within the more variable S&P book. This is mainly reflective of the positive equity markets in 2019 which recovered from the large falls recorded in late 2018. Overall economic profits were consequently circa £22m higher year on year. Operating profits of £24.8m are slightly below the prior year.
- Movestic continues to contribute positively to the overall group IFRS result, posting an increase in profits when compared to 2018. Higher investment returns due to favourable market factors, together with positive claims development and reduced operational expenses were the main drivers.
- The Waard Group result was slightly ahead of expectations, in line with favourable investment market performance. Waard also made a one-off gain of £0.8m on the acquisition of a policy portfolio which completed during the year.
- Scildon has delivered a strong result driven mainly by positive investment returns arising from narrowing spreads and favourable yield movements. Operational expense savings have also contributed to the result for the year.
- The Chesnara result largely represents holding company expenses. The current year loss is marginally higher than last year largely due to 2019 including larger one-off items such as project related expenditure.
- Consolidation adjustments relate to items such as the amortisation of intangible assets. These are lower than last year largely due to a non-recurring adjustment to the impairment of acquisition costs within Movestic in 2018.
- Sterling strengthened against both the euro and Swedish krona in the period, resulting in a sizeable exchange loss in 2019.
- The IFRS operating result demonstrates the stability of the underlying business. Product based income and favourable movements in operating experience in the UK, were offset slightly by the marginal strengthening of expense reserves to support future developments. Higher transfer fees, fund rebates and positive claims development experience in the year supported the Movestic operating result. Both the Waard Group and Scildon continue to report solid operating results.
- Economic profit represents the components of the earnings that are directly driven by movements in economic variables. During 2019, all divisions benefited from favourable prevailing market conditions.

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: 155%	2017-2019 TSR (0.71)% 2019 dividend yield 6.6% Based on average 2019 share price and full year 2019 dividend of 21.30p.	Gearing ratio of 11.0% This does not include the financial reinsurance within the Swedish business.	Policyholders' reasonable expectations maintained. Asset liability matching framework operated effectively in the year. Sufficient liquidity in the Chesnara holding company.	Group remains a going concern. (see page 50)

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

1. 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 11.0% at 31 December 2019 (15.6% at 31 December 2018).

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:

- funding requirements for future acquisitions; and
- repayment of existing debt.

Acquisitions are funded through a combination of debt, equity and internal cash resources. The ratios of these three funding methods vary on a deal-by-deal basis and are driven by a number of factors including, but not limited to:

- size of the acquisition;
- current cash resources of the group;
- current gearing ratio and the board's risk tolerance limits for additional debt;
- 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.

2. Maintain the group as a going concern

The directors have considered whether the financial statements should continue to be prepared on a going concern basis. This has included an assessment as to whether the group is expected to be able to meet its liabilities as they fall due for a period of at least 12 months from the date that the financial statements have been signed. The assessment has paid close attention to the group's position at 31 December 2019, how the group has developed since then, and how it is expected to develop subsequent to the signing of the financial statements. In particular, this work has considered the impact of Covid-19 on the group's operations, regulatory position, solvency position and liquidity position.

- **Solvency:** The group and its divisions are well capitalised, and our analysis has shown that we expect to remain well capitalised over the business planning horizon, even after the significant equity market falls, widening of bond spreads and falls in bond yields that were witnessed since year end. This assessment has leveraged the work from the group's most recent business plan and Own Risk and Solvency Assessment (ORSA), which includes financial projections on both a base case and some stressed scenarios. The stressed scenarios included:
 - Equity market declines;
 - Reduction in yield curves;
 - Credit spread rise;
 - Swap rate fall;
 - Adverse mortality and lapse experience;
 - Adverse expense experiences;
 - Reduced new business volumes; and
 - Adverse exchange rate experience.

- **Liquidity:** The group and its divisions have strong levels of cash and high quality short-term government bonds such that we do not have concerns in being able to fulfil our cash commitments over both the shorter term and the business planning horizon. At a Chesnara level we have sufficient levels of liquidity in order to meet our dividend and loan repayment commitments, and we continue to expect to receive the foreseeable dividends that have been referred to in this set of accounts. There, however, is a degree of risk as a result of Covid-19 that a proportion of the total expected divisional dividends is not paid. Even assuming a realistic worst-case outcome regarding divisional dividends Chesnara expects to retain a healthy post dividend level of liquidity.

- **Regulatory position:** Group and divisional teams have performed an assessment of the impact of Covid-19 and have confirmed that they expect to continue to meet their regulatory and contractual requirements. We have responded to any enquiries that our regulators have asked to date regarding management's assessment of the impact of Covid-19 on our solvency and operations.

- **Operations:** Covid-19 has had an impact on how we operate. We have been required to draw on our well-established business continuity plans, including those of our key suppliers/outsourcers, to ensure that we can continue to deliver our critical business services across the group, focusing largely on our customers services. In this environment, the board have recognised that the group will need to adjust its client service and operational capabilities as events unfold in the period ahead, and are in response upscaling our ability to deliver core services from the home environment, and executing plans to minimise the risk of transmission from within the group's office space. Whilst delivering some of these short-term changes has caused some level of disruption, we have continued to deliver our critical business services, and expect to continue to do so over the foreseeable future.

In light of the above, the board has concluded that it remains appropriate to continue to adopt the going concern assumption when preparing the financial statements.

3. Assessment of prospects

Our prospects are primarily considered through the annual business planning process, updated for key events that may occur in-between business plans. This covers a three-year horizon and captures the operating plans required to meet the group's strategic objectives.

The business plans include underlying operational deliverables, an assessment of the business model (see page 22) and the financial consequences of following the plans. Our plans also consider the principal risks and uncertainties that the group faces (see pages 53 to 57) and how these might affect our financial prospects.

A more detailed assessment of our prospects has been shown below, updated for our consideration of the impact of Covid-19. This has been structured around our three key strategic objectives:

Value from in-force book

The group has c900,000 policies in force at 31 December 2019. These are generally long-term policies, and the associated policy cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. From a Covid-19 perspective, although solvency is well protected from the impact of equity market falls, sustained depressed market values do adversely impact fee income streams and therefore if markets do not recover then profitability prospects reduce. Similarly further reductions in yields would adversely impact prospects. Temporary market volatility is however a natural feature of investment markets and our financial model is well positioned to withstand difficult conditions without creating any permanent harm to the longer-term profitability prospects.

Acquisition Strategy

The outlook and prospects of continuing to deliver against this strategic objective is covered on page 38. From a Corona virus outbreak perspective there is no reason to believe that the impact of Covid-19 will reduce the propensity for vendors to bring businesses or portfolios to the market. 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. The expectation is that in the short-term new business levels will suffer as a result of Covid 19. In the medium to long term we have no reason to believe the market for Term assurance and Pension savings contracts will not recover to pre Covid 19 levels.

4. Assessment of viability

The board's assessment of the viability of the group is performed through a combination of the three-year business plan and the Own Risk and Solvency Assessment (ORSA) process (see page 52). The board has assessed 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. This is assessed through performing projections of the group's solvency and liquidity positions on a base case and a number of stressed scenarios. The scenarios that are assessed include:

- Equity market declines;
- Reduction in yield curves;
- Credit spread rise;
- Swap rate fall;
- Adverse mortality and lapse experience;
- Adverse expense experiences;
- Reduced new business volumes; and
- Adverse exchange rate experience.

Due to the group's strong capital position and the group's business model, although the Covid-19 outbreak has caused significant global economic disruption, these scenarios have demonstrated that the group and the company remain well capitalised, and has sufficient liquidity. As such we can continue to remain confident that, even if the negative financial market impact of Covid-19 is sustained, the group will continue to be viable over the three year period of the business plan.

Underpinning the base case and stressed scenario 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 to remain in line with most recent plans.
- The projections apply the actuarial assumptions, such as mortality and morbidity, lapse and expense assumptions from our most recent business plan. This is deemed appropriate given our assessment that Covid-19 will have an immaterial impact on those assumptions.

From a Covid-19 perspective our viability assessment has assumed that the equity price falls seen in 2020 will not recover over the 3 year planning horizon. Whilst there has been 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 can adapt to these restrictions and do not cause concern as to our viability.

5. Viability statement

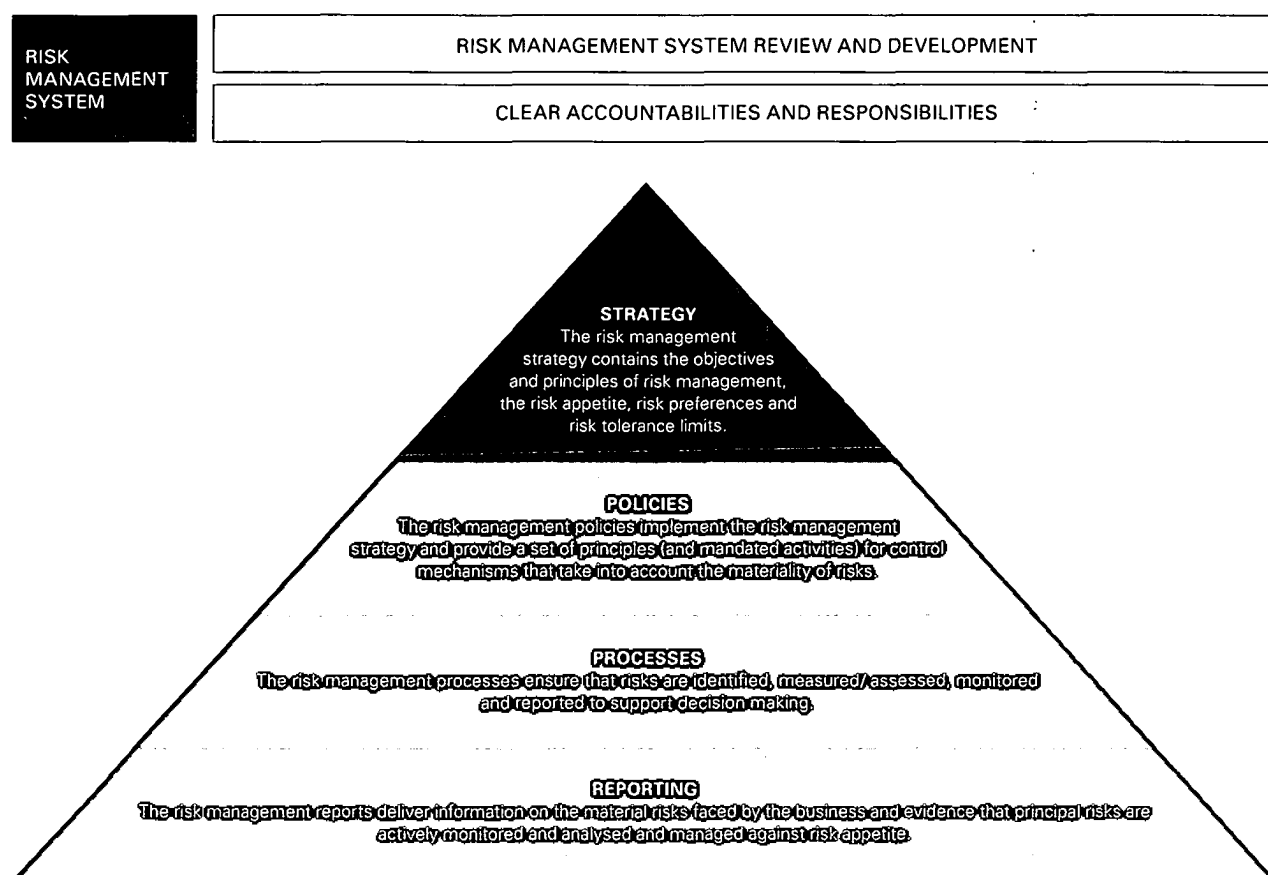
Based on the results of the analysis above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

RISK MANAGEMENT

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

How we manage risk

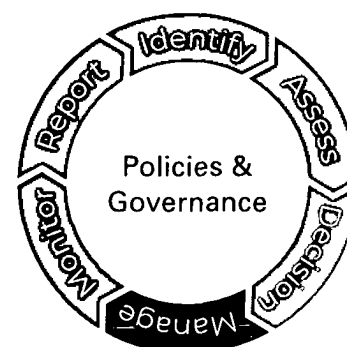
The risk management system supports the identification, assessment, and reporting of risks along with coordinated and economical application of resources to monitor and control the probability and/or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.



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

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

Group and divisional risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the group of certain adverse events occurring separately or in combination. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in 'Principal risks and uncertainties' (pages 53 to 57). The outcome of this testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.



RISK MANAGEMENT • ROLE OF THE BOARD

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

Risk and Control Policies

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

Strategy and Risk Appetite

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

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

Risk Identification

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk Management System Effectiveness

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

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

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 41). The information below has been updated in consideration of the Covid-19 pandemic which emerged post year end. Overall, Covid-19 has not introduced any new principal risks.

INVESTMENT AND LIQUIDITY RISK

DESCRIPTION	Exposure to financial losses or value reduction arising from adverse movements in investment markets, counterparty defaults, or through inadequate asset liability matching.
RISK APPETITE	The group accepts this risk but has controls in place to prevent any increase or decrease in the risk exposure beyond set levels. These controls will result in early intervention if the amount of risk approaches those limits.
POTENTIAL IMPACT	Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders. 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. Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.
KEY CONTROLS	– 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 consideration (and discussing appropriate strategies with fund managers) to longer term global changes that may affect investment markets, such as climate changes.
RECENT CHANGE	Sustained low interest rates combined with increasingly volatile credit spreads provides an additional challenge in terms of achieving a suitable return on fixed interest investments relative to risk. It has also increased the perceived risk of downgrades or defaults on lower grade credit assets. The global Covid-19 pandemic at the beginning of 2020, and corresponding concerns about the economic impact of government intervention, has led to increased market volatility leading to reduced equity asset values, spreads widening, and reductions in yields.

REGULATORY CHANGE RISK

DESCRIPTION	The risk of adverse changes in industry practice/regulation, or inconsistent application of regulation across territories.
RISK APPETITE	The group aims to minimise any exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	Chesnara currently operates in four regulatory domains (including Movestic's asset management company in Luxembourg, due to be closed in 2020) and is therefore exposed to potential for inconsistent application of regulatory standards across divisions, such as the imposition of higher capital buffers over and above regulatory minimum requirements. Potential consequences of this risk for Chesnara is the constraining of efficient and fluid use of capital within the group, or creating a non-level playing field with respect to future new business/acquisitions. The group is therefore exposed to the risk of: – incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards; – erosion in value arising from pressure or enforcement to reduce future policy charges; – erosion in value arising from pressure or enforcement to financially compensate for past practice; and – regulatory fines or censure in the event that it is considered to have breached standards or fails to deliver changes to the required regulatory standards on a timely basis.

I RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

REGULATORY CHANGE RISK (CONTINUED)

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;
- Being a member of the ABI 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 CHANGE

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

Chesnara continues to monitor the outcome of Brexit and the ongoing negotiations between the UK and the EU. 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.

Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II 2020 Review, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.

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

ACQUISITION RISK

DESCRIPTION

The risk of failure to source acquisitions that meet Chesnara's criteria or the execution of acquisitions with subsequent unexpected financial losses or value reduction.

RISK APPETITE

Chesnara has a patient approach to acquisition and generally expects acquisitions to enhance EcV and expected Cash Generation in the medium term (net of external financing), though each opportunity will be assessed on its own merits.

POTENTIAL IMPACT

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

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

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 CHANGE

Chesnara has completed the agreement to purchase two portfolio acquisitions in the Netherlands during 2019 whilst maintaining the established disciplines within the Acquisition Policy.

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

DEMOGRAPHIC EXPERIENCE RISK

DESCRIPTION	Risk of adverse demographic experience compared with assumptions.
RISK APPETITE	The group accepts this risk but restricts its exposure, to the extent possible, through the use of reinsurance and other controls. Early warning trigger monitoring is in place to track any increase or decrease in the risk exposure beyond a set level, with action taken to address any impact as necessary.
POTENTIAL IMPACT	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 CHANGE	New legislation was passed in Sweden on 13 November 2019 making it easier for customers to transfer policies. This resulted (even before the legislation passed) in higher transfer activity in the market, particularly driven by brokers. Movestic has adjusted its future transfer assumptions to reflect an expectation of increased transfers out. Covid-19 is likely to increase the number of deaths arising in 2020. 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. Therefore, in the period since the balance sheet date Chesnara has not been required to subsequently revise the valuation assumptions that existed at the 2019 year end date, to reflect any material increase in mortality costs.

EXPENSE RISK

DESCRIPTION	Risk of expense overruns and unsustainable unit cost growth.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	The group is exposed to expenses being higher than expected as a result of one-off increases in the underlying cost of performing key functions, or through higher inflation of variable expenses. A key underlying source of potential increases in regular expense is the additional regulatory expectations on the sector. For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base. For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.

I RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

EXPENSE RISK (CONTINUED)

KEY CONTROLS

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

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

RECENT CHANGE

The group has an ongoing expense management programme in place to monitor and manage the overall expense base. Under this programme, Scildon and Movestic have both delivered significant cost savings in 2019 (Movestic building on those savings already achieved in 2018) and continue to focus on operational efficiency going forward.

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

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

OPERATIONAL RISK

DESCRIPTION Significant operational failure/business continuity event.

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

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

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

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;
- Promoting the sharing of knowledge and expertise; and
- Complementing internal expertise with established relationships with external specialist partners.

RECENT CHANGE

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

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

In response to Covid-19, Chesnara, its subsidiaries and outsourced service providers have all adapted to remote working conditions, utilising communication technology as required. While the transition has so far been a smooth one, there is inevitably an increased level of operational risk and potential for an impact on operational efficiency. However, with all the steps taken to improve the way we work, and additional controls implemented, Chesnara is well placed to manage the additional risk.

IT / DATA SECURITY & CYBER RISK

DESCRIPTION	Risk of IT/ data security failures or impacts of malicious cyber-crime 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; - Conducting penetration and vulnerability testing, including third party service providers; and - Having established Chesnara and supplier business continuity plans which are regularly monitored and tested.
RECENT CHANGE	During 2019, Chesnara's UK Head Office changed its Outsourced IT provider and has completed an assurance exercise. The move to remote working has the potential to increase cyber risk and therefore various steps have been taken to enhance security, processes and controls to protect against this.

CORPORATE AND SOCIAL RESPONSIBILITY

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

OUR EMPLOYEES

Equal opportunities

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

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

	2019		2018	
	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 & group functions	18	7	16	7
Employees of the group	141	149	161	155
Total ^{Note 1}	170	160	189	166
Gender split %	51.5%	48.5%	52.5%	47.5%

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

There have been a number of small changes between the 2018 and 2019 analysis to standardise the approach across divisions.

The Hampton-Alexander report recommends a board diversity target of 33% for FTSE 350 companies. Gender diversity forms an important part of the board appointment process. Our board diversity ratio for 2019 was 71% male and 29% female. Chesnara are committed to diversity: our group Audit and Risk Committee and group Remuneration Committee both have female chairmen 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 company. Chesnara have only three members of staff who meet the Companies Act definition of senior management. We therefore provide additional information in keeping with the spirit of the company's focus on diversity. We have provided additional disclosures to cover the employees within the group. We have given an analysis of diversity which shows 'Heads of business units and group functions' separately from the remainder of employees within the group.

During the course of 2019, Chesnara has enhanced its UK maternity policy from offering 12 weeks at 90% pay, followed by statutory maternity pay up until the 39th week, to 26 weeks at 90% pay, followed by statutory maternity pay. This change is to ensure that we offer high quality benefits to our staff and show our commitment to our people both inside and outside the workplace.

Chesnara aims to be sensitive to the cultural, social and economic needs of our local community and endeavours to protect and preserve the environment where it operates.

Disabled employees

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

Health, safety and welfare at work

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

Whistleblowing

Across the group we have in place whistleblowing policies, which comply with local regulatory requirements. In the UK the Audit & Risk Committee Chairman is appointed as Whistleblowing Champion, whose responsibilities meet the requirements of the Senior Insurance Managers Regime. Similar arrangements are in operation within our overseas divisions.

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

Modern Slavery Act 2015

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

Anti-Bribery and Corruption Policy

Chesnara has in place an Anti-Bribery and Corruption Policy which is reviewed annually or more frequently by exception. Its scope includes all directors, employees and third-parties operating on its behalf and the company has a zero tolerance to all such matters. Controls operated in the period include the maintenance and review of a Gifts & Hospitality Register, the disallowance of any political contributions or inducements and careful consideration of any charitable donations. The internal financial control environment acts as a further monitoring and prevention system. There were no instances of bribery or corruption in the period.

OUR CUSTOMERS

Our offering

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

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

Reuniting customers with lost policies

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

Digitalisation

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

OUR COMMUNITIES

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

All divisions support local community initiatives to the extent deemed appropriate given our financial responsibilities as a public limited company.

'THE GROUP HAS FULLY OFFSET ITS CARBON EMISSIONS FOR 2019 AND SO IS CARBON NEUTRAL.'

ENVIRONMENTAL AND ETHICAL ISSUES

Climate change

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

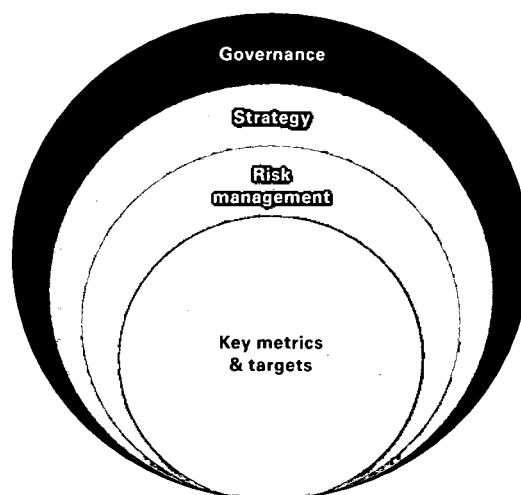
Our business, like all businesses, are directly affected by the effects of climate change and because of this, it features high on our radar with actions being taken where possible, to mitigate the group's impact on climate change.

Being primarily office-based financial services companies, it is the board's belief that the group's activities do not materially contribute to pollution or cause material damage to the environment. However, the group takes all practicable steps to minimise its effects on the environment and encourages its employees to conserve energy, minimise waste and recycle work materials, of which carbon offsetting is one example.

For 2019, the group board supported a strategy of fully offsetting our residual carbon emissions, and as a result of this, the group achieved carbon neutrality. This is detailed further on page 61.

In addition, as multinational group, we actively use video conferencing throughout our interactions.

Climate change risk is embedded into our risk framework and our board reporting.



Source: TCFD

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

ENVIRONMENTAL AND ETHICAL ISSUES (CONTINUED)

ENVIRONMENTAL AND ETHICAL ISSUES (CONTINUED)

GOVERNANCE	Our board is involved in decisions regarding Chesnara's influence on climate change and we have a plan to enhance that engagement over the coming years. There are a number of key activities that factor climate change and are reported through to our board: – Climate change and related scenario testing in the ORSA and supporting narrative – climate change risk is included within the ORSA as an emerging risk and shows links to elements of the stress testing. – Risk reporting – as an emerging risk, climate change is included within the routine risk reporting process. – Investment committee - ESG is now a regular agenda item at the IC meetings and fund managers are being actively engaged with to understand and gain sufficient governance understanding of their approach to the wider ESG subject, including climate change approach to their investment approach and risk assessment. The intention is also to incorporate ESG into the formal Investment Policy at some stage soon when further clarity of what is required emerges. – Carbon offsetting
STRATEGY	Climate change weaves its way into each of the group's strategic pillars and we believe our approach works towards maintaining our longer term sustainability. That said, we still recognise that there is work we can do to further improve our position. As a group, we actively try to mitigate the effects of carbon emissions and climate change. This is done by both working towards reducing the emissions we generate and offsetting those emissions that we do generate, with some of the key activities being: – Our business travel for the group in 2019 has seen a small reduction (1%), however, within this was a significant shift towards more travel by rail. Based on the Defra 2019 rates, rail travel is significantly more efficient than travelling by car or by air. This is through a proactive approach to not only limiting the amount of travel across the group, but also giving consideration to the method. The biggest contributor to this shift to trains is from our Swedish division. – Our employee forum in the UK is actively considering ways to reduce commuting mileage and promoting this across the UK workforce. – Scildon have replaced a number of cars with electric vehicles, to actively mitigate carbon emissions. – As a group, we know that it is currently unlikely that we will be able to operate with zero emissions, but we take steps to reduce them wherever possible, as noted above. To further mitigate our impact, we have engaged in carbon offsetting activity, and fully neutralized the remaining emissions for 2019.
RISK MANAGEMENT	The PRA classifies two types of risk relating to climate change: 1. Physical Risks – these are the direct impact of events such as heatwaves, flood, wildfire, storms, increased weather variability, rising mean temperature and sea level rises. 2. Transition Risks – these come from the process of change towards a low carbon economy. A range of factors may influence this, including: climate related developments in policy and regulation, technological change (e.g. electric vehicles), shifting sentiment and social attitudes, climate related litigation against firms that fail to mitigate, adapt or disclose climate related financial risks. As the group is primarily life insurance and not general insurance, it is not directly exposed to the underwriting risks associated with the above (albeit there may be some small mortality/morbidity impacts). However, it is expected that the group could be exposed to market and credit risks associated with transition risk, or to a lesser degree, physical risks. It is our conclusion that climate change risks have the potential to affect the asset side of the group balance sheet, but the direct liabilities are unlikely to be materially impacted. Climate change risk is recognised as an emerging risk and remains on the group risk radar. It is also considered as part of the sensitivities, albeit indirectly through the stresses on economic risk factors, as we believe this would be the most likely area of impact if the risk materialised.
METRICS & TARGETS	Our primary climate related target is to fully offset our carbon emissions, which has been achieved for 2019.

Greenhouse gas reporting

Methodology used to calculate emissions

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

The group's carbon reporting falls under three scopes as shown in the table below. In previous years, scope 3 has excluded the impact of employee commuting under the assumption that this mileage was personal mileage and not a direct consequence of the employment within the group. This year, we have chosen to include an estimate of the commuting emissions for our staff (including contractors) and outsourcers as we feel that, even though these are personal emissions, they are indirectly linked to the group and therefore we want to recognise that impact.

Disclosure of emissions

Global GHG emissions data for the year to 31 December 2019:

	Tonnes of CO ₂ e	
	2019	2018
Emissions from:		
Combustion of fuel and operation of facilities (scope 1)	-	-
Electricity, heat, steam and cooling purchased for own use (scope 2)	192.8	202.2
Travel (scope 3)	183.6	225.1
Commuting* (scope 3)	1,042.6	-
Total gross emissions	1,419.0	427.3
Carbon offsetting	(1,419.0)	-
Total net emissions	-	427.3
Company's chosen intensity measurement = tonnes of CO ₂ e per square metre of office space occupied (<u>excluding</u> commuting)	0.056	0.064
Company's chosen intensity measurement = tonnes of CO ₂ e per square metre of office space occupied (<u>including</u> commuting)	0.212	0.064
Emissions reported above normalised to per tonne of product output		

*2019 includes an estimate of the carbon emissions that arise from the annual commuting miles for all staff and outsourcers across the whole group.

The overall measure for tonnes of CO₂e per square metre of office space (excluding commuting) has reduced when compared to the prior year, this is due to a combination of lower emissions, and lower conversion rates (Defra 2019 v 2018). If the commuting mileage is included for 2019, the intensity measurement increases from 0.056 to 0.212.

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

- **Scope 1** – there are no emissions that fall under the category of scope 1 for the group, which is activities controlled by the organisation that release emissions into the atmosphere such as from combustion on owned controlled boilers and furnaces.
- **Scope 2** – the emissions that fall within this category are related to the energy usage for the group's offices. This excludes the usage of the outsourcers as they do not work exclusively for the group and therefore we have not been able to estimate the impact. The Defra conversion factors are used to calculate the carbon emissions based on the kWh of gas and electricity used during the course of 2019. We believe this is a prudent approach in estimating the emissions for the overseas divisions as data suggests that Sweden and the Netherlands generate their energy in a more efficient manner than the UK.
- **Scope 3** – comprises of the emissions incurred through direct business travel, alongside an estimate of the commuting emissions incurred by our staff and our outsourcers. The Defra conversion factors are used to calculate the carbon emissions based on the miles travelled dependent on the travel method (air, rail and car).

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

Carbon offsetting

Although we continue to make endeavours to reduce our carbon emissions, we recognise that it is unlikely that we will be able to fully mitigate them through normal activities. To ensure we minimise our impact on the environment, the group has decided to become carbon neutral by fully offsetting our remaining emissions. To do this, the group has invested in a tree budding scheme. Through the scheme, we have offset the emissions we have produced during 2019 by:

- Paying for the planting of 1,500 trees in the north west of England; and
- For every tree planted in the UK, a tonne of carbon will also be saved via a project to minimise deforestation in Brazil.

More information can be found at www.carbonfootprint.com

Energy Saving Opportunity Scheme Regulations 2014

The company has committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2014 (ESOS). As part of the ESOS, the company submitted and was externally assessed for the energy usage, in the UK, for the period 31 December 2018 to 31 December 2019. Energy usage examined was in relation to any energy consumed by the company, lighting, heating, fuel to name a few. ESOS operates on a four year compliance phase with the next reporting / compliance date being December 2023.



Luke Savage
Chairman



John Deane
Chief Executive Officer

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Stockholm Sweden

BOARD PROFILE AND BOARD OF DIRECTORS

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

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

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

THE BOARD

LUKE SAVAGE CHAIRMAN

(from 14 February 2020)

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

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

Committee membership: Nomination & Governance (Chairman) and a member of the Remuneration Committee (from February 2020).

Current directorships/business interests:

- Numis Corporation plc, Chairman of the Audit & Risk Committee
- DWF Group plc, Chairman of the Audit Committee
- Liverpool Victoria Financial Services Limited, Chairman of the Audit Committee
- Queen Mary University, Chairman of the Finance and Investment Committee

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

JANE DALE

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

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

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

Current directorships/business interests:

- Countrywide Assured plc, Chairman of the Audit & Risk Committee
- Covea Insurance plc, Chairman of the Audit Committee
- Covea Life Limited, Chairman of the Audit Committee
- Bizspace Holdings Ltd, NED, Chairman of the Audit Committee

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

PETER MASON CHAIRMAN

(until 14 February 2020)

Peter stepped down from the Chesnara plc board effective 13 February 2020. Prior to this date he acted as Chairman of the board, a position he had held since 2009, and was also Chairman of the Nomination & Governance Committee, Movestic Livförsäkring AB (until 31 December 2019) and a member of the Remuneration Committee.

Current directorships/business interests:

- Countrywide Assured plc, Chairman
- Countrywide Assured Life Holdings Limited, Chairman

JOHN DEANE

GROUP CHIEF EXECUTIVE

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

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

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

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	Operational management	● ● ● ●

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

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.

VERONICA OAK

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE

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

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

Current directorships/business interests:

- Countrywide Assured plc, NED
- Sanlam Investment Holdings Limited, NED
- Investment & Life Assurance Group Limited, NED

Skills and experience: A B H I J K

DAVID BRAND

NON-EXECUTIVE DIRECTOR

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

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

Current directorships/business interests:

- Countrywide Assured plc, NED
- Exeter Friendly Society, Chairman of the Audit Committee and Investment Committee
- Exeter Cash Plan Holdings Limited, NED
- Exeter Cash Plan Limited, NED
- Movestic Livförsäkring AB, Chairman (from 1 January 2020)

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

DAVID RIMMINGTON

GROUP FINANCE DIRECTOR

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

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

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

MARK HESKETH

NON-EXECUTIVE DIRECTOR

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

Committee membership: Nomination & Governance and Audit & Risk.

Current directorships/business interests:

- Countrywide Assured plc, NED
- Chesnara Holdings BV (from 3 June 2019)
- Cornerstone International Holdings Ltd, NED
- Stonebridge International Insurance Limited, NED
- Centre for Ageing Better, NED
- Bethany Christian Trust, NED
- Powza Limited, NED

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

GOVERNANCE OVERVIEW FROM THE CHAIRMAN

'Good governance is the
foundation
of how we operate'.

Dear Shareholder,

On behalf of the board, I am very pleased to present our Corporate Governance Report for the year ended 31 December 2019. In doing so, I would like to thank Peter Mason for his service to the company since his appointment to the Board in March 2004 and as Chairman in January 2009. Peter's tenure as Chair exceeded the length of time recommended in the UK Corporate Governance Code (2018) (the 'Code') but his continuation in the role, particularly following the departure of Mike Evans as Senior Independent Director in October 2018, was in the best interests of the company and approved by shareholders at the AGM each year.

I am delighted to be able to report that the board considers that the company has, in all other respects, complied fully throughout the year with the provisions of the Code.

The board is accountable to our shareholders and wider stakeholders for generating and delivering sustainable value through good management of the group's business. The board plays a critical role in ensuring that the tone for the group's culture and values is set from the top. I firmly believe that a robust, and effective, governance framework is essential to support management in delivering the company's strategy. We understand that good governance is fundamental to the effective management of the business and its sustainability in both the short and the long-term.

This section of the Annual Report & Accounts sets out our governance policies and practices, and includes details of how the company has, during 2019, applied the Code.

The board is cognisant of the corporate governance reforms and proposed changes in legislation that are intended to encourage responsible corporate behaviour. The board is also mindful of the company's wider purpose, responsibilities and decision-making processes to a broader stakeholder group. In delivering sustainable performance, the board is aware of the need to consider and engage with the interests of its employees, customers and suppliers. In 2018, the board continued to engage with its shareholders to promote effective governance through open and constructive two-way dialogue, and we place great value on this engagement.

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

The Audit & Risk Committee undertook an external audit tender process in 2017 and the appointment of Deloitte LLP received shareholder approval at the 2018 AGM.

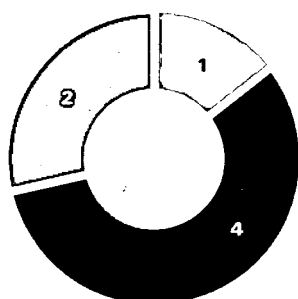
This report demonstrates how the board and its committees have fulfilled their governance responsibilities.



Luke Savage
Chairman

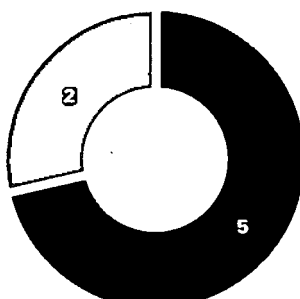
14 April 2020

Current balance of executive and non-executive directors



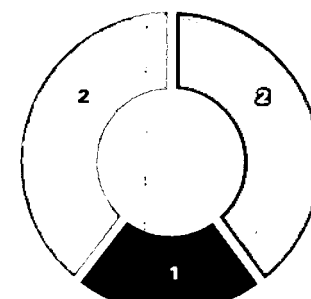
■ Chairman
■ Non-executive
■ Executive

Current gender diversity of the board



■ Male
■ Female

Board tenure of NEDs



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

CORPORATE GOVERNANCE REPORT

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

Compliance with the Code

The company has complied throughout the year with all of the relevant provisions of the Code, aside from the tenure of Peter Mason, as highlighted on the previous page. The UK Corporate Governance Code is available at www.frc.org.uk

The board

At 31 December 2019, the board comprised of a non-executive Chairman, four other non-executive directors and two executive directors.

Biographical details of current directors are given on pages 64 and 65 and a board profile, which assesses the core competencies required to meet the group's strategic objectives, is provided on page 65. The board, which plans to meet at least eight times during the year, has a schedule that it reviews annually of matters reserved for its consideration and approval. These matters include:

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

In addition:

- i) the directors of the company during the year were also directors of Countrywide Assured plc;
- ii) three directors of the company, being Messrs Mason and Deane (throughout the year) and Hesketh (from 3 June 2019), were also directors of Chesnara Holdings BV; and
- iii) four directors of the company, being Messrs Mason, Deane, Brand and Rimmington (throughout the year), were also directors of Movestic Livförsäkring AB.

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

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

The roles of the Chairman and Group Chief Executive

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

Senior Independent Director

Jane Dale, who has been a non-executive board member since May 2016, was appointed as the senior independent director in October 2018. The senior independent director supports the Chairman in both the delivery of the board's objectives and in ensuring that the view of all shareholders and stakeholders are conveyed to the board. Jane Dale is available to meet shareholders on request and to ensure that the board is aware of shareholder concerns not resolved through the existing mechanisms for shareholder communication. The senior independent director also meets with the non-executive directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance and provides feedback to the Chairman and the board on the outputs of that appraisal. In 2019, Jane also led the search for the new Chairman.

Directors and directors' independence

During 2019 a review was conducted to assess independence of the board as a whole when set against a matrix of key measures set out in the Code. The table below shows the results of that review when set against the Code provisions 11, 12 and 17 and Principle G.

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

The following statement, together with the Directors' Remuneration Report on pages 74 to 93, the Nomination & Governance Committee Report on pages 72 to 73, and the Audit & Risk Committee Report on pages 94 to 99 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 2019.

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

Whilst the review concluded that Peter Mason had a 'Yes' flag, the board nonetheless considers that the Chairman was independent at the date of his appointment, was free from any business or other relationship with the company which could have materially influenced his judgement and he represented a strong source of advice and independent challenge. It is noted that Luke Savage was considered to be independent on appointment.

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

Other than their fees, and reimbursement of taxable expenses, which are disclosed on page 77, the non-executive directors received no remuneration from the company during the year. The directors are given access to independent professional advice, at the company's expense, when the directors deem it necessary, in order for them to carry out their responsibilities. No independent professional advice of this nature was utilised in the year.

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

Professional development

The directors were advised, on their appointment, of their legal and other duties and obligations as directors of a listed company. This has been supplemented by the adoption and circulation to each director, their responsibilities and duties as contained within the group's Governance 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. Through their membership of the CA plc board, all of the directors who served during the period under review have considerable knowledge and experience of the UK-based businesses of the group. Similarly, Messrs Mason, Deane, Brand, Hesketh and Rimmington, through their membership of the divisional boards, between them displayed considerable knowledge and experience of the Swedish and/or Dutch based businesses of the group.

Information

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

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

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

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

Also, the divisions are required to submit a quarterly risk report and an annual report on risk management and internal control systems.

In addition to these structured processes, the papers are supplemented by information which the directors require from time to time in connection with major events and developments, where critical views and judgements are required of board members outside the normal reporting cycle.

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

I CORPORATE GOVERNANCE REPORT (CONTINUED)

Board effectiveness and performance evaluation

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

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

The outcome of the review of the board and its committees indicated that they continue to be effective and that each of the directors demonstrates commitment to his or her role, along with sufficient time to meet the required time commitment to the company.

Directors' conflicts of interest

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

The company secretary holds a register of interest, and a log of all potential conflicts raised is maintained and updated. The board is empowered to authorise potential conflicts and agree what measures, if any, are required to mitigate or manage them. No new material conflicts of interest are noted in 2019.

Whenever a director takes on additional external responsibilities, the Chairman considers any potential conflicts that may arise and whether or not the director continues to have sufficient time to fulfil his or her duties taking into account the policy on executive directors' external appointments. No new significant external appointments are noted in 2019.

Customer/Third Party conflicts of interest

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

No material conflicts of interest are noted in 2019.

Employee engagement

As part of our on-going review of corporate governance and how we meet the requirements set out in the Code, in 2019 the board looked at how best to improve engagement and communication between the board and our UK workforce (both employees and contractors). This included review of feedback from Deloitte on their observations about workforce culture and engagement.

As a relatively small UK workforce of currently 36 people, all based in Preston, we enjoy an ease of communication and engagement between board, management and other staff that is harder to achieve in larger organisations. That said, we took the view that current arrangements would be enhanced with the creation of a Workforce Engagement NED role. The terms of reference for this role, which also include maintaining a line of communication to our non-UK workforce, have been developed and approved by the board and Veronica Oak has been appointed alongside her existing roles on the board.

An employee forum has also been introduced for our UK workforce, meeting monthly with members representing each functional area to discuss issues arising, with similar arrangements in place within our overseas business units.

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

We continue to invest in the development of our employees through individual and group training and development plans. All UK employees (subject to minimum service requirement) also have access to our SAYE scheme, improving employee engagement with company performance and directly linking a proportion of employee benefits to our performance.

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

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

Customer/supplier engagement

During 2019 the board requested our Group Chief Executive to conduct a review of our customer/supplier engagement across all areas of our group. The reports received covered our operations in the UK, Sweden and the Netherlands and detailed our extensive engagement via a number of methods. Whilst the board remains vigilant to ensure the importance of such engagement remains high on agendas, the board did not feel that any additional actions were required at this stage.

Company Secretary

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

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided on pages 74 to 76.

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided on pages 94 to 99.

Nomination & Governance Committee

Full details of the composition and work of the Nomination & Governance Committee are provided on pages 72 to 73.

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
Peter Mason - Non-executive Chairman	10 (10)	4 (4)	5 (5)	n/a
John Deane - Executive director	10 (10)	n/a	n/a	n/a
Veronica Oak - Non-executive director	10 (10)	4 (4)	5 (5)	9 (9)
David Brand - Non-executive director	10 (10)	4 (4)	5 (5)	9 (9)
David Rimmington - Executive director	10 (10)	n/a	n/a	n/a
Jane Dale - Non-executive director	10 (10)	4 (4)	n/a	9 (9)
Mark Hesketh - Non-executive director	10 (10)	4 (4)	n/a	9 (9)

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

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

Relations with shareholders

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

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.

At our AGM on 14 May 2019 all resolutions were passed, with votes for ranging from 100% to 95.53% (votes against ranging from 0% to 4.47%).

Our next AGM is on 26 May 2020 and details of the resolutions to be proposed can be found in the notice of the meeting on pages 199 to 200. The Chairmen of the board committees will be available to answer such questions as appropriate.

Internal control

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. In establishing the system of internal control, the directors have regard to the significance of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. It

is, therefore, designed to manage rather than eliminate the risks, which might prevent the company meeting its objectives and, accordingly, only provides reasonable, but not absolute, assurance against the risk of material misstatement or loss.

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

In accordance with the regulatory requirements of the PRA 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 53 to 57.

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; and

CORPORATE GOVERNANCE REPORT (CONTINUED)

- there is an explicit risk function, which is supported by compliance and internal audit functions.

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

As at 31 December 2019, all Chesnara directors were also members of the CA plc board and the company thereby has effective oversight of the maintenance and effectiveness of controls subsisting within CA plc. Regarding the Waard Group, Scildon and Movestic, such oversight is exercised by way of the membership of a number of the Chesnara directors on their boards, together with quarterly reporting to the Chesnara plc Audit & Risk Committee.

In addition, the Chesnara board confirms that it has undertaken a formal annual review of the effectiveness of the system of internal control for the year ended 31 December 2019, and that it has taken account of material developments between that date and the date of approval of the Annual Report & Accounts. The board confirms that these reviews took account of reports by the Internal Audit and Compliance functions on the operation of controls, internal financial controls, and management assurance on the maintenance of controls and reports from the external auditor on matters identified in the course of statutory audit work. Conclusions of the Audit & Risk Committee annual review of effectiveness of the group's risk management and internal control systems is reported in more detail in the Audit & Risk Committee Report as set out on pages 94 to 99. The board is not aware of any significant deficiencies in the effectiveness of the group's systems of internal control and risk management for the year under review. There has been no change of status to this up to the date of approval of this report.

Financial reporting

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

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

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

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

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

Going Concern and Viability Statement

The Directors' Statement on Going Concern is included in the Directors' Report on page 102 and the Long-Term Viability Statement is set out on page 50.

NOMINATION & GOVERNANCE COMMITTEE REPORT

Nomination & Governance Committee

During the period under review, the committee comprised Peter Mason, who also served as Chairman of the committee, David Brand, Veronica Oak, Jane Dale and Mark Hesketh. The Chairman did not chair or attend when the committee was considering matters relating to his position, in which circumstance the committee was chaired by an independent non-executive director, usually the senior independent director. No individual participated in discussion or decision-making when the matter under consideration related to him or her.

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

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

The role of the Nomination & Governance Committee is to:

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

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

During the period, the committee met four times and attendance at those meetings is shown on page 71 of the Corporate Governance Report. 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

After a number of director changes in recent years, the committee has continued to focus on succession planning, with a view to identifying the best composition for the board and its committees for the next phase of development for the business. The review also identified areas where the board should evolve to meet any expected future business and strategic direction of the group.

The development of talent below board level is extremely important and an area of focus for the board. The company continues to build an internal leadership pipeline for senior roles. The board believes that, by focusing on creating a pool of internal talent, there is an increased probability of employee retention and the building of internal capabilities needed to support the growth of the business.

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

Board appointment process

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

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

The board process set out above was followed in 2019 and led in early 2020 to the appointment of Luke Savage as Chairman. The board engaged the services of Odgers Berndtson as independent external recruitment consultants. No directors have any link with Odgers Berndtson and they were not used for any other work in 2019.

Diversity

The committee is mindful of the corporate governance developments in the areas of diversity and gender balance, including the changes to the Disclosure and Transparency Rules. This will be kept under review during 2020.

The board recognises the benefits of having diversity across all areas of the group. When considering the make-up of the board, the benefits of diversity are appropriately reviewed and balanced where possible and appropriate, including in terms of difference in skills, sector experience, gender, race, disability, age, nationality and other contributions that individuals may make. In identifying suitable candidates, the committee will seek candidates from a range of backgrounds, with the final decision being based on merit against the role criteria set. The board maintains its practice of embracing diversity and has therefore chosen, at this time, not to set any measurable gender-based targets. The board currently comprises 5 men and 2 women (28.5%).

Review of effectiveness

The board and its committees undertook annual effectiveness reviews and the respective Chairmen discussed the findings in each forum. Other standard processes were also undertaken, including Fit & Proper assessments, Board Diversity Policy review, NED succession planning, the review of the effectiveness of the Chairman and a gap analysis against the new provisions of the UK Corporate Governance Code 2018.

Any areas where increased focus and/or action was considered to be of potential value has either been taken in 2019 or will be taken into account as appropriate during 2020.

Succession planning

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

Non-executive director engagement

It is important to the board that non-executive directors are provided with training and development both within the business and at a group level. The board believes that on-going training is essential to maintaining an effective and knowledgeable board. The company secretary supports the Chairman in ensuring that all new directors receive a tailored and comprehensive induction programme on joining the board. Continuing education and development opportunities are made available to all board members throughout the year. In 2019, a number of development initiatives have continued, these included one-to-one sessions with key members of the senior management team and training sessions given by external providers.

Directors standing for re-election

In accordance with the Code, all directors will offer themselves for re-election, and in the case of Luke Savage for election, at the company's AGM on 26 May 2020. Following the annual board effectiveness reviews of individual directors, as applicable and subject to re-election, the Chairman considers that each director:

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

The board, on the advice of the committee, recommends the re-election/ election of each director so proposed at the 2020 AGM. The full 2020 AGM Notice can be found on page 199.



Luke Savage
Chairman of the Nomination & Governance Committee

14 April 2020

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholder,

I am pleased to present the 2019 Directors' Remuneration Report, for which we seek your support at our forthcoming Annual General Meeting, in May 2020. It is three years since shareholders last approved the Remuneration Policy and we have taken this opportunity to review our Policy and make appropriate changes following our review of the UK Corporate Governance Code 2018 and shareholder views generally on remuneration. Our revised Remuneration Policy will be put to shareholders for a binding vote at our AGM on 26 May 2020 and, if approved, will be effective from that date.

2019 – A year of solid delivery

Chesnara has a very clear focus, to recap:

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

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

In 2019 we have seen delivery against:

1. Cash generation of £36.7m exceeding the funding requirements of the dividend.
2. Movestic has delivered modest new business profits of £6.9m, which is reflective of the challenging market, with lower volumes of single premiums and transfers-in, coupled with margin pressures. Movestic has provided to Chesnara a SEK33.1m (£2.7m) dividend payment.
3. Scildon has delivered increased new business profits of £7.5m. This has been partly delivered through cost saving initiatives and Scildon taking a larger market share of a reducing term market, increasing sales above 2018. Average term market share for 2019 was 11.6% compared to 7.6% in 2018. In isolation, the market share for December 2019 was 13.7%. Scildon has provided to Chesnara a EUR5.8m (£5.0m) dividend payment in the year.

Executive performance in 2019

In light of the performance of the executive team in 2019 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 2019 under the STI can be found on page 78.

The awards made in April 2017 under the 2014 LTI are due to vest in April 2020 and apply to John Deane (GCEO) and David Rimmington (GFD). The targets, performance outcome and estimated value of awards can be found in the table on page 80. As in 2019, disclosure of the economic value outcome now enables comparison with opening values.

Changes to the directors' salary

In line with our remuneration policy, it is our normal practice to award executive directors, and indeed all employees, an annual salary increase broadly in line with inflation.

UK employees received an average salary increase of 2.2% in 2019 and 2% in 2020. The salaries of John Deane and David Rimmington have been increased by the same percentages in both years. The executive directors' remuneration for 2020 can be found on page 77.

In 2019 the board increased the base fee and committee chairmanship fees for non-executive directors by 2.2%. In 2020 no increase has been applied and the only change to non-executive director remuneration is related to an increase in responsibility arising from the introduction of the new Workforce NED role, details of which can be found on page 70.

Review of Incentive Scheme performance measures

As noted in my report last year, we have considered the performance targets used within the short-term and long-term incentive schemes to ensure that they remain effective and appropriate.

Short-Term Incentive Scheme – under this scheme, the committee has discretion to determine with each award the performance criteria in accordance with the remuneration policy. In 2019 the Remuneration Committee reviewed whether the weightings and measures continued to be appropriate and made changes to better reflect achievement of an overall assessment of company financial performance when determining executive director bonus payments – see full details on page 85.

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.

Directors' Remuneration Policy (the 'Policy')

We reviewed the composition of the Executive's remuneration and are confident that the current arrangements remain appropriate and are giving rise to outcomes that we hope investors will agree are aligned to the objectives we set ourselves and their interests. So, in summary, remuneration for our Executives will continue to comprise basic salary, benefits, including pension contributions, an annual Short-Term Incentive Scheme (STI) and a Long-Term Incentive Scheme (LTI). We have also continued to monitor developments in the area of remuneration, whether that is via enhancements to accepted best practice, regulatory guidance or legal requirements. Of particular note has been the committee's review of the new UK Corporate Governance Code 2018 (the 'Code'). The proposed Policy can be found on pages 87 to 93 and the existing policy is in the Governance Reports section of the company's website: www.chesnara.co.uk

The key changes within the proposed Policy relate to:

- clarification that executive director pension contributions are the same as those made for all UK employees;
- an update to the Policy to reflect the introduction made last year of a two-year 'holding' period to apply after the three-year 'performance' period for LTI awards, effective for awards made from 2019;
- an update to the Policy to reflect the strengthening of the malus and clawback provisions that already exist in the rules for the executive LTI and STI awards;
- changes to our minimum shareholding requirements for executive directors, including the introduction of a two-year post-employment requirement;
- introduction of the consideration of Environmental, Social and Governance (ESG) risks and performance as part of non-financial targets in executive director compensation plans; and
- further comment and hopefully reassurance for investors about the ability of the Remuneration Committee to exercise discretion, particularly when determining outcomes arising from incentive schemes.

Shareholder engagement

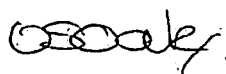
The Directors' Remuneration Report for the year ended 31 December 2019 comprises:

- my Annual Statement as Chairman of the Remuneration Committee and our Annual Remuneration Report, which together are subject to an advisory shareholder vote at the AGM in May 2020; and
- the proposed Remuneration Policy, which will be subject to a binding shareholder vote at the AGM in May 2020.

During preparation of my Annual Statement, I have engaged in dialogue with major shareholders about the proposed changes to the Policy and during the year under report we also responded to questions/queries raised by shareholders.

The voting outcome at the 2019 AGM in respect of the directors' remuneration report for the year ended 31 December 2018 is set out on page 86 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.

I hope my annual statement, together with our Remuneration Report, provides a clear account of the operation of the Remuneration Committee during 2019 and how we have put our remuneration policy into practice. I'm very happy to talk to shareholders to discuss any aspect of our activities or decisions.



Veronica Oak
Chairman of the Remuneration Committee

14 April 2020

DIRECTORS' REMUNERATION REPORT
ANNUAL REMUNERATION REPORT

This section sets out how the Remuneration Committee has implemented its remuneration policy for executive directors during 2019. Other than the single total figure of remuneration for each director tables on page 77, statement of directors' shareholding and share interests on pages 81 and 82, the information contained within this Report has not been subject to audit.

Composition and activities of the Remuneration Committee
In accordance with its Terms of Reference, which can be viewed on the company's website, the Remuneration Committee considered matters relating to directors' remuneration at each of its meetings in 2019. Members of the Remuneration Committee during the course of the year were:

Committee members ¹	Role on the committee	Committee member since	Attendance in 2019	Maximum possible meetings in 2019
Veronica Oak ¹	Committee chairman	January 2013	5	5
Peter Mason ²	Committee member	March 2004	5	5
David Brand	Committee member	September 2018	5	5

Notes:

1. Veronica Oak joined the committee in January 2013 and became the chairman in May 2013.
 2. Peter Mason was not present when the chairman's fees were discussed.
 3. By invitation, the GC&C attends the Remuneration Committee, but was not present when matters relating to his own remuneration were discussed.
- The Committee does not retain the services of external advisers but, in Q1 2019, commissioned a brief review by PwC of the LTI rules to reflect the addition of a holding period. PwC had no other connections with the company or its directors during 2019.

Highlights 2019

In 2019, the committee met five 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 2018 under the STI Scheme and in 2017 under the LTI Scheme having given due consideration to the risk report provided by the Audit and Risk Committee. Approved the targets and the grant of share awards to Executives in 2019 under the 2014 STI Scheme and the 2014 LTI Scheme for executive directors. A half-year evaluation was also undertaken.
All employee and executive remuneration	A review of remuneration trends across the group revealed that pay remains at appropriate levels and is not adversely affecting staff turnover or the ability to recruit new members of staff with the required skills and experience.
Terms of Reference	The Committee's Terms of Reference were reviewed and revision made to ensure that they 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	The Committee reviewed the remuneration policy last approved by shareholders in 2017. Determined that the current remuneration structure for Executives remains appropriate for the objectives set out therein and made a number of changes primarily to address requirements stemming from the new Code. These proposed changes are to be presented to shareholders at the AGM in May 2020.
Review of new UK Corporate Governance Code and other remuneration practices	The Committee considered the requirements of the Code and as a result brought the executives' Long Term Incentive Scheme into compliance by adding a holding period of two years, which will be effective for awards made from 2019, amended the Committee's Terms of Reference to slightly broaden the responsibilities of the Committee and also identified a number of changes to our remuneration policy.
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 generally.
Directors' remuneration reporting	The Committee reviewed the draft directors' remuneration report for the 2018 Report & Accounts and recommended its approval by the Chesnara board.
Performance against strategic objective	The Committee reviewed the executive directors' performance against objectives set.
Directors' minimum shareholding	The Committee reviewed the value of shares held by executives relative to the minimum requirement.
Shareholder engagement	Responded to questions/queries raised by shareholders and prepared for consultation with major shareholders on proposed changes to Remuneration Policy in Q1 2020.
Chairman's fees	The Committee reviewed the level of fees payable to the Chairman.
Remuneration principles	The Committee reviewed the Group Remuneration Principles, which guide the remuneration policies throughout the group.

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

The remuneration of the executive directors for the years ended 31 December 2019 and 31 December 2018 is made up as follows:

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

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	Annual bonuses £000	LTI ² £000	Pension ³ £000	Total for 2019 £000
John Deane	449	46	6	443	124	43	1,111
David Rimmington	283	12	5	251	61	27	639
Total	732	58	11	694	185	70	1,750

Executive directors' remuneration as a single figure - year ended 31 December 2018

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	Annual bonuses £000	LTI ^{2,4} £000	Pension ³ £000	Total for 2018 £000
John Deane	439	27	5	136	305	42	954
David Rimmington	277	20	5	79	194	26	601
Total	716	47	10	215	499	68	1,555

Notes.

1. Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme.
2. Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 LTI Scheme.
3. The pension component in the single figure table represents employer contributions. No directors were members of a defined benefit scheme.
4. These figures have been re-stated to reflect the actual share price at the date of vesting of 358.5 pence.

The remuneration of the non-executive directors for the years ended 31 December 2019 and 31 December 2018 is made up as follows:

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

Name of director	Fees £000	2019 Benefits ⁷ £000	Total £000	Fees £000	2018 Benefits ⁷ £000	Total £000
Peter Mason	123	1	124	120	1	121
Veronica Oak	61	1	62	59	1	60
David Brand	66	1	67	59	1	60
Mike Evans ⁵	—	—	—	45	2	47
Jane Dale	67	1	68	65	1	66
Mark Hesketh ⁶	61	1	62	5	—	5
Total	378	5	383	353	6	359

Notes.

5. Mike Evans stepped down from the board effective 1 October 2018.
6. Mark Hesketh was appointed to the board effective 17 December 2018.
7. 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.

I DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

Salary and fees

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

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

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

Although the committee does not consult directly with employees on directors' pay, the committee does take into consideration the pay and employment conditions of all employees when setting directors' remuneration, including the average level of salary increase being budgeted for the UK workforce. The committee is also mindful of any changes to the pay and benefit conditions for employees more generally when considering directors' pay.

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 2019 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, EcV operating profit and group strategic objectives. Cash generation replaced IFRS pre-tax profit in the year as a core measure. The reason for this change is explained on page 85. The table below shows the outcome of each measure, the target set and the resulting award.

	Upper threshold for minimum performance	Percentage award for minimum performance	On target performance	Percentage award for on target performance	Minimum threshold for maximum performance	Percentage award for maximum performance	Actual result	Actual percentage total award	Actual percentage award, as %age of salary	Total award (£)
John Deane										
Cash generation ¹	£31.396m	0%	£39.245m ¹	12.0%	£51.019m	40.0%	£88.562m ¹	40.0%	40.0%	179,508
EcV operating result ²	£11.900m	0%	£17.000m	16.0%	£25.500m	40.0%	£102.600m	40.0%	40.0%	179,508
Group strategic objectives	60% of max	0%	80% of max	10.0%	100%	20.0%	94% of max	18.8%	18.8%	84,328
Total				38.0%		100.0%		98.8%	98.8%	443,344
David Rimmington										
Cash generation ¹	£31.396m	0%	£39.245m ¹	12.0%	£51.019m	40.0%	£88.562m ¹	40.0%	36.0%	101,914
EcV operating result ²	£11.900m	0%	£17.000m	16.0%	£25.500m	40.0%	£102.600m	40.0%	36.0%	101,914
Group strategic objectives	60% of max	0%	80% of max	10.0%	100%	20.0%	92% of max	18.4%	16.6%	46,850
Total				38.0%		100.0%		98.4%	88.6%	250,678

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

Notes.

1. This is stated after certain adjustments, such as consolidation adjustments. The actual results are also adjusted in the same manner.
2. The EcV operating earnings before exceptional items on page 46 has been adjusted in line with the basis of the target.

The following table details the requirements for delivery of the strategic objectives for 2019 and actual outcomes:

Objectives area	Objectives and performance	Outcome
John Deane		
Scildon organisation and IT (45%)	Organisation design and development delivered in line with plan. IT strategy set and 2019 deliveries as target.	Organisational design completed and implemented with support of the works council. IT strategy design completed and outsourcing option selected.
Balance sheet optimisation (25%)	Ensure clarity of SII balance sheet optimisation opportunities, and risks, and associated prioritisation and delivery of agreed actions.	Action taken in Movestic, Scildon and group to optimise the balance sheet and 2020 priorities developed.
Acquisitions (20%)	Lead the investigation and delivery of acquisitions within risk appetite processes.	Two acquisitions announced in the Netherlands which evidence our ability to accept portfolios into Waard.
People (10%)	Development of management teams and maintenance of an open culture.	The management teams have continued to develop with employee engagement and an open culture being areas of focus.
David Rimmington		
Statutory reporting (20%)	Ensure improvements in reporting processes to meet new deadlines for SII reports (QRTs and narratives at group and divisional level).	Processes developed to ensure delivery to the shorter deadlines with no impact on the quality of deliveries.
Support Scildon in their organisational change project (30%)	Support the finance function transformation. Support the wider operational design work.	Finance operation redesign has been implemented and the wider organisational design is well under way.
Business support (15%)	Deliver Audit & Risk Committee objectives. Support delivery of EQA improvements. Discharge acquisition responsibilities in accordance with the Chesnara plc acquisition processes.	Delivered EQA improvements identified and delivered against plan. Deals continue to be assessed against our investment criteria.
Management reporting and financial analysis (20%)	Further enhancements in MI reporting and analysis to support capital and balance sheet management and decision-making.	Enhanced reporting delivered at group and subsidiaries.
IFRS 17 (15%)	Planning and delivery of IFRS 17 across group and divisions.	Programme plan and resourcing fully established and delivery in line with the ARC approved plan.

I DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

Annual bonuses (continued)

In converting performance against the measures assessed for 2019 set out in the previous tables, the directors' annual bonus awards are specified below:

Name of director	Salary on which award based £	Maximum potential award as % age of salary	Actual award as % age of salary	Total value of award £
John Deane	448,770	100%	98.79%	443,344
David Rimmington	283,094	90%	88.55%	250,678
Total				694,022

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 2020 under the 2014 LTI, for which performance conditions were satisfied during the year.

Individual	Measure	Weight	Ranges and targets			Actual outcome				
			Minimum achievement (as % of target)	Target achievement	Max achievement	Opening EcV	Closing EcV ¹	Performance achieved	% of award vesting	Value of award £
John Deane	TSR	50%	=Median	14.98%	55.65%			(0.71)%	0%	–
	EcV	50%	=89.0%	£741.6m	£845.4m	£602.6m	£762.2m	102.8%	19.9%	62,472
David Rimmington	TSR	50%	=Median	14.98%	55.65%			(0.71)%	0%	–
	EcV	50%	=89.0%	£741.6m	£845.4m	£602.6m	£762.2m	102.8%	18.0%	31,254

The estimated value of the awards vesting disclosed above has been determined using the average share price over the three-month period prior to the year-end (280.41p). The actual amounts upon vesting will be determined using the share price upon the vesting date.

Note 1. The closing value for EcV is based on that shown on page 47 with the addition of dividends paid out and the deduction of equity raised in the performance period which is consistent with the basis upon which the targets are set. The closing value for EcV on this basis was £762.2m.

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

Name of executive director	Name of scheme	Date award was granted	Amount of options awarded ¹	Face value on the date of grant ²	% of award vesting for minimum performance	Length of vesting period – 3 years Date of vesting
John Deane	2014 LTI	28 April 2019	125,180	£448,770 based on share price (358.50p)	10.0%	28 April 2022 ³
	2014 LTI	28 April 2018	107,100	£439,110 based on share price (410.00p)	10.0%	28 April 2021
	2014 LTI	28 April 2017	111,781	£428,400 based on share price (383.25p)	12.5%	28 April 2020
	2014 LTI	28 April 2016	133,017	£415,013 based on share price (312.00p)	12.5%	28 April 2019
David Rimmington	2014 LTI	28 April 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, 2017, 2018 and 2019. David Rimmington; 75% in 2014 and 2015, 90% in 2016, 2017, 2018 and 2019. Options have a nil exercise price.

Total Shareholder Return

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

EEV/EcV growth target

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

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

For awards granted in 2018 onwards, 50% of the award will vest subject to the EcV outcome being within a certain range of its target. The award granted in 2019 will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 95.7% of target, up to a maximum pay-out if the outcome is greater than or equal to 104.1% of target.

Notes.

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

Payments for loss of office (audited information)

No payments were made during the year for loss of office

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

The remuneration policy requires executive directors to build up a shareholding through the retention of shares to the value of their basic salary. As at 31 December 2019 this criterion has been met. When the minimum holding level has not been achieved, directors may only dispose of shares where funds are required to discharge any income tax and National Insurance liabilities arising from awards received from a Chesnara incentive plan. The Chairman and non-executive directors are encouraged to hold shares in the company but are not subject to a formal shareholding guideline.

I DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

The table below shows, in relation to each director, the total number of share interests with and without performance conditions, the total number of share options with and without performance measures, those vested but unexercised and those exercised at 31 December 2019 or the date of resignation.

No changes took place in the interests of the directors between 31 December 2019 and 28 March 2020.

Name of director	Shares held: 1 January 2019	Shares held: 31 December 2019	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	35,975	131,066	434,500	90,878	90,439 ³	95,091	214.3%
David Rimmington	50,632	72,281	193,871	69,164	15,434 ³	48,449	148.9%
Peter Mason	25,743	25,743	-	-	-	-	-
Veronica Oak	3,000	3,000	-	-	-	-	-
David Brand	5,500	5,500	-	-	-	-	-
Jane Dale	3,333	3,333	-	-	-	-	-
Mark Hesketh	-	5,000	-	-	-	-	-
Total	124,183	245,923	628,371	160,042	105,873	143,540	-

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 2019 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 2020 Annual Report & Accounts.

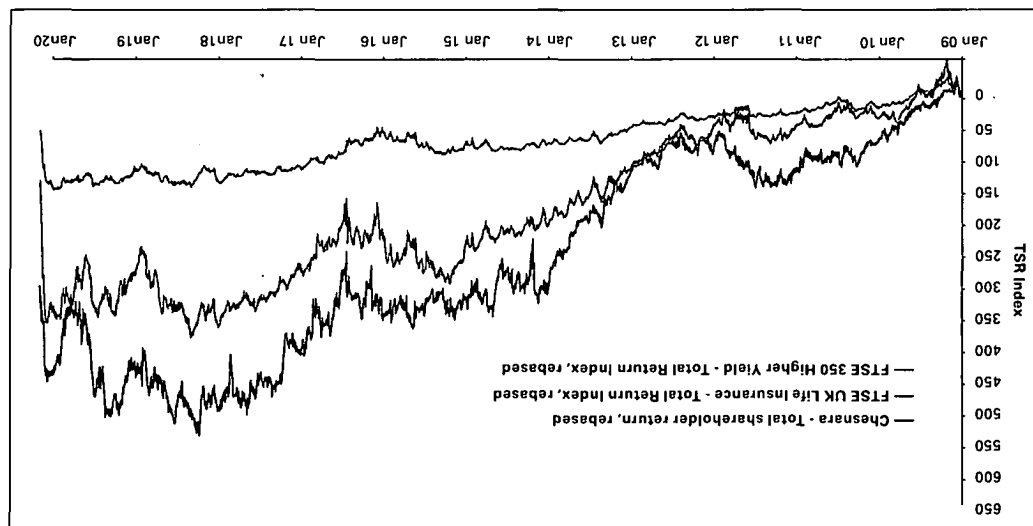
2. Calculated using the share price of 316.00p at 31 December 2019.

3. Awarded under the 2014 LTI Scheme and vested on 28 April 2019.

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 2019	Number granted during year	Number exercised during year	Number lapsed during year	Number of shares under option and unexercised at 31 December 2019	End of performance period	Vesting date	Performance period ¹	Date of expiry of option
JOHN DEANE	2014 LTI (2019 award)	28/04/19	Nil	-	125,180	-	-	125,180	31/12/21	28/04/22	3 Years	28/04/29
	2014 LTI (2018 award)	28/04/18	Nil	107,100	-	-	-	107,100	31/12/20	28/04/21	3 Years	28/04/28
	2014 LTI (2017 award)	28/04/17	Nil	111,781	-	-	-	111,781	31/12/19	28/04/20	3 Years	28/04/27
	2014 LTI (2016 award)	28/04/16	Nil	133,017	-	-	(42,578)	90,439	31/12/18	28/04/19	3 Years	28/04/26
	2014 LTI (2015 award)	28/04/15	Nil	68,516	-	(68,516)	-	-	31/12/17	28/04/18	3 Years	28/04/25
	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
	2014 STI (2016 award)	28/04/16	Nil	26,575	-	(26,575)	-	-	n/a	28/04/19	n/a	28/04/26
	Share save	24/09/19	223.40	-	8,057	-	-	8,057	n/a	01/11/22	n/a	01/05/23
				522,392	146,560	(95,091)	(42,578)	531,283				
DAVID RIMMINGTON	2014 LTI (2019 award)	28/04/19	Nil	-	71,070	-	-	71,070	31/12/21	28/04/22	3 Years	28/04/29
	2014 LTI (2018 award)	28/04/18	Nil	60,805	-	-	-	60,805	31/12/20	28/04/21	3 Years	28/04/28
	2014 LTI (2017 award)	28/04/17	Nil	61,996	-	-	-	61,996	31/12/19	28/04/20	3 Years	28/04/27
	2014 LTI (2016 award)	28/04/16	Nil	71,259	-	(48,449)	(22,810)	-	31/12/18	28/04/19	3 Years	28/04/26
	2014 STI (2019 award)	28/04/19	Nil	-	7,760	-	-	7,760	n/a	28/04/22	n/a	28/04/29
	2014 STI (2018 award)	28/04/18	Nil	17,620	-	-	-	17,620	n/a	28/04/21	n/a	28/04/28
	2014 STI (2017 award)	28/04/17	Nil	20,293	-	-	-	20,293	n/a	28/04/20	n/a	28/04/27
	2014 STI (2016 award)	28/04/16	Nil	15,434	-	-	-	15,434	n/a	28/04/19	n/a	28/04/26
	Share save	24/09/19	223.40	-	8,057	-	-	8,057	n/a	01/11/22	n/a	01/05/23
				247,407	86,887	(48,449)	(22,810)	263,035				



The table below sets out the details for the director undertaking the role of Group Chief Executive Officer:

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
2019	John Deane	1,111	98.79%	19.93%	1
2018	John Deane	965	31.08%	67.99%	1
2017	John Deane	1,142	86.96%	80.95%	1
2016	John Deane	902	98.33%	—	1
2015	John Deane	596	81.96%	—	1
2014	Graham Kettleborough	712	91.30%	34.52%	2
2013	Graham Kettleborough	702	100.00%	n/a	3
2012	Graham Kettleborough	612	65.48%	100.00%	4
2011	Graham Kettleborough	384	17.39%	n/a	5
2010	Graham Kettleborough	631	100.00%	n/a	5

Notes:

1. John Deane was appointed GCEO on 1 January 2015.
 2. During 2014 an LTI that was granted to the CEO in 2012 vested. The LTI included a condition such that the sum of the LTIs 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 LTI were assessed, the award was restricted due to the operation of the 100% combined cap, such that the 2012 LTI paid out 34.52% of the salary at the time of award. During 2014 the annual bonus that was awarded represented 68.5% of the CEO's salary. The maximum payable was up to 75% of the CEO's salary, resulting in a 91.3% pay-out with reference to the maximum potential award.
 3. During 2013 no LTI value was earned because the annual bonus in isolation accounted for the full 100% combined bonus cap.
- The table below shows the percentage change in remuneration for the executive directors and the company's employees as a whole between the years 2019 and 2018.

Percentage change in remuneration in 2019 compared with 2018	Group Chief Executive	Group Finance Director	Group employees
Salary and fees	2.20	2.20	2.20
All taxable benefits	1.77	1.13	2.38
Annual bonuses	224.89	215.38	2.50

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.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

Comparison of total remuneration for the group CEO and UK employees

Our 2018 remuneration report provided a comparison of total remuneration for the GCEO and an average of total remuneration for 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 2019 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 2019 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.

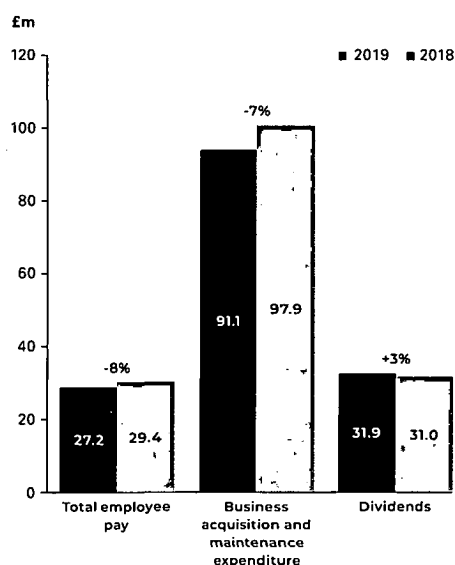
Comparison of total remuneration	25th percentile pay ratio (FTE UK employees total remuneration)	Median pay ratio (FTE UK employees total remuneration)	75th percentile pay ratio (FTE UK employees total remuneration)
2019	15.7 : 1	11.8 : 1	6.6 : 1
2018	15.2 : 1	9.8 : 1	6.4 : 1

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. 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 remuneration policy took effect following approval at the 2017 AGM and, subject to shareholder approval, will be succeeded by the Policy, which is being put to shareholders at the 2020 AGM. The following states how the policy will be implemented during 2020, assuming that it is approved.

Salaries and fees

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

Executive directors

The salary of John Deane (GCEO) has been increased from £448.8k to £457.8k and the salary of David Rimmington, (GFD) has been increased from £283.1k to £288.8k, both in line with the 2% average pay increase awarded to UK staff.

Non-executive directors

No increase has been applied and the only change to non-executive director remuneration is related to an increase in responsibility arising from the introduction of the new Workforce NED role, which Veronica Oak has taken responsibility for.

The table below sets out the anticipated payments to non-executive directors for 2020:

	Fees £000	Benefits ¹ £000	Total £000
Luke Savage (from 14 February 2020)	122.6	1.0	123.6
Peter Mason (to 13 February 2020)	20.4	–	20.4
Veronica Oak	62.3	1.0	63.3
David Brand	66.0	1.0	67.0
Jane Dale	66.0	1.0	67.0
Mark Hesketh	60.8	1.0	61.8
Total	398.1	5.0	403.1

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

2020 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 2021 together with the performance outcome relative to these targets.

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

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

Measures

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

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

The latest approved Remuneration Policy can be found on the company website (www.chesnara.co.uk). Whilst the policy makes several specific reference 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 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 profits is deemed to be in accordance with our approved policy.

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 profit 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.

I DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

2020 award made under the 2014 LTI

In 2020 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 2023 together with the actual performance against those targets

Individual	Share award	Measures	Weighting	Ranges and targets			Vesting rates		
	% of basic salary			Minimum achievement (as % of target)	Target achievement	Maximum achievement (as % of target)	Minimum achievement	Target achievement	Maximum achievement
John Deane	100%	TSR EcV	50% 50%	=Median	Median	Upper quartile	nil nil	12.5%	50.0% 50.0%
David Rimmington	90%	TSR EcV	50% 50%	=Median	Median	Upper quartile	nil nil	12.5%	50.0% 50.0%

The 2020 award under the 2014 LTI will be implemented and operated by the Remuneration Committee as set out within the Policy.

Measures

The two performance measures for the 2020 LTI award use performance against the constituents of an index and an internal target. The external measure compares the 3-year TSR of Chesnara plc with the TSR of the companies comprising the FTSE 350 Higher Yield Index with averaging over the first and last calendar months. The internal measure assesses Economic Value growth which are set with due regard to the board approved business plan. Both measures seek to ensure an alignment between executive director reward and shareholder value, with one assessing relative performance to other investment opportunities and the other assessing absolute performance. Both measures are based on a 3-year performance period ending 31 December 2022.

Weightings

For the 2020 award the two measures have been assigned equal weighting.

Holding period

Following the Remuneration Committee's review of the UK Corporate Governance Code 2018, a two-year holding period has been introduced to the LTI Scheme, to follow the three-year performance period.

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.

The following table sets out the voting in respect of the Directors' Remuneration Report at the 2019 AGM:

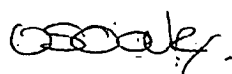
Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Report	97,012,184	99.23%	749,940	0.77%	97,762,124	432

The following table sets out the voting in respect of the Directors' remuneration policy at the 2017 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	92,417,545	97.93%	1,958,029	2.07%	94,375,574	65,457

Approval

This report was approved by the board of directors on 14 April 2020 and signed on its behalf by:



Veronica Oak
Chairman of the Remuneration Committee

I DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY

Remuneration Policy (Policy)

The Policy has been developed by the Remuneration Committee (Committee) to provide a clear framework for reward linked to the strategy of the company, aligned to the interests of executive directors and shareholders.

In developing its Policy and making decisions about executive director (executive) remuneration, the Committee has taken into account the terms and conditions of employment for employees throughout the company, together with the strategy, objectives and Key Performance Indicators (KPIs) for the business, and developments in the external marketplace. The company has not consulted with employees.

The Policy also sets out the principles applied in the consideration of fees for the non executive directors.

Alignment of incentives with strategy

Chesnara plc is a holding company engaged in the management of life and pension books of business in the UK, Sweden and the Netherlands with oversight and governance being provided by a central governance team based in the UK.

The company has three core strategic objectives:

1. Maximise value from existing business;
2. Acquire life and pension businesses; and
3. Enhance value through profitable new business.

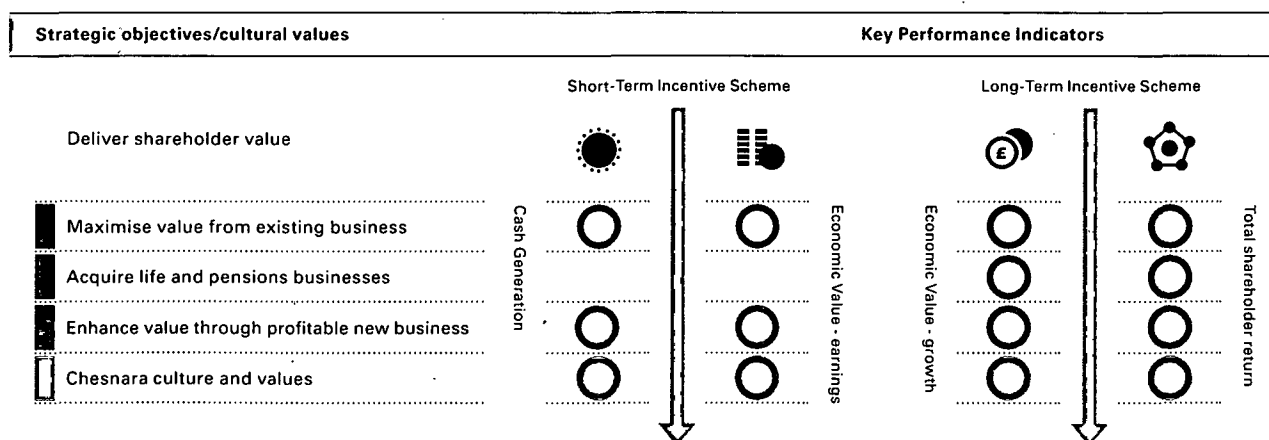
The achievement of these objectives are considered against the culture and risk environment of the company to ensure that rewards do not encourage excessive risk taking or an inappropriate culture to develop.

The schematic below illustrates how the company's KPIs align to its core strategic objectives and, in turn, how those KPIs flow into the performance measures of the executives' short- 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, as will be seen on pages 87 to 93 (page references refer to the 2019 Annual Report & Accounts in which this policy is proposed), 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 Remuneration 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.



I DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

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 two 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.	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: – assessment of the responsibilities of the role; – the experience and skills of the jobholder on their commencement and their development in it at the review point; – the group's salary budgets and results; – the jobholder's performance; – with the use of periodic benchmarking exercises, the external market rates for roles of a similar size and accountability; – inflation and salaries across the company; and – the balance between fixed and variable pay to help ensure good risk management disciplines. 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. 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).	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.	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. 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.	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
Short-Term Incentive Scheme (STI) To drive and reward achievement of the group's business plan and key performance indicators. To help retention and align the interests of executives with those of shareholders.	Approved by shareholders in 2014, the STI Scheme is discretionary. Awards are based on the Committee's assessment and judgment 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. Provided the minimum performance criteria is judged to have been achieved, an award will be granted in two parts: at least 35% into deferred share awards in the shape of nil cost options which will vest after a three-year deferral period making a total of four years after the award grant; and the 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. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report. The STI Scheme includes malus and clawback provisions.
	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. 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. 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. 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. 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.
Long-Term Incentive Scheme (LTI) To incentivise the delivery of the longer-term strategy of the group by the setting of stretching targets based on shareholder value, and to help to retain executives and increase their share ownership in the company.	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 three-year period. 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. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report. Awards made from 2019 will not be permitted to be exercised by executives until they have held them for a further 2-year holding period beyond the 3-year performance period, making a total of five years after the grant date. The LTI Scheme includes malus and clawback provisions.
	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. 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. 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. Non-executive directors' remuneration
Fees & expenses To recruit and retain independent individuals with the skills, experience and qualities relevant to the non-executive role and who are also able to fulfil the required time commitment. Fees for the Chairman are determined and agreed with the board by the Committee (without the Chairman being party to this deliberation). Non-executive director fees are determined by the Chairman and the executives. 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. 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.	

I DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

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.

Short-Term Incentive Scheme (STI)

- (i) based on a broad range of measures including group-wide objectives;
- (ii) performance measures and their weighting are determined by the Committee each year to help ensure that there is focus on each of the elements necessary to drive sustainable performance. The main weighting will be given to financial measures (typically 80%);
- (iii) maximum potential award up to 100% of salary with each participant having a personal maximum which is to be disclosed in the corresponding Remuneration Report for each award made;
- (iv) award is part cash and part share award which is deferred for a further 3 years. Currently the award is structured 65% cash and 35% deferred shares. This is provided that the total award to a participant is at least £20,000, otherwise the award is 100% cash with no deferral. The Committee may increase the weighting for the share award and adjust the de-minimis amount;
- (v) unvested awards may be withheld under the terms of the malus provision. Notwithstanding any other provision of the rules, the Committee has the power to, at any time before an award has vested, reduce the number of shares subject to the relevant award or any cash amounts which may be paid pursuant to the relevant award (including to nil) in the circumstances of:
 - Discovery of a material misstatement in the audited consolidated accounts of the Company or the audited accounts of any group member or subsidiary; and/or
 - An action or omission by a group member or subsidiary in breach of any regulations applicable to the group which results in material financial or reputational harm to the group; and/or
 - Discovery of an error in the assessment of the extent to which a Performance target applicable to any award has been satisfied; and/or
 - Action or conduct of the award holder which, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct.

In determining the reduction which should be applied, the Committee shall act fairly and reasonably but its decision shall be final and binding.

For the avoidance of doubt, any reduction may be applied on an individual basis as determined by the Committee.

Cash awards are subject to a 2 year clawback provision; and

- (vi) it is the intention of the Committee to make a new award each year.

Long-Term Incentive Scheme (LTI)

- (i) a performance share plan;
- (ii) uses absolute and comparative measures;
- (iii) in making a new award, the Committee will determine the measures, their weighting and targets to maintain a clear focus on longer term strategic aims;
- (iv) performance period is at least 3 years, plus a further 2 year holding period;
- (v) maximum potential award is up to 100% of salary with each participant having a personal maximum which is to be disclosed in the Remuneration Report for each award made;
- (vi) Awards made from 2019 will not be permitted to be exercised by executives until they have held them for a period of five 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;
- (viii) A 2 year clawback provision applies; and
- (ix) It is the intention of the Committee to make a new award each year.

Minimum shareholding requirement

In order to align the executives' interests with those of shareholders, a minimum shareholding requirement (the 'MSR') applies which is currently equal to 100% of basic salary. Both salary and shareholding values are calculated before tax. The requirement is expected to be achieved within five years of appointment. It may be achieved by participating in the company's share plans and the Committee may, in assessing progress towards the minimum, take into account vesting levels and personal circumstances. Aside from shares that are chosen to be sold to pay for income tax and National Insurance liabilities, shares awarded under the STI and LTI Schemes must be retained if the minimum shareholding has not yet been met.

Post-employment provisions exist which require a departing executive to retain a post-employment minimum shareholding. For a period of 12 months commencing on the date of departure, this will be equal to the lower of 100% of 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 basic salary on departure or the level of shareholding attained on the date of departure.

In determining the post-employment minimum shareholding, only awards made since the date of the approval of this Policy shall be included. Both salary and shareholding values are before tax and shares bought by the executive in the open market and from their own resources are not subject to the post employment provision.

With only two executives, the Committee is taking an approach to enforcement of the policy which it considers to be proportionate. Executives will be required to attest to comply with the policy as part of accepting an award.

Note 1. Full provisions are set out in the Minimum Shareholding Policy that the Committee reviews annually.

Expenses

In line with the company's Expenses Policy, all directors may receive reimbursement of reasonable expenses incurred in connection with company business, including settling any tax incurred in relation to these.

Differences in policy compared with other employees:

The following note outlines any differences in the company's policy on executive director remuneration from other employees of the group.

- **Salary and fees:** There are no differences in policy. The Committee takes into account the company's overall salary budget and percentage increases made to other employees. It also sets the remuneration for senior management, that being the first layer of management below board level.
- **All taxable benefits:** There are no differences in policy although the benefits available vary by role and jurisdiction. For example, executive cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to other UK personnel but executives receive a fuel allowance which is a benefit not offered to other staff who receive a car allowance.
- **Annual bonus:** This is an integral part of the company's philosophy with all UK employees below board level being eligible to participate in a bonus scheme which is based on personal performance and achievement of financial targets. Senior managers in Sweden participate in annual bonus schemes which reflect the achievement of business targets and personal goals. In line with Swedish regulation, part of the payment of this bonus is deferred. Other employees in Sweden participate in a scheme based on the achievement of company-wide business goals. Since 1/1/19 there has no longer been a bonus scheme for the Netherlands businesses. The Scildon Scheme in place at the time of purchase has been closed.
- **Long-term plans:** Only Chesnara's executives are currently entitled to participate in the long-term plans as these are the roles which have most influence on, and accountability for, the strategic direction of the group and the delivery of returns to shareholders. This may be reviewed as appropriate in the light of growth and/or other changes in the company.
- **Pension:** The level of contribution made by the company to executives is the same as that offered to other UK employees.

2. Other

The company operates a Save As You Earn (SAYE) Share Scheme in the UK. This is a tax efficient, HMRC-recognised, all-employee scheme in which executive directors are eligible to participate.

Approach to remuneration on recruitment

The following principles apply when recruiting executives:

- To offer a remuneration package that is sufficient to attract individuals with the skills and experience appropriate to the role being filled whilst also being consistent with all aspects of this Policy. In addition to salary and variable remuneration, this may include pension, taxable benefits and other allowances such as relocation, housing and education.
- Pay levels will be set taking account of remuneration across the company including other senior appointees and the salary offered for similar roles by other companies of similar size and complexity.
- Each element of remuneration offered will be considered separately and collectively in this context.
- The maximum awards in respect of the STI Scheme and LTI Scheme, as set out in the Policy table, apply in recruitment situations. By exception, the company may award a one-off compensatory bonus or LTI award where the new joiner would lose a bonus or long-term award relating to his or her former role. In the event that such a payment is made, full details will be disclosed in the Annual Report on remuneration for the relevant year.

I DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

Service contracts and loss of office

Executives

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

Non-executive directors

- Appointments are made under a contract for services for an initial term of three years subject to election by shareholders at the first Annual General Meeting following their appointment and annual re-election thereafter.
- Non-executive directors are typically expected to serve two three year terms but may be invited by the board to serve for an additional period. Any renewal is subject to board review and AGM re-election.
- The terms of an appointment are set out in a letter of appointment which can be terminated by either party with three months' notice or immediately if termination is as a result of not being elected at the AGM.
- There are no compensation terms regardless of the circumstances that may lead to a contract being terminated.

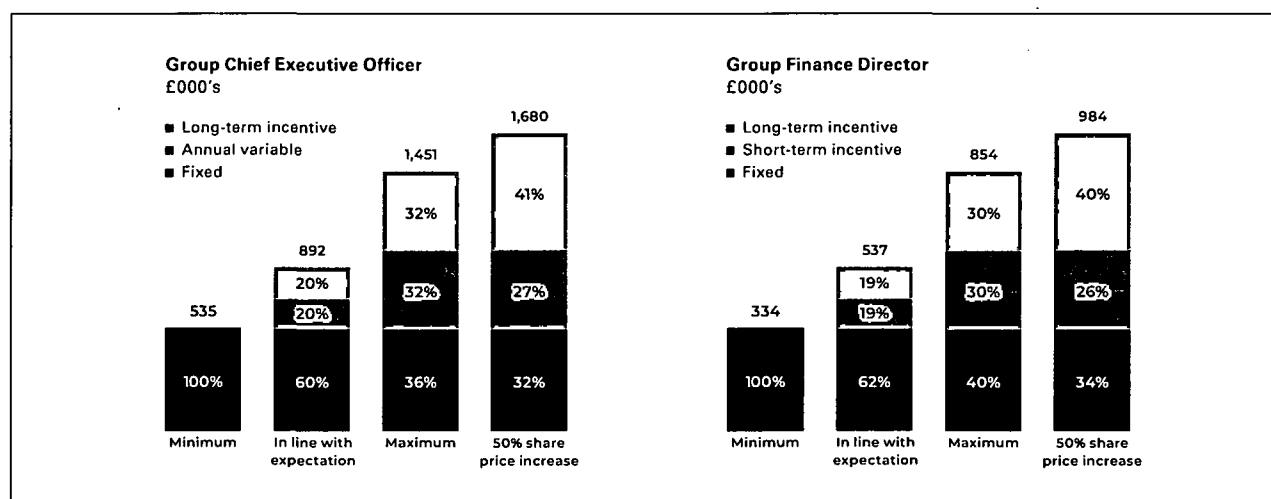
Executives' other directorships

Executives may, if approved by the board, accept appointments as non-executive directors of suitable organisations. Normally fees for such positions are paid to the company, unless the board determines otherwise.

Illustration of the application of the Policy

The view of the Committee is that there should be balance between fixed and variable pay such that, when stretching performance targets have been achieved in full, variable pay should be no more than 200% of salary. The Committee believes that this is appropriate given the strategy of the company and its risk appetite.

The following charts provide estimates of the potential future reward opportunities for each executive, and the potential split between the different elements of remuneration under four different performance scenarios: 'Minimum', 'In line with expectation', 'Maximum' and '50% share price increase'. The illustration assumes that the Policy applies throughout the period.



Performance in line with expectation assumes that the STI and LTI payments are at 37.8% and 29.2% of their maximum respectively for the Group Chief Executive Officer and 34.0% and 26.3% of their maximum for the Group Finance Director. The targets relate to the measures outlined above but are not declared prior to the publication of the accounts for the relevant year as they may be commercially sensitive.

The estimate of the maximum remuneration receivable assuming the company's share price increases by 50% over the performance period for any long-term incentive is reflected in the 4th column of the charts above.

Minimum

The table below analyses the constitution of the minimum remuneration projection for 2020

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Group Chief Executive Officer	457.8	33.3	43.5	534.6
Group Finance Director	288.8	17.4	27.4	333.6

The pension figure above is based on 9.5% of gross basic salary.

Statement of shareholder views

Given there is very little change in policy between this and our last Remuneration Policy the committee has not considered it necessary to consult with shareholders.

I AUDIT & RISK COMMITTEE REPORT

The committee has delivered its busy agenda against a backdrop of continued economic and political volatility and regulatory change.

**NUMBER OF MEETINGS
DURING YEAR: 9**
MEMBERS:

Jane Dale	-	Chairman
David Brand	-	Member
Veronica Oak	-	Member
Mark Hesketh	-	Member

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 64 and 65.

Chairman's introduction

Welcome to the 2019 Audit & Risk Committee Report. This introduction allows me to draw out some of the highlights of the work that the committee has delivered during the year. As can be seen below, we have been quite busy overseeing work over and above our routine responsibilities.

Brexit: Closely monitoring the developments of Brexit was a key piece of work for the committee. Our role was to assess whether any of the emerging developments would be deemed to introduce any new risks to the business and if so, the extent to which these can be mitigated. No such mitigating actions were required and further information on our position on Brexit can be found on page 17.

IFRS 17: Overseeing the IFRS 17 implementation programme has been a key objective for the committee during the year and will continue to be so in coming years. I attended our group-wide conference in December and was pleased to see the level of progress and engagement across the divisions of the group. It gave me a chance to engage directly with divisional stakeholders in relation to their own projects as we begin to move towards the operational implementation phase of the programme.

Internal Audit EQA: During 2018 the committee engaged with an external firm to perform a quality assessment of the group's internal audit function, which culminated in some observations being brought to the committee's attention. Overall the findings were not significant, although some useful recommendations were made which were captured in an action plan and delivered over the course of 2019. Further information is provided in the following pages.

FRC developments: One of the committee's roles is to stay abreast of key publications from the Financial Reporting Council. One particularly pleasing publication was the FRC Lab's Report on 'Disclosures on the sources and uses of cash' in which Chesnara's 2018 Report & Accounts were used, amongst others, as examples of useful disclosure. I feel this reflects the committee's objectives of providing clear and understandable financial reporting.

Audit profession review: The committee has been keeping abreast of developments in the audit profession over the year. There continues to be uncertainty into the level of reform that will materialise from the various external reviews that have taken place covering audit standards, choice and competition, the resilience of the audit sector, and auditor procurement and remuneration. The committee is continuing to monitor these developments closely.

Systems of governance: We performed our routine group-wide review of the effective operation of our systems of governance, and it was pleasing to see positive results from this work across all divisions. The review is a powerful tool for the committee and supports not only giving comfort that risk is being managed across the group, but also helps to identify any areas for targeted improvement.

Financial reporting developments: These Report & Accounts incorporate a number of financial reporting updates, notably the directors' statement of compliance with the requirements of Section 172 of the Companies Act, the application of the most recent UK Corporate Governance Code and IFRS 16 'Leases'. The committee has naturally paid close attention to these new areas.

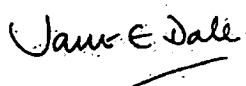
Specific accounting matters: Part of the committee's role is to ensure that any one-off transactions are appropriately reflected in the financial statements. This year end we have paid close attention to the transfer of the Scildon defined benefit scheme to a defined contribution scheme; and have also focused on the accounting and disclosure relating to the transfer of a small portfolio of policies from Monuta Verzekeringen N.V. to the Waard Group on 1 October 2019.

Acquisition oversight: The committee's responsibilities include overseeing the application of Chesnara's risk-based due diligence process. During the year the Committee oversaw the acquisition of a book of business from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V., which was announced in November 2019, and is expected to complete in 2020.

Regulatory risk consultations: Consultations have been issued on Operational Resilience, Climate change and Liquidity risk during 2019. The committee has provided oversight, prioritisation and direction to guide the business's response to these.

Covid-19: The emergence of Covid-19 as a pandemic subsequent to the balance sheet date has resulted in additional disclosures being made in appropriate places within the Annual Report & Accounts. The Committee has paid close attention to these disclosures, and any associated underlying work, in order to ensure they fairly reflect the impact on the group.

Looking ahead there will be plenty to keep the committee busy. Much of what has been mentioned above will continue to impact the work of the committee during 2020.



Jane Dale
Chairman of the Audit & Risk Committee

14 April 2020

THE RESPONSIBILITIES OF THE CHESNARA AUDIT & RISK COMMITTEE COVER A COMBINATION OF RISK AND AUDIT MATTERS RELEVANT TO CHESNARA. THE FOLLOWING REPORT HAS BEEN STRUCTURED TO REFLECT THIS.

Audit responsibilities

This section of the report includes the following:

- 1. Activities during 2019:** 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 2019

The committee's activity during the calendar year is driven by a combination of 'business as usual' items and non-standard areas that the committee has decided to pay particular attention to. The non-standard areas that have been considered during the year have included, amongst other things, the **ongoing monitoring of the IFRS 17 'Insurance contracts' programme, monitoring Brexit developments**, and keeping fully abreast of **potential developments in the audit profession**. A summary of all the activities performed by the committee during the year in relation to its audit responsibilities is included in the table below.

Financial reporting	- Solvency II narrative reporting: Supported the further development of, and review of, the Chesnara group Solvency and Financial Condition Report and Regular Supervisory Report and the supporting quantitative reporting templates. - Financial performance: Monitored and scrutinised the financial performance of the group during the year, covering IFRS, Solvency, EcV and Cash Generation. - 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 pages 97 to 98 for further detail. - Annual Report & Accounts: Reviewed all aspects of the Annual Report & Accounts, including: compliance with accounting standards, accounting policy appropriateness, consideration of financial reporting changes and emerging practice, whether they are fair, balanced and understandable and disclosures surrounding going concern, prospects and longer-term viability (including any associated management supporting papers). See 'Significant issues' section on pages 97 to 98 for further details on certain aspects of the 2019 Annual Report & Accounts. - Interim Report: Reviewed and challenged the Chesnara Interim Financial Report for the half year ended 30 June 2019. - IFRS 17: Oversaw the group's IFRS 17 programme. The programme has continued to involve partnering with a consultancy firm for some aspects, with a particular focus during 2019 on planning the required changes in the operational aspects of our finance and actuarial reporting routines. - FRC updates: Actively monitored key publications issued by the Financial Reporting Council regarding financial reporting matters.
External audit	- External audit plans: Reviewed the group-wide plans of the external auditor, including consideration of the key audit risks. See page 96 for further detail. - External audit quality: Assessed the quality of the external auditor during the year, including consideration of feedback from management and reports issued by the Financial Reporting Council. - External audit reporting and feedback: Reviewed key findings reported by the external auditor on the Annual Report & Accounts and half year report, including financial reporting judgements and control matters. As part of its interactions with the external auditor the committee met with the external auditor without the presence of executive directors. - External audit independence: Reviewed the assessment regarding the independence of the external auditor, with specific consideration given to audit fees and also the nature / volume of the services delivered by the external auditor during the year.
Internal audit	- 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 96 for more information. - Oversight of external quality assurance review: During 2018 the committee oversaw the delivery of an external quality assessment over the internal audit function of Chesnara. During 2019 the committee focused on delivering relevant recommendations. The 'internal audit' section below includes further detail. - Review of internal audit findings: Received regular updates from local Audit & Risk Committees regarding key findings from divisional 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. See page 96 for more information.
Other	- Feedback from divisional Audit & Risk Committees: Reviewed and challenged regular feedback provided by the group's divisional Audit & Risk Committees. - Committee terms of reference: The committee reviewed its terms of reference during the year and also completed its annual assessment of compliance with its terms of reference. - Performance evaluation: The committee conducted a performance evaluation, completed by members regarding various aspects of the committee's performance.

Role of the Audit & Risk Committee

The role of the Audit & Risk Committee includes assisting the board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control. The scope of its responsibilities also includes focus on risk management: accordingly, it also assists the board in fulfilling its obligations in this regard. The committee is also responsible for making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor. The committee's duties include keeping under review the scope and results of the audit work, its cost effectiveness and the independence and objectivity of the external auditor. The full terms of reference of the audit and risk committee are available on our website www.chesnara.co.uk

I AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Audit responsibilities (continued)

2. External audit

Effectiveness of the audit process

The effectiveness of the external audit process is performed on an annual basis and had regard to the following factors:

- The quality of the background papers and verbal presentations to the committee on the audit planning process, interim and final audit findings and compliance with independence criteria. The current audit engagement partner, Stephen Williams, was appointed during 2016 and this will be his fourth year leading the Chesnara audit;
- The rationale put forward for the materiality limits established and the explanation given of the impact these have had on the work performed;
- The views of the executive on the way in which the audit has been conducted;
- The report produced by the Financial Reporting Council dated July 2019 entitled 'Deloitte LLP Audit Quality Inspection'. The report was discussed with the auditor although the Chesnara plc audit was not in the population of those inspected; and
- The audit fees charged and the change in fees from the previous year. Changes in annual fees do, of course, need to reflect change in the nature of the company's business which has expanded over time.

It was concluded that the audit process was effective. The company is committed to putting its audit out to tender at least every 10 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	2019 £000	Percentage proportion	2018 £000	Percentage proportion
Audit services	814	79%	808	77%
Assurance services	239	21%	235	23%
Non-audit services	–	–	–	–
Total	1,053		1,043	

Audit services

The fees charged for audit services have increased slightly when compared with 2018. Although audit fees have reduced in Sweden, as Deloitte no longer performs the local audit of Movestic as a result of mandatory auditor rotation rules in Sweden, this has been offset by an annual inflationary uplift and a revision to the Scildon audit fees, to better reflect the scope of the audit work performed.

Assurance services

The cost of assurance services performed by the external auditor has also increased slightly compared with the prior year. The key reason for this is again due to an inflationary uplift.

Non-audit services

There were no other non-audit services in 2019 aside from the assurance services as detailed above.

3. Internal audit

During the year, Chesnara has continued to adopt its devolved, federal model for internal audit. This means that each subsidiary company is responsible for the oversight of its own internal audit work, supervised by each local Audit & Risk Committee. As a result, the group utilises a mix of outsourced and in-house capabilities, adapted to meet the specific needs of each local market. The Chesnara Audit & Risk Committee maintains oversight of each subsidiary via regular updates from each local Audit & Risk Committee.

At the start of 2019 the Committee assessed the findings, which were not significant, from the group-wide external quality assessment that took place during 2018. This then shaped an action plan that was devolved to the local management teams to implement in line with agreed timescales. The Audit & Risk Committee have overseen the implementation of this action plan with the main changes delivered being:

- Agreeing how Internal Audit would be organised and delivered across the group given the stated intention of having a devolved model.
- Agreeing what information will be provided from each division to the Chesnara Audit & Risk Committee in respect of annual planning, as well as formulating what management information will be required throughout the year.
- Enhancements to the annual planning process and accompanying paperwork in the UK and Sweden; and
- Being clear on when external resources were required to help deliver specialist audits.

4. Significant issues:

The table below provides information regarding the significant issues that the committee has considered in relation to the preparation of the Annual Report & Accounts:

Area of focus	Reporting issue	Role of the committee	Conclusion/action taken
New accounting standards	During the year the group applied IFRS 16 'Leases' for the first time. This is a far-reaching accounting standard for those companies that make significant use of operating lease arrangements or have contracts that include significant right of use assets.	The committee's involvement has centred around ensuring that a robust assessment has been made by management covering all lease arrangements that exist within the group and all contracts that have the potential to include embedded lease arrangements through the existence of right of use assets.	The committee is satisfied, based on an assessment performed by management, that the Chesnara group does not make extensive use of leases, either through direct lease arrangements or through the use of assets that form part of wider contractual arrangements, and as a result the impacts on the balance sheet and income statement are not significant. The most material leases within the group relate to occupied office space. See Note 2(a) of the financial statements for further information on the application of the standard.
Section 172 reporting	A new disclosure requirement applies for the first time in the strategic report of this Annual Report & Accounts in relation to providing additional disclosures as to how the directors of the group have had regard to the matters set out in Section 172 of the Companies Act. Whilst Section 172, which deals with the directors' duty to promote the success of the company, is not new, the requirement to disclose how the directors have delivered against this responsibility is.	The committee's focus has been to (a) ensure that it fully understands the disclosure requirements; and (b) to perform a focused review of the disclosures that have been included in this Annual Report & Accounts. Part of delivering (a) has been to ensure that relevant members of the committee have attended relevant educational sessions that cover this new reporting requirement.	The committee has concluded that the new Section 172 disclosure requirements, introduced through s414CZA (1) of the Companies (Miscellaneous Reporting) Regulations 2018, are satisfactory and meet the new requirements. The additional disclosures have been made on pages 26 to 31.
Application of updated corporate governance code	A revised UK Corporate Governance Code was published in July 2018. At the heart of the Code is an updated set of principles that emphasise the value of good corporate governance to long-term sustainable success. By applying the principles, following the more detailed provisions and using the associated guidance, companies are required to demonstrate throughout their reporting how the governance of the company contributes to its long-term sustainable success and achieves its wider objectives.	The committee's role has been to: (a) ensure that it has fully understood the new corporate governance code and how Chesnara has complied with it; and (b) to understand the new disclosure requirements in the Annual Report & Accounts and ensure that the corporate governance section appropriately covers the new requirements.	The committee is satisfied that pages 68 to 72 of the corporate governance section of this Annual Report & Accounts appropriately reflects the new disclosure requirements of the UK Corporate Governance Code.
Scildon acquired value in-force intangible asset	The purchase of Scildon resulted in the recognition of a material intangible asset, representing the value of the policies that were in-force at the point of acquisition. As part of the process for preparing the financial statements, an impairment review over the carrying value of the intangible asset was performed.	The committee has ensured that a review of the carrying value of the Scildon AVIF asset was performed.	The committee concluded that the carrying value of the intangible AVIF asset was not impaired.
Covid-19 emerging as a pandemic post year end	Covid-19 emerging as a pandemic post year end has resulted in a need to assess its impact on the group and to put associated disclosures in the Annual Report & Accounts.	The committee's role was to review the additional disclosures, including: - The chairman's statement - Going concern, prospects and long term viability - Principal risks and uncertainties - Post balance sheet events note.	The committee concluded that the additional disclosures in relation to Covid-19 are fair and reflect the underlying circumstances and impact on the group.

I AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Audit responsibilities (continued)

4. Significant issues (continued):

Area of focus	Reporting issue	Role of the committee	Conclusion/action taken
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: – 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 approved the actuarial basis of assumptions report underpinning the valuation of insurance liabilities. This included specific consideration of the Countrywide Assured cost of guarantees, actuarial reserves in Scildon and also capitalised DAC in Movestic.	The committee concluded that the actuarial assumptions were appropriate. Disclosures over key judgements are included in Note 3 and Note 30 of the IFRS financial statements.
Accounting and reporting of the portfolio transfer from Monuta Verzekeringen NV	On 1 October 2019 the Waard Group completed the transfer of a small portfolio of policies from Monuta Verzekeringen N.V. The completion took place following the signing of an Asset Purchase Agreement on 7 March 2019. The transaction resulted in some cash and policies being transferred to the Waard Group on 1 October, with the Waard Group assuming the liabilities of the policies from this point forward.	The committee's role is to ensure that this transaction is appropriately accounted for and disclosed in the financial statements.	The committee reviewed the accounting paper prepared by management relating to this transaction. The committee concluded that this reflects the underlying substance of the transaction and has been appropriately reported in the financial statements. Note 51 of the IFRS financial statements provides more information.
Accounting for Scildon pension scheme	Effective from 1 October 2019 the employees of Scildon agreed to a change of the pension scheme, moving from a defined benefit scheme to a plan that is based on defined contributions. The company and the employees also agreed on a change of the funding of the plan. This change has resulted in the company no longer bearing any risks relating to the funding of the plan.	The role of the committee has been to ensure that the accounting and associated financial reporting disclosure appropriately reflect the new pension arrangements.	The committee is satisfied that the Annual Report & Accounts appropriately reflect the transfer of the Scildon defined benefit scheme to a defined contribution scheme. Further information has been provided in Note 35 to the IFRS Financial Statements.

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.

Risk responsibilities (continued)**Regular activities performed during the year**

The table below provides some further information regarding the specific 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. As part of this process it flags any items of concern or clarification requiring follow up. The quarterly risk reporting included 'in focus' sections as required, including amongst other things; • Brexit; in particular, the potential impact on the solvency regime in which the group operates; • Operational resilience; following the group-wide operational resilience survey that was performed during 2018, 2019 has seen the Audit & Risk Committee focusing on overseeing the actions that resulted from the survey. In addition, the Audit & Risk Committee has been monitoring emerging practice in this area as further guidance emerges. • Emerging risks; ensuring that the Audit & Risk Committee is appropriately informed of emerging risks across the group.
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 the 2020 plans, with suitable priorities attached.
ORSA review: The committee reviewed the 2019 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 developments to the group's risk appetite framework, which was improved to more clearly and consistently articulate risk-taking preferences across the group and to increase alignment of the key risk indicators / tolerance limits with stakeholder interests 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.

Ad-hoc activities performed during the year

The table below provides some further information regarding the more ad-hoc activities that the committee has performed during the year in discharging its risk oversight responsibilities:

Acquisition oversight: Acquisition opportunities progressed to the due diligence phase during 2019, two of which resulted in transactions being agreed with the seller. The committee provided oversight to the due diligence process and challenge and review to the conclusions, risk assessment and major findings of that due diligence.
IT System proposals: The committee reviewed the risk assessments for two separate material IT project development proposals brought to the board during the year by two of the subsidiaries, one to replace the UK/Preston IT platform and one to replace Scildon's administrative IT infrastructure.
IT System proposals: The committee reviewed the risk assessments for two separate material IT project development proposals brought to the board during the year by two of the subsidiaries, one to replace the UK/Preston IT platform and one to replace Scildon's administrative IT infrastructure. Additional ORSA scenario analysis: Following an action agreed as part of the 2018 ORSA, the committee provided review and challenge to some additional scenario analysis that explored the effectiveness of recovery actions in the event of extreme economic scenarios.
Regulatory consultations: Various regulators in the UK and Europe have issued consultations during 2019 covering a wide range of subjects including operational resilience, climate change and liquidity risk. The committee has provided the required support, prioritisation and guidance to the management team in terms of Chesnara's response to these, including any development work planned for 2020.

Jane Dale
Chairman of the Audit & Risk Committee

14 April 2020

I 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 2019. The Corporate Governance Report on pages 68 to 72 forms part of the Directors' Report

The following information, that has been included by way of a cross reference to other areas of the Annual Report & Accounts, is required by the Companies Act to be included within the Directors' Report:

Requirements/reference*Financial risk management objectives and policies*

The 'Financial management' section on pages 49 to 50 and the 'Risk management' section on pages 51 to 57.

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 32 to 38.

Greenhouse gas reporting

The 'Corporate and social responsibility' section on pages 58 to 61.

Environmental, employee and social community matters

The 'Corporate and social responsibility' section on pages 58 to 61.

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 2019, the company had 150,061,567 ordinary shares in issue, of which none were held as treasury shares. During the year, no treasury shares were held or traded.

In order to retain maximum flexibility, the company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2020, to repurchase up to just under 10% of its issued share capital. Further details are provided in the Notice of this year's Annual General Meeting.

At the Annual General Meeting in 2019, shareholders approved resolutions to allot shares up to an aggregate nominal value of £4,996,965 and to allot shares for cash other than pro rata to existing shareholders. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

No person has any special rights of control over the company's share capital and all issued shares are fully paid. There are no specific restrictions on the size of holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or voting rights. The directors have no current plans to issue shares.

Directors

Full information of the directors who served in 2019 is detailed in the Corporate Governance Report on pages 68 to 72.

Detail of the non-executive directors who served as Chairmen and members of the board committees of the board are set out in the Corporate Governance Report on pages 68 to 72. Information in respect of the Chairman and members of the Remuneration Committee and in respect of directors' service contracts is included in the Remuneration Report on pages 76 to 93, which also includes details of directors' interests in shares and share options. The Chairman and all the non-executive directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. All the executive directors have service contracts with the company of no more than one year's duration and will offer themselves for re-election at least every three-years.

The service contracts of all the directors are retained at the company's office and will be available for inspection for 15 minutes prior to the Annual General Meeting. In addition, no director had any material interest in any significant contract with the company or with any of the subsidiary companies during the year.

The directors benefited from qualifying third party indemnity provisions in place during the years ended 31 December 2018 and 31 December 2019 and the period to 14 April 2020.

Director evaluations

During the year, the Chairman evaluated the performance of the directors in one to one meetings and the senior independent director evaluated the performance of the Chairman. It was confirmed that each director continued to make effective contributions to their role and the board as a whole.

Director appointments

With regard to the appointment and replacement of directors, the company follows the UK Corporate Governance Code 2018 and is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution. In February 2020, Luke Savage was appointed to the board following the departure of Peter Mason who stepped down as Chairman of the board on 14 February 2020.

Share capital

Details of the issued share capital, together with details of movements in the issued share capital of Chesnara plc during the year are shown in Note 41 to the IFRS Financial Statements which is incorporated by reference and deemed to be part of this report.

Articles of Association

The company's Articles of Association may only be amended by special resolution of the company at a general meeting of its shareholders.

Conflicts of Interest

Procedures are in place to ensure compliance with the directors' conflict of interest duties as set out in the Companies Act 2006. The company has complied with these procedures during the year and the board considers that the procedures operated effectively. During the year, details of any new conflicts or potential conflicts were advised and submitted to the board for consideration, and where appropriate, approved.

Results and dividends

The consolidated statement of comprehensive income for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards adopted by the EU and set out on page 114 shows:

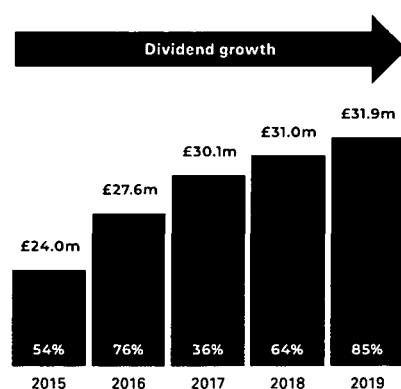
	2019 £000	2018 £000
Profit for year attributable to shareholders	79,142	24,124

An interim dividend of 7.43p per ordinary share was paid by Chesnara on 11 October 2019. The board recommends payment of a final dividend of 13.87p per ordinary share on 2 June 2020 to shareholders on the register at the close of business on 24 April 2020.

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 £145m of dividends have been paid at an average annual yield of 5.7% (based on average annual share prices) representing 58% of the cash generated over the period.

Considerations

Cash generation	Historic and projected cash generation levels need to support any dividend payment although there is no explicit requirement for the current year's cash generation to cover the dividend.
Solvency	Dividends will not be paid if they were to result in a breach in our Capital Management Policy which currently sets a minimum dividend paying solvency constraint of 110%.
Acquisition strategy	The Chesnara business model is based upon making future acquisitions and any dividend payments consider the financial requirements to continue to deliver our acquisition strategy.
Investor expectations	In addition to a stable and attractive dividend yield our investors value predictability and sustainability of earnings. As such, under normal circumstances, 'special dividends' are unlikely.

The board makes dividend decisions with reference to a range of management information, reports and policies including the group ORSA, group business plan, solvency analysis including sensitivities, analysis of historic financial results and the Group Capital Management Policy

Substantial shareholdings

Information provided to the company by major shareholders pursuant to the FCA's Disclosure and Transparency Rules (DTR), is published via a Regulatory Information Service and is available on the company's website. The company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 31 December 2019 and 31 March 2020:

I DIRECTORS' REPORT (CONTINUED)

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 31 December 2019
Aberdeen Standard Investments	20,255,889	13.50%
Columbia Threadneedle Investments	19,616,225	13.07%
Invesco Ltd	10,005,521	6.67%
M&G Investment Management	8,755,921	5.83%
Canaccord Genuity Wealth Management	8,396,127	5.60%
Hargreaves Lansdown Asset Management	7,418,419	4.94%
Janus Henderson Investors	5,639,332	3.76%
Interactive Investor	5,143,920	3.43%
Royal London Asset Management	4,843,273	3.23%

Subsequent to 31 December 2019 there have been changes to this position and the holdings as at 31 March 2020 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 31 March 2020
Aberdeen Standard Investments	20,959,007	13.97%
Columbia Threadneedle Investments	19,647,337	13.09%
Invesco Ltd	9,173,088	6.11%
M&G Investment Management	8,976,051	5.98%
Canaccord Genuity Wealth Management	8,473,627	5.65%
Hargreaves Lansdown Asset Management	7,037,903	4.69%
Janus Henderson Investors	5,753,779	3.83%
Royal London Asset Management	5,260,861	3.51%
Interactive Investor	4,910,351	3.27%

Related party transactions and significant contracts

During the year ended 31 December 2019, 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

The directors consider the emergence of Covid-19 as a pandemic during 2020, and the associated government measures both in the UK and overseas in response, as a non-adjusting post balance sheet event. Further detail can be found in note 52 on page 195.

Charitable donations

Charitable donations made by group companies during the year ended 31 December 2019 were £5,000 (2018: £14,000). No political contributions were made during the year ended 31 December 2019 (2018: £nil).

Employees

The average number of employees during 2019 was 316 (2018: 363).

Employee involvement

The group believes that employee communication and consultation is important in enhancing the company culture and connectivity, and in motivating and retaining employees. An open communications programme enables all employees to understand key strategies and other matters of interest and importance, quickly and efficiently. The communication includes face-to-face briefings, open discussion forums with senior management and email.

Business relationships

Throughout the year the directors have had regard for the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year. Information supporting this is provided in the Section 172 disclosures on pages 26 to 31.

Going concern statement

After making appropriate enquiries, including detailed consideration of the impact of Covid-19 on the group's operations and financial position and prospects the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements as stated in Note 2 to the IFRS Financial Statements. Detailed analysis of relevant risks and other factors is included within the Risk Management section on page 51 to 57, within the Financial Management section on pages 49 to 50 and within Notes 5 and 6 to the IFRS Financial Statements.

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's Auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's Auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

A resolution for the re-appointment of Deloitte LLP as Auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board on 14 April 2020 and signed on its behalf by:



David Rimmington
Group Finance Director

I DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

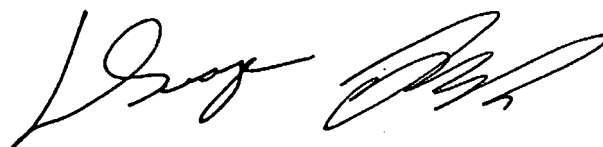
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.



Luke Savage
Chairman

14 April 2020

John Deane
Chief Executive Officer

14 April 2020

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Morecambe Bay, Lancashire

I INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC

Report on the audit of the financial statements

Opinion

In our opinion

- the financial statements of Chesnara plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 Cash Flows;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Statement of Accounting Policies; and
- the related Notes 1 to 52 excluding the capital disclosures calculated in accordance with the Solvency II regime in Notes 29 and 52, which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in Note 14 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: – Impact of COVID-19 post balance sheet event; – Valuation of insurance liabilities, pinpointed to the valuation of the Save & Prosper ('S&P') Cost of Guarantees, and the adequacy of Scildon reserves; – Valuation of the Scildon Acquired Value In-Force ('AVIF') intangible asset; and – Valuation of the Movestic Deferred Acquisition Costs ('DAC') balance. Within this report, key audit matters are identified as follows:  Increased level of risk  Similar level of risk  Newly identified
Materiality	The materiality that we used for the group financial statements was £12.8m, determined on the basis of 3% of adjusted net assets at 30 June 2019.
Scoping	We focused our group audit scope on the audit work at three UK locations and three overseas locations where the group's policies are administered.
Significant changes in our approach	We have identified a new key audit matter in the period in relation to the valuation of the Movestic DAC balance. In light of changes brought about by the Insurance Distribution Directive and ensuing changes in management's assumptions, the impairment assessment for the Movestic DAC balance necessitates a greater level of judgement. Given the rapid spread of Coronavirus ('COVID-19', 'the virus') and the ongoing uncertainty surrounding its impact after the balance sheet date, and due to the inherent management judgement in determining the appropriateness of related post balance sheet event disclosures, we have enhanced our risk assessment and focused a greater degree of audit effort over the appropriateness of such disclosures in the financial statements. In accordance with this greater level of audit effort, we have identified a new key audit matter in the period relating to the appropriateness of the COVID-19 post balance sheet event disclosures. We have removed the valuation of specific Level 2 financial instruments, a key audit matter in the prior year, in response to the conclusions drawn through the procedures performed in the prior period.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in Note 2c to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 49 – 55 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on pages 65 – 69 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 48 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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.

Impact of COVID-19 post balance sheet event

Key audit matter description

Subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the group and company is exposed have led to increased volatility and economic disruption. The matter is a non-adjusting event since it is indicative of conditions that arose after the reporting period.

Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date.

Subsequent to the year end, management have performed procedures to assess the financial and operational impacts of COVID-19, at a component and group level, including:

- An assessment of operational resilience, challenging internal control and governance, critical business functions, crisis management, and the impact on key stakeholders;
- Considerations of solvency, and liquidity projections, including further assessment of the exposure across the group to equity market risk, widening credit spreads, falls in yields and the ability of components and the group to make dividend payments; and
- A review of balance sheet asset, and liability valuations. Through this review management challenged the exposure of financial assets to equity, interest and credit risk, susceptibility of reinsurers to credit risk, and sensitivity of technical reserves to adverse mortality, and expense assumptions.

The assessment of the impact of COVID-19 on the company, and the group, requires management judgement and consideration of a range of factors. Management have placed a particular focus on the level of capital surplus that has been maintained post year end, the risks associated with liquidity, and the credit quality of assets.

Having considered the results of the activities described above, management believes that the group and the company continues to be a going concern due to having a stable solvency position and appropriate plans to manage liquidity and credit risks. The group's business continuity plans have also been initiated and management believe that these will enable them to continue to deliver critical business services across the group.

The group and company have made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards, the company law and corporate governance code provisions. Due to the inherent management judgement in, and the increased level of audit effort focused on the appropriateness of, the financial statements disclosures, we considered these to be a key audit matter. Refer to management's disclosure in Notes 2 and 52 of the financial statements. Further detail is included on page 50 of the Strategic Report.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

I INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC (CONTINUED)**Impact of COVID-19 post balance sheet event (continued) ****How the scope of our audit responded to the key audit matter**

We evaluated management's approach to assessing the impact of COVID-19 on the group and the company, and challenged the financial statement disclosures by performing the following procedures:

- 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;
- Reviewed the actions that came out of the various governance committee meetings which considered COVID-19 in advance of reporting;
- Challenged group, and divisional management around the assessment performed around the impact of COVID-19 at each location;
- 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, due to further deterioration of the wider UK and Global economy;
- Assessed the post balance sheet event disclosures made by management in the financial statements; and
- Checked consistency of the post balance sheet event disclosures, and those in the Strategic Report relating to going concern and viability, with our knowledge of the group based on our audit.

Key observations

Based on the procedures performed above, and the evidence obtained, we consider that, in relation to the potential impact of COVID-19, the post balance sheet event disclosures in the financial statements are appropriate, and the disclosures in the Strategic Report relating to going concern are consistent with our knowledge of the group based on our audit.

Valuation of the Movestic Deferred Acquisition Costs **Key audit matter description**

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset, and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised.

There are a number of judgement areas within this balance, both in terms of the amortisation period selected for the DAC, and also in assessing the asset for impairment. The introduction of the Insurance Distribution Directive and resultant changes in assumptions necessitate management making greater use of judgement.

Movestic applies judgement in deciding the amount of direct costs incurred in acquiring the rights to provide investment management services through the issue of investment contracts.

Judgement is also applied in establishing the amortisation profile, including estimates of the expected lifetime of the investment management service contracts, deferred income, and the recoverability of the contractual rights assets by reference to expected future income and expense levels.

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

As at year end 2019, the DAC balance held on the group balance sheet totalled £63.9m. Of the group balance, deferred acquisition costs relating to the Movestic component amounted to £53.3m. The quantum of the component balance, in conjunction with changes in the Swedish regulatory environment has resulted in the audit team pinpointing the key audit matter to the Movestic DAC.

The accounting policy relating to deferred acquisition costs has been presented through Note 2h (iii), with details of the balance and movement within Note 18.

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

In respect of the Movestic DAC:

- We gained an understanding of, and assessed, the internal controls in place around the setting of the amortisation profile, and the impairment test;
- We have assessed the rationale for the expense ledger balances capitalised, and performed tests of detail around contracts to assess the valuation of the DAC;
- We have agreed the DAC sub-ledger to the General Ledger, and created an expectation of the DAC balances, also performing a subsequent investigation into any differences;
- We have worked with actuarial specialists to challenge the amortisation profile adopted by management, and performed a benchmarking exercise against other insurers in Sweden; and
- We have worked with actuarial specialists to challenge the reasonableness of management's assumptions within the impairment test, including: mortality, transfers, surrenders, and expenses.

Key observations

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

Valuation of insurance contract liabilities

Key audit matter description

Across the group, there are two matters relating to insurance liabilities which we have identified as key audit matters:

a) Valuation of Save & Prosper Cost of Guarantees:

The matter relating to insurance contract liabilities, which we have identified as a key audit matter, is the valuation of Save & Prosper ('S&P') Cost of Guarantees ('CoG'). The key audit matter identified has been classified as a fraud risk due to the complexity in the valuation of this liability.

The assessment and calculation of the CoG reserves for policies written by S&P is complex and can lead to material impacts on the valuation of the CoG, including the use of a stochastic model based on a variety of possible economic scenarios. The stochastic model used to calculate the CoG is sensitive to the inherent volatility in bond and equity markets, which are the key inputs into the model.

Historically, the residual cost to shareholders arising from the CoG has fluctuated as a result of movements in bond yields and equity markets with a value of £17.3m at 31 December 2019 (31 December 2018: £23.1m). This decrease was primarily due to higher asset returns over 2019, which increased policyholder asset shares, and therefore reduced the residual cost to shareholders. Management's third party actuarial expert determines the value, and management compare this valuation against an in-house derived estimate using an approximation model to validate its reasonableness.

b) Adequacy of Scildon reserves

Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions.

IFRS 4 requires an insurer, at the end of each reporting period, to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows (the 'Liability adequacy test', or 'LAT'). Given Scildon's accounting policy makes use of historical market interest rates, there is a heightened risk that its insurance liabilities are not adequate. There is also a risk of fraud, due to management overriding internal controls around the setting of the parameters used to calculate the reserves at inception.

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

The accounting policy adopted by the group is documented within Note 2h to the financial statements.

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

In respect of the Accuracy of Save & Prosper Cost of Guarantees:

- We gained an understanding of, and assessed, the internal controls around the reserving process, with specific reference to the S&P CoG;
- We performed procedures to assess the objectivity, competence and independence of management's actuarial expert;
- We challenged the key movements in the S&P CoG reserve over the period, as well as any changes in the approach taken by management's actuarial expert in determining the reserve. We tested the movements in the CoG analysis of change by considering market and policy value movements in the period between 31 December 2018 and 31 December 2019;
- We challenged management's actuarial expert on the testing performed on the Economic Scenario Generator ('ESG') model output used as an input to the CoG model. Together with our actuarial specialists we assessed the economic inputs to the model for reasonableness; and
- We tested management's estimation model at each quarter-end since the 31 December 2018 audited position. We then independently sourced and reconciled inputs to the model for each of the periods and confirmed that the result produced by management using this estimation model is within an acceptable tolerance at each quarter. Where manual adjustments have been made by management we have challenged the derivation and purpose of such adjustments.

In respect of the adequacy of Scildon reserves:

- We gained an understanding of, and assessed, the key controls around the setting of the assumptions feeding in to the LAT;
- Performed analytics on policy cash flow data, in order to identify outliers and movements compared to the prior period;
- For a sample of policies, we recalculated the reserve at a policy level, using our independent replication model, and compared the results to those produced by management;
- We worked with actuarial specialists to challenge the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors; and
- We worked with actuarial specialists to challenge the results of the experience investigations carried out by management. Through our challenge of assumptions, we have performed benchmarking against industry studies and other sources of evidence.

Key observations

Based on the audit procedures performed, we consider that the S&P Cost of Guarantees reserve is materially appropriate.

We also concluded that the initial parameter setting process and Liability Adequacy Test performed by management were reasonable, supporting the adequacy of Scildon's insurance contract liabilities.

I INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC (CONTINUED)

Valuation of the Scildon AVIF intangible asset

Key audit matter description

Following the acquisition of Scildon, Chesnara recorded an Acquired Value In Force (AVIF) intangible asset of £66.0m on the group balance sheet, reflecting the capitalised future profit in the Scildon business. The carrying value of the intangible asset at the balance sheet date was £56.0m.

Management is required to assess the impairment of the Scildon AVIF intangible balance at least annually, in line with IAS 36 Impairment of assets for investment contracts or, for insurance contracts, under the IFRS 4 Insurance Contracts liability adequacy test, which involves significant judgement.

Our key audit matter is pinpointed to the discount rate used by management to discount the future policyholder cash flows underpinning the VIF.

Due to the highly judgemental nature of this balance, we identified manipulation of this assessment as an area of potential fraud.

See Note 3a for management's consideration of significant accounting judgements. The accounting policy adopted by the group is documented within Note 2a to the financial statements and the acquired in-force business intangible is disclosed in Note 19.

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

In respect of the Scildon AVIF we performed the following procedures:

- We gained an understanding of, and assessed, the internal controls in place to monitor and mitigate the risk of inappropriate management adjustments to the key assumptions;
- We engaged impairment specialists to challenge management's assessment;
- We have constructed a range of independent discount rates based on alternative industry data in order to challenge the rate applied by management; and
- We have worked with actuarial specialists to challenge the model parameters used to generate the Scildon cashflows as used within management's impairment assessment.

Key observations

Based on the audit procedures performed, we consider the discount rate used in the base VIF, which is used to assess the impairment of the Scildon AVIF intangible balance, to be appropriate.

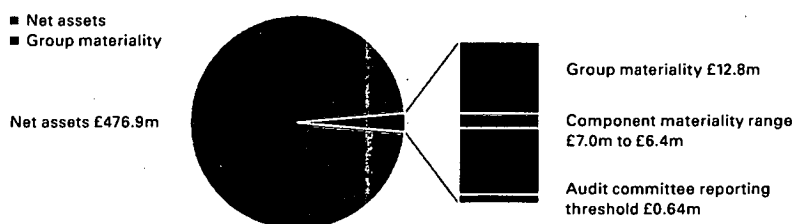
Our application of materiality

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	£12.8m (2018: £12.0m)	£10.5m (2018: £10.5m)
Basis for determining materiality	3% of adjusted 2019 30 June 2019 net assets We apply an adjustment of 10% to the net asset benchmark to factor in the inherent volatility in equity prices within the net asset amount. The purpose of the adjustment is that materiality does not exceed 3% of the net asset figure as at 31 December 2019. The parent company materiality is calculated on the same basis.	
Rationale for the benchmark applied	A net assets measure is more closely aligned to the objectives of capital solvency and efficiency, dividend payments and ultimately cash generation that is relevant for this 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 performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following:

- Quality of the control environment. We assessed entity level controls and noted no issues as part of our assessment; and
- Quantum of audit adjustments identified in the prior period. We note that historically there has been a low number of corrected and uncorrected misstatements.

Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £640k (2018: £600k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The risk assessment and scoping for the group has been performed centrally by the group audit team. Referral instructions have been provided to each of the component audit teams detailing the procedures to be performed to support the group opinion. The procedures performed by the group audit team specifically relate to the parent company, and group consolidation.

Based on this assessment and consistent with the prior year, we focused our group audit scope primarily on the audit work at six locations where the group's policies are administered. Three relate to Countrywide Assured plc and are in the United Kingdom, and the remaining three locations in the Netherlands and Sweden relate to Waard Leven, Waard Schade, Movestic Livförsäkring AB, and Scildon. All components were subject to a full scope audit.

Excluding the parent company, the component materiality levels set by the group auditor range from £6.4m to £7.0m (2018: £4.8m to £6.0m). The movement in range in the year arises due to foreign exchange movements impacting the re-translated group balance sheet.

Working with other auditors

The audit at each location involved the use of component audit teams. The group audit team have visited each of the component audit teams various times throughout the period, with the attendance of Senior group audit team members at key component meetings. Furthermore, the group audit team have reviewed the audit files of each component team, focussing on the following areas:

- Independence and continuance;
- Controls work around key audit matters, and financial reporting;
- Legal and regulatory compliance; and
- Assessment of key audit matters and significant risks.

In addition to the review of the component audit files, the group audit team has challenged the component responses to the referral instructions ensuring that the planned procedures have been performed appropriately.

Upon receipt of the component financials from the component audit teams, the group audit team challenge management around the Chesnara group consolidation process.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

I INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC (CONTINUED)

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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;
- results of our enquiries of management, internal audit, and the audit and 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 involving relevant internal specialists, including tax, valuations, pensions, IT, and actuarial 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 insurance liabilities, pinpointed to the valuation of the Save & Prosper ('S&P') Cost of Guarantees, and the adequacy of Scildon reserves, valuation of the Scildon Acquired Value In-Force ('AVIF') intangible asset and valuation of the Movestic Deferred Acquisition Costs balance ('DAC'). In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, 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 insurance liabilities, pinpointed to the valuation of the Save & Prosper ('S&P') Cost of Guarantees, and the adequacy of Scildon reserves, the valuation of the Scildon Acquired Value In-Force ('AVIF') intangible asset, and valuation of the Movestic Deferred Acquisition Costs ('DAC') balance as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, PRA, FCA and FRC;
- 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.

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**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 11 years, covering the years ended 2009 to 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Stephen Williams FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

14 April 2020

I CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December

	Note	2019 £000	2018 £000
Insurance premium revenue		268,331	274,916
Insurance premium ceded to reinsurers		(44,215)	(55,536)
Net insurance premium revenue		224,116	219,380
Fee and commission income	8	92,895	101,783
Net investment return	9	1,090,640	(335,035)
Total revenue net of reinsurance payable		1,407,651	(13,872)
Other operating income	10	37,838	41,236
Total income net of investment return		1,445,489	27,364
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	11	(445,265)	(471,205)
Net (increase)/decrease in insurance contract provisions	11	(176,541)	351,812
Reinsurers' share of claims and benefits	11	38,064	43,648
Net insurance contract claims and benefits		(583,742)	(75,745)
Change in investment contract liabilities	12	(664,463)	196,940
Reinsurers' share of investment contract liabilities	12	5,424	(1,611)
Net change in investment contract liabilities		(659,039)	195,329
Fees, commission and other acquisition costs	13	(21,750)	(28,158)
Administrative expenses	14	(67,811)	(69,795)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	15	(10,445)	(12,093)
Charge for amortisation of acquired value of customer relationships	15	(70)	(83)
Other	15	(5,635)	(4,840)
Total (expenses)/income net of change in insurance contract provisions and investment contract liabilities		(1,348,492)	4,615
Total income less expenses		96,997	31,979
Share of profit/(loss) of associate	23	1,072	(616)
Profit recognised on portfolio acquisition	51	788	-
Financing costs	16	(2,751)	(4,351)
Profit before income taxes	7	96,106	27,012
Income tax expense	17	(16,964)	(2,888)
Profit for the year	7	79,142	24,124
Items that will not be reclassified to profit and loss:			
Foreign exchange translation differences arising on the revaluation of foreign operations	4	(18,684)	(783)
Revaluation of pension obligations	35	-	56
Revaluation of investment property		144	277
Total comprehensive income for the year		60,602	23,674
Basic earnings per share (based on profit for the year)	46	52.77p	16.10p
Diluted earnings per share (based on profit for the year)	46	52.47p	16.01p

The Notes and information on pages 120 to 195 form part of these financial statements.

I CONSOLIDATED BALANCE SHEET

31 December

	Note	2019 £000	2018 £000
Assets			
Intangible assets			
Deferred acquisition costs	18	63,885	65,039
Acquired value of in-force business	19	90,823	106,609
Acquired value of customer relationships		431	537
Goodwill	20	43	781
Software assets	21	5,988	5,711
Property and equipment	22	7,043	4,293
Investment in associates	23	6,481	5,840
Investment properties		1,020	1,299
Reinsurers' share of insurance contract provisions	30	188,452	213,369
Amounts deposited with reinsurers	31	37,330	34,349
Financial assets			
Equity securities at fair value through income	24	432,645	413,851
Holdings in collective investment schemes at fair value through income	24	5,524,504	4,835,621
Debt securities at fair value through income	24	1,458,917	1,521,616
Policyholders' funds held by the group	24	299,375	259,836
Mortgage loan portfolio	24/25	32,187	41,191
Insurance and other receivables	24/26	53,936	55,849
Prepayments	24	8,353	7,309
Derivative financial instruments	24/27	2,076	446
Total financial assets		7,811,993	7,135,719
Reinsurers' share of accrued policyholder claims	38	14,132	17,640
Income taxes		5,394	10,702
Cash and cash equivalents	28	107,956	215,212
Total assets		8,340,971	7,817,100
Liabilities			
Insurance contract provisions	30	3,610,415	3,569,014
Other provisions		521	882
Financial liabilities			
Investment contracts at fair value through income	31	3,694,316	3,235,519
Liabilities relating to policyholders' funds held by the group	32	299,375	259,836
Lease contract liabilities	33	2,527	-
Borrowings	34	88,163	109,202
Derivative financial instruments	27	547	22,714
Total financial liabilities		4,084,928	3,627,271
Deferred tax liabilities	36	22,500	19,463
Reinsurance payables	37	3,207	10,535
Payables related to direct insurance and investment contracts	38	87,136	91,229
Deferred income	39	3,907	3,948
Income taxes		9,964	3,428
Other payables	40	41,728	44,756
Bank overdrafts	28	1,174	958
Total liabilities		7,865,480	7,371,484
Net assets	7	475,491	445,616
Shareholders' equity			
Share capital	41	43,767	43,767
Share premium	41	142,053	142,053
Other reserves	42	8,618	27,158
Retained earnings	43	281,053	232,638
Total shareholders' equity		475,491	445,616

The Notes and information on pages 120 to 195 form part of these financial statements.

Approved by the board of directors and authorised for issue on 14 April 2020 and signed on its behalf by:


 Luke Savage
 Chairman


 John Deane
 Chief Executive Officer

Company number: 04947166

I COMPANY BALANCE SHEET

31 December

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Financial assets			
Investments in subsidiaries	24	354,720	354,720
Deferred tax asset		521	388
Total non-current assets		355,241	355,108
Current assets			
Property and equipment		263	-
Financial assets			
Holdings in collective investment schemes at fair value through income	24	74,758	47,288
Receivables and prepayments		855	2,486
Income taxes		2,440	2,665
Cash and cash equivalents	28	769	7,990
Total current assets		79,085	60,429
Total assets		434,326	415,537
Current liabilities			
Lease contract liabilities		253	-
Borrowings	34	14,849	15,306
Other payables	40	4,190	2,811
Total current liabilities		19,292	18,117
Non-current liabilities			
Borrowings	34	37,676	54,274
Total non-current liabilities		37,676	54,274
Total liabilities		56,968	72,391
Net assets		377,358	343,146
Shareholders' equity			
Share capital	41	7,495	7,495
Share premium	41	142,053	142,053
Other reserves	42	50	50
Retained earnings	43	227,760	193,548
Total shareholders' equity		377,358	343,146

The Notes and information on pages 120 to 195 form part of these financial statements.

The profit for the financial year of the parent company was £64.9m (2018: £64.9m).

The financial statements of Chesnara plc (registered number 4947166) were approved by the board of directors and authorised for issue on 14 April 2020 and signed on its behalf by:



Luke Savage
Chairman



John Deane
Chief Executive Officer

I CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December

	Note	2019 £000	2018 £000
Profit for the year		79,142	24,124
Adjustments for:			
Depreciation of property and equipment	22	538	647
Amortisation of deferred acquisition costs	18	11,547	13,629
Amortisation of acquired value of in-force business	19	10,445	12,093
Amortisation of acquired value of customer relationships		70	83
Amortisation of software assets	21	1,442	1,671
Depreciation on right of use assets	22	704	-
Interest on lease liabilities	16	63	-
Share based payment		593	501
Tax paid		16,494	2,888
Interest receivable		(1,596)	(4,796)
Dividends receivable		(2,250)	(2,939)
Interest expense	16	2,688	4,351
Fair value gains on financial assets		(201,937)	(205,410)
Share of (profit)/loss of associate	23	(1,072)	616
Increase in intangible assets related to insurance and investment contracts		(14,058)	(18,457)
Interest received		2,011	5,360
Dividends received		2,942	1,579
Changes in operating assets and liabilities (excluding the effect of acquisitions)		-	56
Changes in operating assets and liabilities:			
(Increase)/decrease in financial assets		(799,774)	715,390
Decrease in reinsurers' share of insurance contract provisions		23,809	26,462
(Increase)/decrease in amounts deposited with reinsurers		(2,981)	4,427
Decrease in insurance and other receivables		7,640	11,937
Increase in prepayments		(1,474)	(86)
Increase/(decrease) in insurance contract provisions		145,907	(409,405)
Increase/(decrease) in investment contract liabilities		685,502	(102,577)
Decrease in provisions		(307)	(180)
Decrease in reinsurance payables		(6,912)	(792)
Decrease in payables related to direct insurance and investment contracts		(2,472)	(5,947)
Decrease in other payables		(3,119)	(2,549)
Net cash (utilised by)/generated from operations		(46,415)	72,676
Income tax paid		(878)	(12,104)
Net cash (utilised by)/generated from operating activities		(47,293)	60,572
Cash flows from investing activities			
Development of software		(3,097)	(1,839)
(Purchases)/disposal of property and equipment		(98)	71
Net cash utilised by investing activities		(3,195)	(1,768)
Cash flows from financing activities			
Proceeds from issue of share capital		-	1
Proceeds from the issue of share premium		-	70
Repayments of borrowings		(18,465)	(18,974)
Repayment of lease liabilities		(646)	-
Sale of treasury shares		-	98
Dividends paid		(31,316)	(30,384)
Interest paid		(2,570)	(4,174)
Net cash utilised by financing activities		(52,997)	(53,363)
Net (decrease)/increase in net cash and cash equivalents		(103,485)	5,441
Net cash and cash equivalents at beginning of year	28	214,254	209,556
Effect of exchange rate changes on net cash and cash equivalents		(3,987)	(743)
Net cash and cash equivalents at end of the year	28	106,782	214,254

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 120 to 195 form part of these financial statements.

I COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December

	Note	2019 £000	2018 £000
Profit for the year		64,939	64,860
Adjustments for:			
Tax recovery		(1,704)	(1,044)
Interest receivable		1,362	2,394
Share based payment		593	501
Dividends receivable		(69,772)	(69,320)
Depreciation on right of use assets		9	-
Increase in financial assets		(27,470)	(18,197)
Changes in operating assets and liabilities:			
Decrease in loans and receivables		1,426	559
Decrease/(increase) in prepayments		76	(35)
Increase in provisions		266	-
Increase/(decrease) in other payables		1,508	(1,792)
Net cash utilised by operating activities		(28,767)	(22,074)
Income tax received		1,796	1,363
Net cash utilised by operating activities		(26,971)	(20,711)
Cash flows from investing activities			
Dividends received from subsidiary company		69,772	69,320
Purchases of property and equipment		(266)	-
Net cash generated from investing activities		69,506	69,320
Cash flows from financing activities			
Net proceeds from the issue of share capital		-	1
Net proceeds from the issue of share premium		-	70
Sale of treasury shares		-	98
Repayment of borrowings		(17,055)	(19,877)
Repayment of lease liabilities		(19)	-
Dividends paid		(31,320)	(30,384)
Interest paid		(1,362)	(2,394)
Net cash utilised by financing activities		(49,756)	(52,486)
Net decreases in net cash and cash equivalents		(7,221)	(3,877)
Net cash and cash equivalents at beginning of year		7,990	11,867
Net cash and cash equivalents at end of the year	28	769	7,990

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 120 to 195 form part of these financial statements.

I STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

Note	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2019	43,767	142,053	27,158	-	232,638	445,616
Profit for the year	-	-	-	-	79,142	79,142
Dividends paid	-	-	-	-	(31,320)	(31,320)
Foreign exchange translation differences	4	-	(18,684)	-	-	(18,684)
Revaluation of investment property	-	-	144	-	-	144
Share based payment	-	-	-	-	593	593
Equity shareholders' funds at 31 December 2019	43,767	142,053	8,618	-	281,053	475,491

Year ended 31 December 2018

Note	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2018	43,766	141,983	27,664	(98)	238,341	451,656
Profit for the year	-	-	-	-	24,124	24,124
Dividends paid	-	-	-	-	(30,384)	(30,384)
Foreign exchange translation differences	4	-	(783)	-	-	(783)
Revaluation of pension obligations	-	-	-	-	56	56
Revaluation of investment property	-	-	277	-	-	277
Share based payment	-	-	-	-	501	501
Issue of share capital	1	-	-	-	-	1
Issue of share premium	-	70	-	-	-	70
Sale of treasury shares	-	-	-	98	-	98
Equity shareholders' funds at 31 December 2018	43,767	142,053	27,158	-	232,638	445,616

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2019	7,495	142,053	50	-	193,548	343,146
Profit for the year	-	-	-	-	64,939	64,939
Dividends paid	-	-	-	-	(31,320)	(31,320)
Share based payment	-	-	-	-	593	593
Equity shareholders' funds at 31 December 2019	7,495	142,053	50	-	227,760	377,358

Year ended 31 December 2018

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2018	7,494	141,983	50	(98)	158,571	308,000
Profit for the year	-	-	-	-	64,860	64,860
Dividends paid	-	-	-	-	(30,384)	(30,384)
Share based payment	-	-	-	-	501	501
Issue of share capital	1	-	-	-	-	1
Issue of share premium	-	70	-	-	-	70
Sale of treasury shares	-	-	-	98	-	98
Equity shareholders' funds at 31 December 2018	7,495	142,053	50	-	193,548	343,146

The Notes and information on pages 120 to 195 form part of these financial statements.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Chesnara plc (Registered number 4947166) (the company) is a limited liability company, incorporated in the United Kingdom and registered in England and Wales. The company is limited by shares and has a primary listing on the London Stock Exchange. The address of the registered office is 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, England, PR1 8UY, UK.

The company and its subsidiaries, together forming the group, comprise UK, Swedish and Dutch life and pensions businesses.

The UK business is represented by the CA segment, as described in Note 7. Its activities are performed almost entirely in the UK, where it underwrites life risks such as those associated with death, disability and health and provides a portfolio of investment contracts for the savings and retirement needs of customers through asset management. It is substantially closed to new business, such that new insurance contracts are only issued to existing customers, dependent on their changing needs.

The Swedish business comprises the Movestic segment, as described in Note 7. Its activities are performed predominantly in Sweden, where it underwrites life, accident and health risks and provides a portfolio of investment contracts. It is open to new business, securing distribution of its products principally through independent financial advisers.

The Dutch business comprises the Waard Group and Scildon segments, as described in Note 7. These represent the group's Dutch life and general insurance businesses. The Waard Group originally consisted of three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and the company was subsequently de-registered on 19 December 2018. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. During 2019, the Waard Group acquired a portfolio of term life and endowment policies from Monuta. 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.

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 14 April 2020.

2 Significant accounting policies

In the information which follows, distinction is made, where necessary, in respect of the applicability of certain policies to the UK business, the Swedish business and the Dutch business.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('Adopted IFRSs') and therefore comply with Article 4 of the EU IAS Regulation. Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with Adopted IFRSs.

IFRS 9

'IFRS 9 Financial Instruments' is effective from 1 January 2018 and replaces 'IAS 39 Financial Instruments: Recognition and Measurement'. The group has however elected to defer the application of IFRS 9 in the consolidated financial statements, applying the temporary exemption available under 'Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4'. The temporary exemption is available to reporting entities whose activities are predominantly connected with insurance and the IASB has recommended that the exemption applies until the earlier of the introduction of 'IFRS 17 Insurance Contracts' and 1 January 2023.

An assessment of the group's liabilities has been made as at 31 December 2017, the year-end following the most recent significant acquisition. The assessment determined that the proportion of liabilities connected within scope of IFRS 4, together with other liabilities connected with insurance was greater than 90% of the total liabilities of the group as at that date. Other liabilities connected with insurance include non-derivative investment contract liabilities measured at fair value under IAS 39, with a value of £3,420.3m at 31 December 2017. Certain disclosures are required as a result of deferring the application of IFRS 9 and these disclosures are contained in Note 5 and Note 24 to the financial statements.

Chesnara plc (the company) does not meet the qualifying criteria for temporary exemption from applying IFRS 9 as a stand-alone reporting entity. Therefore, IFRS 9 has been applied to the parent company financial assets within these financial statements. Within the group, Movestic Kapitalförvaltning AB, has also applied IFRS 9 to its individual financial statements and these are available at www.movestic.se

IFRS 16

IFRS 16 Leases became effective from 1 January 2019. IFRS 16 replaces IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. This results in the recognition of a right of use asset and a lease liability for all of the group's previously classified operating leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements.

The group has initially adopted the IFRS 16 Leases from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial applications is recognised in the retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the change in accounting policy are disclosed below.

The group has a number of lease arrangements in place, predominantly in relation to rented office space and equipment used within the business operations. The group has a single investment property where it acts as a lessor.

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. 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 an incremental borrowing rate, appropriate for each division.

Lessee accounting

IFRS 16 changes how the group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases, the group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments.

Lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line bases.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16, the group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 operating leases previously gave rise to a straight-line expense in other expenses.

Under IFRS 16 the group separates the total amount of cash paid for leases that are on the balance sheet into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the group consolidated financial statements.

Lessor accounting

The group enters into lease agreements as a lessor with respect to an investment property in the Scildon division.

Leases for which the group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the group applies IFRS 15 to allocate the consideration under the contract to each component.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities.

The group has chosen to use the table below to set out the adjustment recognised at the date of initial application of IFRS 16.

	As previously reported at 31 December 2018 £000	Impact of IFRS 16 £000	As restated at 1 January 2019 £000
Property and equipment	4,293	3,016	7,309
Deferred tax asset	-	513	513
Other assets	7,812,807	-	7,812,807
Total assets	7,817,100	3,529	7,820,629
Lease liabilities	-	(3,016)	(3,016)
Deferred tax liability	(19,463)	(513)	(18,950)
Other liabilities	(7,352,021)	-	(7,352,021)
Total liabilities	(7,371,484)	(3,529)	(7,375,013)
Net assets	445,616	-	445,616

Of the total right-of-use assets of £3.0m recognised at 1 January 2019, £2.6m related to leases of property and £0.4m to leases on equipment.

The table below presents a reconciliation from operating lease commitments disclosed on 31 December 2018 to lease liabilities recognised at 1 January 2019.

	As at 1 January 2019 £000
Operating lease commitments disclosed under IAS 17 at 31 December 2018	3,486
Short-term and low value lease commitments straight-line expensed under IFRS 16	64
Effect of discounting	(534)
Payments due in periods covered by extension options that are included in the lease term	-
Finance lease liabilities recognised under IAS 17 at 31 December 2018	-
Lease liabilities recognised at 1 January 2019	3,016

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expenses compared to IAS 17. During the year ended 31 December 2019, in relation to leases under IFRS 16 the group recognised the following amounts in the consolidated income statement:

	As at 1 January 2019 £000
Depreciation charge	(358)
Interest expenses	(30)
Variable lease payments	317
Short-term lease expense	31
Low-value lease expenses	-

At the date of authorisation of these financial statements the following standards and interpretations, which are applicable to the group and which have not been applied in these financial statements, were in issue but not yet effective (and in some cases have not been adopted by the EU):

Title	Subject
IFRIC 23	Uncertainty over income tax treatments
Amendments to IFRS 9 (Oct 2017)	Prepayment features with negative compensation
Amendments to IAS 28 (Oct 2017)	Long-term interests in associates and joint ventures
Annual improvements to IFRS Standards 2015 - 2017 cycle (Dec 2017)	Annual improvements to IFRSs: 2015 - 17 cycle
Amendments to IAS 19 (Feb 2018)	Plan amendment, curtailment or settlement
Amendments to references to the conceptual framework in IFRS Standards	Amendments to references to the conceptual framework in IFRS Standards
Amendments to IFRS 3 (Oct 2018)	Definition of business
Amendments to IAS 1 and IAS 8 (Oct 2018)	Definition of material
Amendments to IFRS 9, IAS 39 and IFRS 7 (Sept 2019)	Interest rate benchmark reform
IFRS 17	Insurance contracts
Amendments to IFRS 10 and IAS 28 (Sept 2014)	Sale or contribution of assets between an investor and its associate or joint venture

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the group in future periods, except as follows:

- IFRS 17 was issued in May 2017 and will replace IFRS 4, the current insurance contract accounting standard. In March 2020, the IASB recommended a further 1 year extension to the implementation date for the standard to 1 January 2023. The new standard will significantly change how the group measures and reports its insurance contracts. An initial assessment of the technical and operational implications of the standard was performed during 2019 and implementation activities are ongoing. These activities will continue throughout 2020 and the financial impact of adopting the standard will continue to be assessed.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until further work is performed.

In publishing the parent company financial statements, together with the group financial statements, the company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related Notes that form a part of these approved financial statements. The parent company profit for the year has been disclosed in Note 43 and page 115.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and of entities controlled by the company (its subsidiaries), made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The parent company financial statements present information about the company as a separate entity and not about its group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profit or loss and each component of other comprehensive income are attributed to the company and to the non-controlling interests. Total comprehensive income is attributed to the company shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2 Significant accounting policies (continued)****(c) Basis of preparation**

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.

Going concern

The consolidated and parent company financial statements have been prepared on a going concern basis. After making enquiries, including detailed consideration of the impact of COVID-19 on the group's operations and financial position and prospects, the directors believe that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Further detail on the key considerations made by the directors in making this assessment has been included in the Financial Management section of the Annual Report & Accounts on page 50 under the heading 'Maintain the group as a going concern'.

(d) Business combinations

The group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Expenses directly attributable to the acquisition are expensed as incurred. The acquiree's identifiable assets, liabilities, and contingent liabilities, which meet the conditions for recognition under IFRS 3, are measured initially at their fair values at the acquisition date. Gains arising on a bargain purchase, where the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree exceeds the cost of acquisition, is recognised in the Consolidated Statement of Comprehensive Income at the acquisition date.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a group company transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the associate. Losses may provide evidence of an impairment of assets transferred, in which case appropriate provision is made for impairment.

(f) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates, being its functional currency. For the purpose of these consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the parent company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency, being foreign currencies, are recorded at the rates of exchange prevailing on the dates of the transactions. 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. 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. Exchange differences are recognised in the Consolidated Statement of Comprehensive Income in the year in which they arise, except when they relate to items for which gains and losses are recognised in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as equity and are recognised in the group's foreign currency translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Transactions relating to business combinations denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the transaction date.

(g) Product classification

The group's products are classified at inception as either insurance or investment contracts for accounting purposes. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all rights and obligations are extinguished or expire. 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, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

In some insurance contracts and investment contracts the financial risk is borne by the policyholders. Such contracts are usually unit-linked contracts.

With-profits contracts, which subsist only within the UK business, all contain a discretionary participation feature ('DPF') which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses, which may be a significant portion of the total contractual benefits.

In respect of the S&P component of the CA segment, the amount and timing of such contractual benefits are at the discretion of the group and are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the group. The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the group may exercise its discretion as to the quantum and timing of their payment to contract holders.

In respect of the original CA book, all such contracts are wholly reinsured with ReAssure Limited, and the amount or timing of the additional payments are contractually at the discretion of the reinsurer and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract; or
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the reinsurer; or
- (iii) the profit or loss of the reinsurer.

All contracts with discretionary participation features are classified as insurance contracts.

(h) Insurance contracts

There are fundamental differences between the nature of the insurance contracts subsisting in the UK, Swedish and Dutch businesses, including inter alia contract longevity. The related product characteristics are set out for the separate UK, Swedish and Dutch businesses in Note 5. As a consequence, the alignment of income and expense recognition with the underlying assumption of risk leads to the adoption of separate accounting policies appropriate to each business, as follows:

(i) Premiums

Across all four businesses, premiums are accounted for when 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.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a straight-line basis according to the duration of the policy underwritten.

(ii) Claims and benefits

Claims are accounted for in the accounting year in which they are due or notified. Surrenders are accounted for in the accounting year in which they are paid. Claims include policyholder bonuses allocated in anticipation of a bonus declaration. Reinsurance recoveries are accounted for in the same period as the related claim.

Swedish non-life claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses, together with any adjustments to claims from previous years.

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claims provisions are not discounted. Provisions are calculated gross of any reinsurance recoveries.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of outstanding claims provisions is described in Note 30.

(iii) Acquisition costs

In the UK, Swedish and Scildon segments, acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. Such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2 Significant accounting policies (continued)****(h) Insurance contracts (continued)****(iv) Measurement of insurance contract provisions**

In the UK and Dutch businesses, insurance contract provisions are measured using accounting policies having regard to the principles laid down in Council Directive 2002/83/EC.

Insurance contract provisions are determined following an annual actuarial investigation of the long-term funds and are calculated initially on a statutory basis in order to comply with the reporting requirements of the Prudential Sourcebook for Insurers and the Dutch Central Bank respectively. This valuation is then adjusted to remove certain contingency reserves and to remove excess prudence from other reserves. In accordance with this, the provisions are calculated on the basis of current information, using the specific valuation methods set out below.

Unit-linked provisions are measured by reference to the value of the underlying net asset value of the group's unitised investment funds, determined on a bid value basis, at the balance sheet date.

For immediate annuities in payment the provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, including projected improvements in future mortality, interest rates and expenses. For certain temporary annuities in payment no allowance for mortality or mortality improvement has been made.

In respect of CA (S&P), for those classes of non-linked business with a discretionary participation feature, a gross premium method has been used to value the liability, whereby expected income and costs have been projected, allowing for mortality, interest rates and expenses.

For the other classes of non-linked business the provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

In respect of CA (original book) for those classes of non-linked and unit-linked business where policyholders participate in profits the liability is wholly reassured to ReAssure. The liability is calculated on a net premium basis, but is then increased to the realistic liability as a result of the liability adequacy test.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets: this is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in income for the year. Insurance contract provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

In Sweden, provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claim provisions are not discounted other than for income protection and waiver of premium benefits, where payments may be made for a considerable period of time.

(i) Investment contracts

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(i) Amounts collected

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the balance sheet as an adjustment to the liability to the investor.

(ii) Amounts deposited with reinsurers

Amounts deposited with reinsurers under reinsurance arrangements, which primarily involve the transfer of financial risk, are entered directly to the balance sheet as amounts deposited with reinsurers. These assets are designated on initial recognition as at fair value through income.

(iii) Benefits

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities in the accounting period in which they are paid.

(iv) Acquisition costs

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised. All other costs are recognised as expenses when incurred.

(v) Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through income. The group has designated investment contract liabilities at fair value through income as this more closely reflects the basis on which the businesses are managed.

The financial liability in respect of unit-linked contracts is measured by reference to the value of the underlying net asset value of the unitised investment funds, determined on a bid value, at the balance sheet date.

For the UK business, deferred tax on unrealised capital gains and for the Swedish business a yield tax in respect of an estimate of the investment return on the underlying investments in the unitised funds are also reflected in the measurement of the respective unit-linked liabilities.

Investment contract liabilities are managed together with related investment assets on a fair value basis as part of the documented risk management strategy.

The fair value of other investment contracts is measured by discounting current estimates of all contractual cash flows that are expected to arise under contracts.

(j) Reinsurance

The group cedes reinsurance in the normal course of business for the purpose of avoiding the retention of undue concentration of risk on any one life, policyholder or loss event (for example multiple losses under a group Life contract). Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, which comprise amounts due from insurance companies for paid and unpaid losses and ceded life policy benefits. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments and are presented as amounts deposited with reinsurers.

The net premiums payable to a reinsurer may be more or less than the reinsurance assets recognised by the group in respect of the reinsurance cover purchased. Any gain or loss is recognised in the income statement in the period in which the reinsurance premiums are payable.

Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts and in accordance with the terms of the reinsurance contract. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer. Impairment losses reduce the carrying value of the related reinsurance assets to their recoverable amount and are recognised as an expense in the income statement.

The group enters into certain financing arrangements, which are established in the form of a reinsurance contract, but which are substantively in the form of a financial instrument. Such arrangements are classified and presented as borrowings within financial liabilities.

(k) Fee and commission income

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 over time as revenue by the group on the effective commencement or renewal dates of the related contract. 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.

(l) Investment income

Investment income comprises income from financial assets and rental income from investment properties.

Income from financial assets comprises dividend and interest income, net fair value gains and losses (both unrealised and realised) in respect of financial assets classified as fair value through income, and realised gains on financial assets classified as loans and receivables.

Dividends are accrued on an ex-dividend basis. Interest received and receivable in respect of interest-bearing financial assets classified as fair value through income is included in net fair value gains and losses. For loans and receivables and cash and cash equivalents interest income is calculated using the effective interest method.

Rental income from investment properties under operating leases is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of each lease. Lease incentives are recognised in the Consolidated Statement of Comprehensive Income as an integral part of the total lease income.

(m) Expenses**(i) Operating lease payments**

Under IFRS 16, the depreciation of right-of-use assets is recognised in the Statement of Comprehensive Income as an administration expense. Payments made in relation to lease commitments are reflected in the balance sheet as a reduction to the corresponding lease liability.

(ii) Financing costs

Financing costs comprise interest payable on borrowings and on reinsurance claims deposits included within reinsurance payables, calculated using the effective interest rate method. Under IFRS 16, interest on lease liabilities is recognised in the Statement of Comprehensive Income as finance costs.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2 Significant accounting policies (continued)****(n) Income taxes**

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income. Tax that relates directly to transactions reflected within equity is also presented within equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Policyholders' fund yield tax

Certain of the group's policyholders within the Swedish business are subject to a yield tax which is calculated based on an estimate of the investment return on underlying investments within their unitised funds. The group is under an obligation to deduct the yield tax from the policyholders' unitised funds and to remit these deductions to the tax authorities. The remittance of this tax payment is included in other operating expenses as it does not comprise a tax charge on group profits.

(o) Acquired value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

The difference between the fair value of insurance contracts and the liability measured in accordance with the group's accounting policies for the contracts is recorded as acquired present value of in-force business. The present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated at the time of acquisition. The present value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test.

The present value of in-force investment contracts is stated at cost less accumulated amortisation and impairment losses. The initial cost is deemed to be the fair value of the contractual customer relationships acquired. The acquired present value of the in-force investment contracts is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of profit from the contracts. The recoverable amount is estimated at each balance sheet date. If the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount is reduced to its recoverable amount.

(p) Acquired value of customer relationships

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. These are carried gross of tax, are amortised in accordance with the expected emergence of profit from the new contracts and are tested periodically for recoverability.

(q) Software assets

An intangible asset in respect of internal development software costs is only recognised if all of the following conditions are met:

- (i) an asset is created that can be identified;
- (ii) it is probable that the asset created will generate future economic benefits; and
- (iii) the development costs of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Software assets, including internally developed software, are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years.

(r) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful economic lives of the property and equipment on the following basis:

Computers and similar equipment	3 to 5 years
Fixtures and other equipment	5 years

Assets held under leases, as right of use assets, are depreciated over their useful economic lives on the same basis as owned assets, or where shorter, over the term of the relevant lease. These include office buildings, office and IT equipment and motor vehicles.

(s) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. On initial recognition investment properties are measured at cost including attributable transaction costs, and are subsequently measured at fair value. Independent external valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every 12 months.

The fair values reflect market values at the balance sheet date, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the Consolidated Statement of Comprehensive Income. Rental income from investment property is accounted for as described in accounting policy (l).

(t) Financial assets

Investments in subsidiaries are carried in the company balance sheet at cost less impairment.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently four different categories of financial assets are used: 'financial assets at fair value through income', 'mortgage loan portfolio', 'prepayments' and 'loans and receivables'. Financial assets classified as at fair value through income comprise financial assets designated as such on initial recognition and derivative financial instruments.

All financial assets held for investment purposes other than the Waard mortgage loan portfolio and derivative financial instruments are designated as at fair value through income on initial recognition since they are managed, and their performance is evaluated, on a fair value basis in accordance with documented investment and risk management strategies. This designation is also applied to the group's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis as part of the documented risk management strategy. Purchases and sales of 'regular way' financial assets are recognised on the trade date, which is when the group commits to purchase, or sell, the assets.

All financial assets are initially measured at fair value plus, in the case of financial assets not classified as fair value through income, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, financial assets classified as at fair value through income are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

The fair values of financial assets quoted in an active market are their bid prices at the balance sheet date.

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.

The mortgage loan portfolio held by the Waard Group is stated at amortised cost less impairment losses and incorporates the effective interest rate calculation method.

Prepayments are held at cost and are amortised over the relevant time period.

Financial assets not recognised at fair value through income are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the group considers, among other factors, the financial stability of the counterparty, current market conditions and fair value volatility.

Financial assets are derecognised when contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

(u) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Hedge accounting has not been applied.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Embedded derivatives which are not closely related to their host contracts and which meet the definition of a derivative are separated and fair valued through income.

(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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2 Significant accounting policies (continued)****(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.

(x) Assets held for sale and liabilities held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction that is highly likely to complete within 1 year from the date of classification, rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value and are classified separately from other assets in the balance sheet. Assets and liabilities are not netted. In the period where a non-current asset or disposal group is recognised for the first time, the balance sheet for the comparative prior period is not restated.

(y) Impairment

The carrying amounts of the group's assets other than reinsurance assets (refer to (j) on page 127) and assets which are carried at fair value are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and impairment losses are recognised in the Consolidated Statement of Comprehensive Income. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Impairment losses are reversed through the Consolidated Statement of Comprehensive Income if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(z) Provisions

Provisions are recognised when the group has a present, legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(aa) Borrowings

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised in the Consolidated Statement of Comprehensive Income on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability.

(bb) Leases

The group assesses whether a contract is or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments
- Variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options
- The payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured by discounting the revised lease payments using a revised discount rate.

The group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if these were owned. For the group this is 'Property and Equipment'.

For short-term leases (lease of than 12 months or less) and leases of low-value assets (such as personal computers and office furniture) the group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has not used this practical expedient.

Transition

The group has applied IFRS 16 using a modified retrospective approach without restatement of the comparative information. In respect of those leases the group previously treated as operating lease, the group has elected to measure its right-of-use assets using the approach set out in IFRS 16.C8(b)(iii). Under IFRS 16.C8(b)(iii) right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

The groups' weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 2.8% for the UK and Swedish division and 2.0% for the Netherlands division.

The group has not made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

As part of the groups' adoption of IFRS 16 and applications of the modified retrospective approach to transition, the group also elected to use the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonable similar characteristics; and
- Hindsight has been used in determining the lease term.

(cc) Employee benefits

(i) Pension obligations

UK businesses

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which group companies pay fixed contributions. There are no legal or constructive obligations on group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Swedish business

The group participates in a combined defined benefit and defined contribution scheme for the benefit of its employees. However, the Scheme is a multi-employer scheme, with the associated assets and liabilities maintained on a pooled basis. There is limited information available to the group to allow it to account for the Scheme as a defined benefit scheme and, in accordance with IAS 19 Employee Benefits, it is, therefore, accounted for as a defined contribution scheme. Contributions paid to the Scheme are recognised in the Consolidated Statement of Comprehensive Income when due.

Dutch business (Ward)

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 Pensiofond Legal & General Nederland. The company had agreed to contribute to the premium for the unconditional part of the pension. Part of the plan consisted of a defined contribution scheme. The company paid a contribution to the Scheme and subsequently had no further financial obligations with respect to this part of the Scheme.

Scildon's defined benefit plan was closed during 2019 and transferred into a defined contribution scheme. The 2018 values for the now closed defined benefit scheme were calculated in the following manner. The pension scheme was an indexed average pay scheme with a pension of 1.75% per year of service. Indexation was conditional since 1 January 2013. The pension scheme was administered by Stichting Pensiofond Legal & General Nederland. The company had agreed to contribute to the premium for the unconditional part of the pension. Apart from the obligations which may have arisen from the collective agreement provisions, the company was not obliged to make additional contributions to the claims brought under the pension fund. The company was not entitled to refunds or discounts. Part of the plan consisted of a defined contribution scheme. The company paid a contribution to the scheme and subsequently had no further financial obligations with respect to this part of the scheme. This contribution was recognised as an expense when paid. Further disclosure can be found in Note 35.

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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**2 Significant accounting policies (continued)****(dd) Share-based payments**

The value of employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

(ee) Share capital and shares held in treasury**(i) Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments, as consideration for the acquisition of a business, are included in the cost of acquisition.

(ii) Shares held in treasury

Where the company purchases its own equity share capital, the consideration paid, including directly attributable costs, is deducted from total shareholders' equity and shown separately as 'treasury shares' until they are cancelled. Where such shares are subsequently sold, any consideration received is credited to the share premium account.

(ff) Dividends

Dividend distributions to the company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the company's shareholders at the Annual General Meeting.

(gg) Other payables and payables related to direct insurance and investment contracts

Insurance and investment contract payables and other payables are recognised when due and are measured on initial recognition at the fair value of the consideration paid. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest rate method.

3 Critical accounting judgements and key sources of estimation and uncertainty

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities and also makes critical accounting judgements in applying the group's accounting policies. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The more critical areas, where accounting estimates and judgements are made, are set out below. Each item identifies the business segments, as described in Note 7, to which it is relevant.

During the year, the company continued to assess the potential operational and financial impacts of the Brexit outcome. This is discussed in more detail in the key sources of estimation and uncertainty section below.

Critical accounting judgements**(a) Classification of long-term contracts (CA, Movestic, Waard Group and Scildon)**

The group has exercised judgement in its classification of long-term business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 2 Significant Accounting Policies. Insurance contracts are those where significant risk is transferred to the group under the contract and judgement is applied in assessing whether the risk so transferred is significant, especially with regard to pensions contracts, which are predominantly, but not exclusively, created for investment purposes. Refer to Note 2(g) – Product Classification on page 125.

(b) Accounting for pension plans (Movestic)

The group participates in a defined Benefit Pension Scheme on behalf of its Swedish employees. The Scheme is a multi-employer plan to which a number of third party employers also contribute. The underlying assets and liabilities of the Scheme are pooled and are not allocated between the contributing employers. As a result, information is not available to account for the Scheme as a defined benefit scheme and the group has accounted for the Scheme as a defined contribution scheme. Refer to Note 2(cc) – Employee Benefits on page 131.

Key sources of estimation and uncertainty**(a) Acquired value of in-force business (CA, Movestic, Waard Group and Scildon)**

The group applies accounting estimates and judgements in determining the fair value, amortisation and recoverability of acquired in-force business relating to insurance and investment contracts. In the initial determination of the acquired value of in-force business, the group uses actuarial models to determine the expected net cash flows (on a discounted basis) of the policies acquired. The key assumptions applied in the models are driven by the expected behaviour of policyholders on termination rates, expenses of management and age of individual contract holders as well as global estimates of investment growth, based on recent experience at the date of acquisition. The assumptions applied within the models are considered against historical experience of each of the relevant factors. Refer to accounting policy Note 2(o) on page 128 and Note 19 on page 158.

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 were 4%, 6%, 8%, 10% and 12%.

From the results of the most recent impairment tests, we can conclude that we have sufficient headroom between the AVIF carrying values and the underlying value of in-force business, to make the sensitivity with regard to discount rate movements irrelevant for the foreseeable future.

As at 31 December 2019, material carrying values of acquired in-force business, net of amortisation, are £23.9m in respect of Movestic (31 December 2018: £28.6m) and £56.0m in respect of Scildon (31 December 2018: £63.0m).

A 100bps increase in the effective discount rate would reduce the underlying value of in-force business by £1.2m for Movestic and £2.4m for Scildon. A 10% fall in projected future profits would reduce the underlying value of in-force business by £2.4m for Movestic and £7.1m for Scildon.

(b) Deferred acquisition costs and deferred income – investment contracts (CA, Movestic and Scildon)

The group applies judgement in deciding the amount of direct costs that are incurred in acquiring the rights to provide investment management services in connection with the issue of investment contracts. Judgement is also applied in establishing the amortisation of the assets representing these contractual rights and the recognition of initial fees received in respect of these contracts. The assets are amortised over the expected lifetime of the investment management service contracts and deferred income, where applicable, is amortised over the expected period over which it is earned. Estimates are applied in determining the lifetime of the investment management service contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels. This test for recoverability is performed using best estimates of future cash flows, using a market consistent estimate of future investment returns. Refer to accounting policy 2(k) on page 127 and Note 18 on page 157.

As at 31 December 2019, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £1.7m and £3.3m respectively (as at 31 December 2018: £2.1m and £3.9m respectively). The impact on the above numbers of a one year movement in the estimated lifetime of the management services contract or amortisation period is not material.

As at 31 December 2019, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £53.3m (as at 31 December 2018: £55.0m). An increase in the length of the amortisation period by 5 year would have increased profit before tax for the year ended 31 December 2019 by £10.2m and shareholders' equity as at 31 December 2019 by £10.2m.

As at 31 December 2019, the carrying values of deferred acquisition costs, net of amortisation, in respect of Scildon, was £9.9m (as at 31 December 2018: £8.0m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2019 by £1.0m and shareholders' equity as at 31 December 2019 by £0.8m.

(c) Estimates of future benefits payments arising from long-term insurance contracts (CA and Scildon)

The group makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on either standard mortality tables or reinsurers' rate tables as appropriate, adjusted to reflect the group's own experience. For contracts without fixed terms the group has assumed that it will be able to increase charges to policyholders in future years, in line with emerging mortality experience.

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.

The group makes estimates of future deaths, voluntary contract terminations, investment returns and administration expenses at the inception of long-term insurance contracts with fixed and guaranteed terms. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

When assessing assumptions relating to future investment returns the group makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually. The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 30 on page 168.

(d) Estimates of future maintenance expenses (CA)

Future expense levels are a key variable that influence the value of insurance contract provisions. Under normal circumstances the nature of the cost base underpinning CA means that future expenses are relatively predictable and hence assumptions made for actuarial reserving purposes are not subject to material levels of judgement. This is because asset management and policy administration in the UK are outsourced and hence the future costs are defined in contractual arrangements. In addition, governance overheads are by their nature relatively stable and predictable. The sensitivity in respect of a 10% increase maintenance expenses is quantified in Note 30 on page 173.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**3 Critical accounting judgements and key sources of estimation and uncertainty (continued)****Key sources of estimation and uncertainty (continued)****(e) Contracts which contain discretionary participation features (S&P)**

All 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 2019, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £265.0m (31 December 2018: £286.4m).

(f) Insurance claim reserves (Movestic)

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the timing, incidence and amount of claims. In order to calculate the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable parameters, the value of outstanding claims.

For more recent underwriting years the provisions will make more use of techniques that incorporate expected loss ratios. As underwriting years mature, the reserves are increasingly driven by methods based on actual claims experience. The data used for statistical modelling is internally generated. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of individual claims may exceed that assumed.

Liabilities carried in respect of waiver of premium and income protection policies are sensitive to the group's assessment of the length of period in which benefits will be paid to policyholders (which can be significant). Estimates are made based on the sex, age and occupation of the claimant as well as the length of time the claimant has been claiming on the policy.

As at 31 December 2019, the carrying value of the insurance claim reserves, gross of reinsurance, was £43.5m (as at 31 December 2018: £80.4m). The key sensitivities in respect of insurance claim reserves are considered in Note 30 on page 173.

(g) Insurance claim reserves – reinsurance recoverable (Movestic)

A significant proportion of the insurance claims arising within Movestic are ceded to reinsurers. In preparing the financial statements the directors have made an assessment as to whether claims ceded to reinsurers are recoverable. As at 31 December 2019, such claims ceded to reinsurers and reflected on the balance sheet were £26.3m (31 December 2018: £53.2m). The application of a 10% bad debt provision on the reinsurance balance would reduce 2018 profit before tax by £2.6m and shareholders' equity by £2.1m.

(h) Brexit

Other than the fact that Brexit could impact the investment markets to which our results are sensitive (see sensitivities on page 41) we consider that our operating model is relatively unaffected by Brexit. We do not trade across borders nor do we share resource between our European businesses. Each division operates to autonomous local regulatory frameworks and we believe we have the flexibility to change our regulatory structure if Brexit results in potentially adverse regulatory outcomes in the UK.

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 12.07 (2018: £1 = SEK 11.60) for the Swedish business and £1 = EUR 1.14 (2018: £1 = EUR 1.13) for the Dutch business.

Assets and liabilities have been translated at the year-end rate of £1 = SEK 12.29 (31 December 2018: £1 = SEK 11.43) for the Swedish business and £1 = EUR 1.18 (31 December 2018: £1 = EUR 1.11) for the Dutch business.

Total foreign currency exchange rate movements for the year ended 31 December 2019 resulted in a loss recognised in the Consolidated Statement of Comprehensive Income of £18.8m (year ended 31 December 2018: loss of £0.8m).

5 Management of insurance risk

The group's management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the group comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the group is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The group manages its insurance risk through adoption of underwriting strategies, the aim of which is to avoid the assumption of undue concentration of risk, approval procedures for new products, pricing guidelines and adoption of reinsurance strategies, the aim of which is to reinforce the underwriting strategy by avoiding the retention of undue concentration of risk on any one life.

Notwithstanding that the group pursues common overarching objectives and employs similar techniques in managing these risks, the disparate characteristics of the products and of the market and regulatory environments of the UK, Swedish and Dutch businesses are such that insurance risk is managed separately for the separate businesses. Accordingly, the information which follows differentiates these businesses. The UK and Waard businesses which are substantially closed to new business, are differentiated in the information provided below, where necessary. The Swedish and Dutch businesses, which are open to new business, comprises the Movestic and Scildon segments respectively.

(a) UK business

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of the UK business and of the ways in which the associated risks are managed.

Sums assured/benefits per annum – gross and net of reinsurance 31 December

	2019		2018	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,879,757	1,684,485	2,047,087	1,826,007
Long-term non-linked without DPF (sums assured)	8,801,168	1,098,518	9,504,793	1,232,298
Immediate annuities (benefits per annum)	5,428	5,392	5,577	5,541
Deferred annuities with DPF (benefits per annum)	1,846	1,846	1,949	1,949
Long-term with DPF (sums assured)	295,031	286,888	310,102	300,962

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 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.

Non-linked business contains three distinct groups of products:

- A number of products representing approximately 75% of sums assured, provide fixed and guaranteed benefits and have fixed future premiums. For these there are no mitigating terms and conditions that reduce the insurance risk accepted;
- 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
- 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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**5 Management of insurance risk (continued)****(a) UK business (continued)**

Reinsurance is used extensively on the business described overleaf to mitigate concentrations of insurance risk. The insurance risk is further managed through pricing, product design and, for non-linked and quasi-linked contracts, appropriate investment strategy.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases are avoided, through the use of reinsurance.

Long-term insurance contracts – with discretionary participation features – CA*Product features*

CA historically wrote with-profits business in the UK, where the policyholder benefits comprise a guaranteed sum assured payable on death or at maturity, to which may be added a discretionary annual bonus and a discretionary terminal bonus.

Management of risks

This business is wholly reassured to ReAssure and hence the only risk retained by CA for this business is the risk of default by the reinsurer. This risk is detailed in the Credit Risk Management section of Note 6.

Long-term insurance contracts – with discretionary participation features – CA (S&P)*Product features*

At retirement the with-profits deferred annuity contracts provide for guaranteed minimum pensions and the with-profits endowments provide for guaranteed minimum lump sums. With-profits whole of life policies guarantee a minimum amount payable on death. The guaranteed annuities or lump sums represent investment returns on contributions mainly at 5% p.a. A terminal bonus may be paid at maturity or retirement, and on death, depending on the investment performance of the with-profits policyholder assets when the policyholder receives the higher of the asset share and the minimum guaranteed amount. The asset share is based on the contributions invested plus an allocation of investment return less a fixed charge for expenses, and certain direct expenses. In accordance with the Principles and Practices of Financial Management for its with-profits business S&P may make a deduction of up to 1.5% per annum from the asset shares of with-profits policyholders to meet the future cost of guarantees. The amount deducted remains part of the assets in the with-profits policyholder funds. The size of the deduction is reassessed at least annually. In the event of a policyholder choosing to transfer out, the amount payable is not guaranteed and is based on the asset share.

Management of risks

For life endowment and whole of life policies mortality risk is material. This risk is mitigated to some extent by the use of reinsurance. The risk is to increases in mortality rates, which are most likely to be from epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For deferred annuity contracts, the risk is to improving mortality. The risk is managed through the initial pricing, and technical provisions are assessed allowing for future mortality improvements based on industry available information on mortality experience.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases, are avoided through the use of reinsurance.

Other risks on insurance contracts

Apart from financial risks relating to the financial assets, which support life assurance contracts, as set out in Note 6, there are other significant types of risk pertaining to life insurance contracts written by the UK business, as follows:

Expense risk

The strategy of the UK business is to outsource the majority of operational activities to third party administrators in order to reduce the significant expense inefficiencies that would arise with fixed and semi-fixed costs on a diminishing policy base. There are, however, risks associated with the use of outsourcing. In particular, there will be a need in future to renegotiate the terms of the outsourcing arrangements as the existing agreements expire. There is also a risk that, at some point in the future, third party administrators could default on their obligations. The UK business monitors the financial soundness of third party administrators and has retained step-in rights on the more significant of these agreements. There are also contractual arrangements in place which provide for financial penalties in the event of default by the administration service provider.

Persistency risk

Persistency risk is the risk that the investor cancels the contract or discontinues paying new premiums into the contract, thereby exposing the UK business to a loss resulting from an adverse movement in the actual experience compared to that expected in the product pricing. Although changes in the levels of persistency would not adversely affect the result in the short-term they would reduce future profits available from the contract.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for the UK business are set out in Note 30 Insurance Contract Provisions.

(b) Swedish business

The terms and conditions of insurance contracts which have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of Movestic and of the ways in which the associated risks are managed. The breakdown of the insurance products of Movestic, by gross and net premiums written and by claims outstanding, which reflects the scale of business written, is as follows:

Premiums**Year ended 31 December**

	2019		2018	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	5,953	1,353	19,821	6,032
Norway	11	2	16	3
Individual				
Death	2,568	1,301	3,343	1,488
Waiver of premium	2,385	697	2,896	847
Income protection	6,003	5,086	6,779	5,749
	16,920	8,439	32,855	14,119

Claims outstanding**As at 31 December**

	2019		2018	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	38,850	29,588	44,142	12,494
Norway	840	182	996	215
Individual				
Death	565	309	837	324
Waiver of premium	8,574	3,101	9,696	3,249
Income protection	20,945	10,903	23,583	12,230
	69,774	44,083	79,254	28,512

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 2019: SEK 46,500, being approximately £3,784) although most policies are between 6 to 15 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (31 December 2019 NOK: 99,858, being approximately £8,126) although most policies are between 1 to 19 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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**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 30% 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 97.7% 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 150m (approximately £12.2m) 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 30 Insurance Contract Provisions.

(c) Waard Group

Sums assured/benefits per annum – gross and net of reinsurance
31 December

	2019		2018	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	10,930	10,930	14,571	14,571
Long-term non-linked without DPF (sums assured)	1,453,159	1,391,754	1,638,362	1,607,050

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 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.

Persistence 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. Persistence levels are moderate and largely depend on investment performance.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Waard are set out in Note 30 Insurance Contract Provisions.

(d) Scildon
Sums assured/benefits per annum – gross and net of reinsurance
31 December

	2019		2018	
	Gross	Net	Gross	Net
	£000	£000	£000	£000
Long-term unit-linked without DPF (sums assured)	3,278,940	1,992,386	2,891,183	1,738,948
Long-term non-linked without DPF (sums assured)	33,800,425	17,691,985	24,247,953	8,009,496
Immediate annuities (benefits per annum)	38,319	26,119	88,790	77,611
Deferred annuities	4	4	-	-

Protection**Product feature**

The division mainly wrote term life, sold as a regular premium policy. Older policy profit sharing conditions (before 2011) allow for a surrender value at lapse or profit sharing at maturity. The current mass market product has no surrender value or profit sharing. The most significant factors that could increase risk are epidemics which impact our insured demographic and changes in lifestyle leading to higher mortality.

Management of risks

Term assurances are the main new business product type and significant underwriting occurs. Reinsurance agreements, quota share with a maximum retention per policy, to mitigate the risk in excess of risk appetite for mortality at the moment of underwriting are in place. The national NHT cover in case of terrorism is in place but no additional catastrophe or stop loss reinsurance is in place.

Concentration of insurance risk

Scildon does write group pensions contracts (SME segment) with an excess of loss limit of €200,000 per life, hence concentration risk is limited.

Unit-linked**Product features**

Scildon writes unit-linked and index linked business, with most policies paying out 0%, 90% or 110% of the unit-value at death of the policyholder and 100% at expiry. Early surrender triggers smaller charges for policyholders. Index linked policies contains either explicit or implicit guarantees triggers smaller charges for policyholders. Group pension is also unit-linked based.

Persistence 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. Persistence levels are moderate, due to the guarantees given for some policies the risk is high persistence.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Scildon are set out in Note 30 Insurance Contract Provisions.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**6 Management of financial risk**

The group is exposed to a range of financial risks, principally through its insurance contracts, financial assets, including assets representing shareholder assets, financial liabilities, including investment contracts and borrowings, and its reinsurance assets. In particular, the key financial risk is that, in the long-term, proceeds from financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts and borrowings. The most important components of this financial risk are market risk (interest rate risk, equity and property price risk, foreign currency exchange risk and liquidity risk), and credit risk, including the risk of reinsurer default. Further, the group has significant foreign currency exchange rate risk in relation to movements between the Swedish krona and the euro against sterling, arising from its ownership of Movestic, Scildon and the Waard Group.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in Note 5. The terms and conditions of investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from investment contracts are as follows:

The group provides two types of investment contract: unit-linked savings and unit-linked pensions predominantly written in the UK and Sweden.

- (i) Unit-linked savings are single or regular premium contracts, with the premiums invested in a pooled investment fund, where the policyholder's investment is represented by units or trust accounts where the policyholder decides where to invest. On certain contracts there is a small additional benefit payable on death which is deemed not to transfer significant insurance risk to the business for these contracts. The benefits payable at maturity or surrender of the contracts are the underlying value of the investment in the unit-linked funds or trust accounts, less surrender charges where applicable.
- (ii) Unit-linked pensions are single or regular premium contracts with features similar to unit-linked savings contracts. Benefits are payable on transfer, retirement or death.
- (iii) No investment contracts exist within the Dutch business.

Market risk management**(i) General**

The group businesses manage their market risks within asset liability matching (ALM) frameworks that have been developed to achieve long-term investment returns at least equal to their obligations under insurance and investment contracts, with minimal risk. Within the ALM frameworks the businesses periodically produce reports at legal entity and asset and liability class level, which are circulated to the businesses' key management. The principal technique of the ALM frameworks is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, with separate portfolios of assets being maintained for each distinct class of liability.

For unit-linked contracts the group's objective is to match the liabilities, both insurance and investment contract liabilities, with units in the assets of the funds to which the value of the liabilities is linked, such that the policyholder bears the market risk. This minimises the impact of market risks on these contracts, such that the remaining primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign currency movements on the fair value of the unit-linked assets, on which asset-related fees are based.

For non-unit-linked business, the group's objective is to match the timing of cash flows from insurance and investment contract liabilities with the timing of cash flows from assets subject to identical or similar risks. By matching the cash flows of liabilities with those of suitable assets, market risk is managed effectively, whilst liquidity risk is minimised. These processes to manage the risks, which the group has not changed from previous periods, ensure that the group is able to meet its obligations under its contractual liabilities as they fall due.

With respect to CA (S&P) there is significant additional risk insofar as investment returns on policyholder with-profits assets supporting the with-profits business may result in insufficient policyholder assets to meet contractual obligations to with-profits policyholders, because of the impact of contract guarantees.

The Notes below explain how market risks are managed using the categories utilised in the businesses' (Asset Liability Matching) ALM frameworks. In particular, the ALM frameworks require the management of interest risk, equity price risk, and liquidity risk at the portfolio level, so that the appropriate risks for each portfolio may be managed in an effective way. The following tables reconcile the classes and portfolios used in the businesses' ALM frameworks to relevant items in the consolidated balance sheet and are followed by a portfolio-by-portfolio description of the nature of the related market risk and how that risk is managed.

31 December 2019

	Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £000	Other non-linked contracts and other shareholder £000	Total £000
Assets					
Property and equipment	-	-	-	7,043	7,043
Investment in associates	-	-	-	6,481	6,481
Investment properties	-	-	-	1,020	1,020
Reinsurers' share of insurance contract provisions	9,085	40,267	-	139,100	188,452
Amounts deposited with reinsurers	37,330	-	-	-	37,330
Financial assets					
Equity securities at fair value through income	432,645	-	-	-	432,645
Holdings in collective investment schemes at fair value through income	5,077,043	190,696	-	256,765	5,524,504
Debt securities at fair value through income	132,095	133,047	109,191	1,084,584	1,458,917
Mortgage loan portfolio	-	-	-	32,187	32,187
Insurance and other receivables	19,390	2,036	-	32,510	53,936
Prepayments	260	36	-	8,057	8,353
Derivative financial instruments	123	1,953	-	-	2,076
Total financial assets	5,661,556	327,768	109,191	1,414,103	7,512,618
Reinsurers' share of accrued policyholder claims	6,112	59	-	7,961	14,132
Income taxes	-	-	-	5,394	5,394
Cash and cash equivalents	44,580	1,283	1,248	60,845	107,956
Total assets	5,758,663	369,377	110,439	1,641,947	7,880,426
Liabilities					
Insurance contract provisions	2,498,328	321,183	107,024	683,880	3,610,415
Other provisions	-	-	-	521	521
Financial liabilities					
Investment contracts at fair value through income	3,690,272	-	-	4,044	3,694,316
Lease liabilities	-	-	-	2,527	2,527
Borrowings	-	-	-	88,163	88,163
Derivative financial instruments	118	365	-	64	547
Total financial liabilities	3,690,390	365	-	94,798	3,785,553
Deferred tax liabilities	-	-	-	22,500	22,500
Reinsurance payables	394	8	-	2,805	3,207
Payables related to direct insurance and investment contracts	23,965	5,122	1,468	56,581	87,136
Income taxes	-	-	-	9,964	9,964
Other payables	2,612	304	-	38,812	41,728
Bank overdrafts	206	176	-	792	1,174
Total liabilities	6,215,895	327,158	108,492	910,653	7,562,198

*Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)
(i) General (continued)

31 December 2018

	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	-	-	-	4,293	4,293
Investment in associates	-	-	-	5,840	5,840
Investment properties	245	-	-	1,054	1,299
Reinsurers' share of insurance contract provisions	6,668	37,486	-	169,215	213,369
Amounts deposited with reinsurers	34,349	-	-	-	34,349
Financial assets					
Equity securities at fair value through income	413,851	-	-	-	413,851
Holdings in collective investment schemes at fair value through income	4,498,553	181,378	-	155,690	4,835,621
Debt securities at fair value through income	123,909	139,005	100,584	1,158,118	1,521,616
Mortgage loan portfolio	-	-	-	41,191	41,191
Insurance and other receivables	19,274	2,192	-	34,383	55,849
Prepayments	315	135	-	6,859	7,309
Derivative financial instruments	75	136	-	235	446
Total financial assets	5,055,977	322,846	100,584	1,396,476	6,875,883
Reinsurers' share of accrued policyholder claims	6,487	-	-	11,153	17,640
Income taxes	-	-	-	10,702	10,702
Cash and cash equivalents	92,801	2,694	5,380	114,337	215,212
Total assets	5,196,527	363,026	105,964	1,713,070	7,378,587
Liabilities					
Insurance contract provisions	2,424,881	323,603	104,710	715,820	3,569,014
Other provisions	-	-	-	882	882
Financial liabilities					
Investment contracts at fair value through income	3,231,314	-	-	4,205	3,235,519
Borrowings	-	-	-	109,202	109,202
Derivative financial instruments	259	1,264	-	21,191	22,714
Total financial liabilities	3,231,573	1,264	-	134,598	3,367,435
Deferred tax liabilities	-	-	-	19,463	19,463
Reinsurance payables	328	8	-	10,199	10,535
Payables related to direct insurance and investment contracts	24,452	4,690	1,254	60,833	91,229
Income taxes	-	-	-	3,428	3,428
Other payables	8,633	538	-	35,585	44,756
Bank overdrafts	231	90	-	637	958
Total liabilities	5,690,098	330,193	105,964	981,445	7,107,700

* Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

Unit-linked contracts

For unit-linked contracts, which may be insurance or investment contracts, the group matches the financial liabilities, with units in the financial assets of the funds to which the value of the liabilities is linked, such that the policyholders bear the principal market risk (being interest rate, equity price and foreign currency risks) and credit risk. Accordingly, this approach results in the group having no significant direct market or credit risk on these contracts. Its primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based.

There is residual exposure to market risk on certain unit-linked contracts where the group provides to policyholders guarantees as to fund performance or additional benefits which are not dependent on fund performance. This exposure is mitigated to the extent that the group matches the obligations with suitable financial assets external to the unit-linked funds, such that the residual exposure is not considered to be material.

Insurance contracts with discretionary participation features

Insurance contracts with discretionary participation features subsist entirely within the UK businesses in the form of with-profits policies.

For the CA business, where the policyholder benefits comprise a discretionary annual bonus and a discretionary terminal bonus, the with-profits business is wholly reinsured to ReAssure and hence there is no market risk for this class of business. Policyholders have the option, for a small element of the with-profits business, to invest a portion of their investment in unit-linked funds as an alternative to the with-profits fund. In this case, a portion of the business is retained, with the management of financial risks of this portion being the same as described under 'Unit-linked contracts' above.

For the CA (S&P) business the primary investment objective of the with-profits policyholder funds is that the guaranteed minimum benefits of the with-profits policyholders should be met entirely from the policyholder funds. The secondary investment objective is, where possible, to provide a surplus in excess of the guaranteed minimum benefits. The entire surplus in the policyholder fund accrues to the with-profits policyholders. Any deficit in the policyholder fund is ultimately borne by shareholders. Therefore the group has a significant exposure to market risk in relation to with-profits business should the with-profits policyholder assets be unable to fully meet the cost of guarantees. To achieve the investment objectives, the funds may invest in a range of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, both in UK and overseas. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities). Investment guidelines restrict the level of exposure for certain asset categories. In respect of derivatives, these may only be used for the purposes of reduction of investment risks and efficient portfolio management.

Annuities in payment

These are contracts which pay guaranteed financial benefits, generally monthly, for the lifetime of the policyholder, and in some cases of their spouse. The financial component of these contracts is a guaranteed fixed interest rate: accordingly the group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the fixed interest debt securities backing the liabilities are insufficient to fund the benefits payable. The group manages the interest rate risk by matching closely new contracts written with fixed interest debt securities of a suitable duration and quality. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined by means of projecting expected cash flows from the contracts using prudent estimates of mortality.

Other non-linked contracts and shareholder funds

These categories, in which market risk is borne by shareholders, consist of non-linked insurance contracts without DPF and of net shareholder assets representing shareholders' equity. The group manages market risks by setting investment guidelines which restrict market exposures.

Non-linked contracts without DPF include contracts which pay guaranteed benefits on death or other insured events, the terms being fixed at the inception of the contract. Exposure to market price risk is minimised by generally investing in fixed-interest debt securities, while interest rate risk is generally managed by closely matching contracts written with financial assets of suitable yield and duration. To the extent that the group is unable to fully match its interest rate risk, it makes provision in respect of assumed shortfalls on guaranteed returns to policyholders.

Shareholder funds at both group parent company and operating subsidiary level, in accordance with corporate objectives and, in some instances, in accordance with local statutory solvency requirements, are invested in order to protect capital and to minimise market and credit risk. Accordingly they are generally invested in assets of a shorter-term liquid nature, which gives rise to the risk of lower returns on these investments due to changes in short-term interest rates.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(iii) 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.

31 December 2019

31 December 2015

Carrying values and cash flows arising from:	Carrying value £000	0-5 years £000	Contractual cash flows (undiscounted)				>20 years £000	Total £000
			5-10 years £000	10-15 years £000	15-20 years £000			
Insurance contract liabilities								
Unit-linked	2,498,328	2,498,328	-	-	-	-	2,498,328	
With DPF	321,183	148,291	74,387	48,914	15,371	6,185	293,148	
Annuities in payment	107,024	25,159	20,801	16,250	11,848	14,143	88,201	
Other non-linked	683,880	411,161	273,353	160,781	74,343	43,888	963,526	
Investment contract liabilities								
Unit-linked	3,690,272	3,690,272	-	-	-	-	3,690,272	
Other	4,044	4,044	-	-	-	-	4,044	
Derivatives	547	547	-	-	-	-	547	
Other liabilities	256,920	256,920	-	-	-	-	256,920	
Total	7,562,198	7,034,722	368,541	225,945	101,562	64,216	7,794,986	

31 December 2018

Carrying values and cash flows arising from:	Carrying value £000	0-5 years £000	Contractual cash flows (undiscounted)				>20 years £000	Total £000
			5-10 years £000	10-15 years £000	15-20 years £000			
Insurance contract liabilities								
Unit-linked	2,424,881	2,424,881	-	-	-	-	2,424,881	
With DPF	323,603	142,977	75,618	54,537	21,095	7,478	301,705	
Annuities in payment	104,710	25,946	21,726	17,285	12,886	15,994	93,837	
Other non-linked	715,820	444,722	290,279	165,678	78,815	42,813	1,022,307	
Investment contract liabilities								
Unit-linked	3,231,314	3,231,314	-	-	-	-	3,231,314	
Other	4,205	4,205	-	-	-	-	4,205	
Derivatives	22,714	22,714	-	-	-	-	22,714	
Other liabilities	280,453	280,453	-	-	-	-	280,453	
Total	7,107,700	6,577,212	387,623	237,500	112,796	66,285	7,381,416	

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.

Insurance contracts with DPF (with-profits business) can be surrendered before maturity for a cash amount specified in contractual terms and conditions. Accordingly, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due in the earliest period of the table because this option can be exercised immediately by all policyholders. As stated above, CA insurance contracts with DPF are wholly reinsured to ReAssure and hence, in practice, there is no liquidity risk, the only risk retained for this business being the risk of default by the reinsurer, which is detailed under 'Credit Risk Management' on page 147. 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.

(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

	2019	2018
	£000	£000
Swedish krona		
Assets	3,451,070	3,016,091
Liabilities	(3,372,372)	(2,942,005)
Net assets	78,698	74,086
Euro		
Assets	2,183,080	2,149,809
Liabilities	(1,889,425)	(1,865,796)
Net assets	293,655	284,013
Norwegian krone		
Assets	1,340	687
Liabilities	(825)	-
Net assets	515	687
US dollar		
Assets	1,051	682
Liabilities	(616)	(223)
Net assets	435	459

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(iv) Sensitivities

The table below shows the impact of movements in market risk variables identified above on profit before tax for the year under review and on shareholder equity as at the balance sheet date. We believe these risk variables represent the ones that are most reasonably possible to occur in the future, to which the group results are sensitive.

The variables are:

- (i) a 10% increase and decrease in equity and property values;
- (ii) a 100 basis point increase and decrease in per annum market rates of interest; and
- (iii) a 10% favourable and adverse movement in foreign currency exchange rates.

As explained above, market risks relating to assets backing unit-linked insurance and investment contract liabilities are borne by policyholders, while there is shareholder exposure to volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based. Accordingly, the sensitivities to these risks are presented below.

Variation in/arising from

	2019		2018	
	Profit before tax	Shareholders' equity	Profit before tax	Shareholders' equity
	£m	£m	£m	£m
100 bp increase in market rates of interest	(59.5)	(44.9)	(37.3)	(27.9)
100 bp decrease in market rates of interest	60.3	45.3	38.6	28.8
10% increase in equity and property prices	12.3	9.9	15.5	13.5
10% decrease in equity and property prices	(13.3)	(10.7)	(13.7)	(11.0)
10% favourable movement in SEK: sterling exchange rate	1.5	8.7	1.0	8.2
10% adverse movement in SEK: sterling exchange rate	(1.2)	(7.2)	(0.8)	(6.7)
10% favourable movement in EUR: sterling exchange rate	5.6	32.6	0.2	31.5
10% adverse movement in EUR: sterling exchange rate	(4.6)	(26.7)	(0.2)	(25.8)

(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;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition, there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The group businesses structure the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the businesses hold a significant proportion of their financial assets in debt securities and cash deposits the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue, would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the businesses' liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the businesses remain liable for the payment to the policyholder. In respect of Movestic, the current guidelines state that re-insurance should only be effected with counterparties with a credit rating of A or higher, except for the reinsurer which is an associate of Movestic: this credit risk is managed by Movestic being represented on the board of the reinsurer and, therefore, being able to influence its strategy and operational decisions.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

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

	2019			2018		
	Amount not subject to credit risk £000	Amount subject to credit risk £000	Balance sheet carrying value £000	Amount not subject to credit risk £000	Amount subject to credit risk £000	Balance sheet carrying value £000
Holdings in collective investment schemes	5,427,225	97,279	5,524,504	4,766,342	69,279	4,835,621
Debt securities	132,095	1,326,822	1,458,917	123,909	1,397,707	1,521,616
Cash and cash equivalents	49,655	58,301	107,956	101,958	113,254	215,212
Derivative financial instruments	123	1,953	2,076	75	371	446
Reinsurers' share of insurance contract liabilities	-	188,452	188,452	-	213,369	213,369
Amounts deposited with reinsurers	-	37,330	37,330	-	34,349	34,349
Mortgage loan portfolio	-	32,187	32,187	-	41,191	41,191
Insurance and other receivables	35,891	18,045	53,936	38,889	16,960	55,849
Reinsurers' share of accrued policyholder claims	62	14,070	14,132	4,226	13,414	17,640
Income taxes	-	5,394	5,394	-	10,702	10,702
Total	5,645,051	1,779,833	7,424,884	5,035,399	1,910,596	6,945,995

The amounts presented above as not being subject to credit risk represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts, where the risk of default is borne by shareholders.

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 2019	AAA £000	AA £000	A £000	BBB £000	Unrated £000	Total £000
Reinsurers share of insurance contract liabilities	-	131,748	-	4,437	52,267	188,452
Holdings in collective investment schemes	-	-	92,469	-	4,810	97,279
Amounts deposited with reinsurers	-	-	-	-	37,330	37,330
Debt securities at fair value through income	350,598	507,626	266,670	168,231	33,697	1,326,822
Mortgage loan portfolio	-	-	-	-	32,187	32,187
Insurance and other receivables	823	10,877	1,371	1,342	3,632	18,045
Reinsurers share of accrued policyholder claims	-	7,286	125	474	6,185	14,070
Derivative financial instruments	-	-	1,953	-	-	1,953
Income taxes	-	-	-	-	5,394	5,394
Cash and cash equivalents	-	9,012	48,426	863	-	58,301
Total	351,421	666,549	411,014	175,347	175,502	1,779,833
As at 31 December 2018						
Reinsurers share of insurance contract liabilities	-	138,090	1,315	4,861	69,103	213,369
Holdings in collective investment schemes	-	-	65,168	-	4,111	69,279
Amounts deposited with reinsurers	-	-	-	-	34,349	34,349
Debt securities at fair value through income	271,884	514,447	209,165	363,225	38,986	1,397,707
Mortgage loan portfolio	-	-	-	-	41,191	41,191
Insurance and other receivables	881	8,491	1,165	2,516	3,907	16,960
Reinsurers share of accrued policyholder claims	-	4,486	1,065	951	6,912	13,414
Derivative financial instruments	-	-	136	-	235	371
Income taxes	519	1,669	-	-	8,514	10,702
Cash and cash equivalents	-	12,883	97,389	2,982	-	113,254
Total	273,284	680,066	375,403	374,535	207,308	1,910,596

The 'Mortgage Loan Portfolio' and 'Insurance and other receivables' assets in the credit risk rating table are not held at fair value or managed on a fair value basis. The cash flows for all of these assets consist solely of payments of principal and interest. These assets are not considered to have a low credit rating as defined by IFRS 9 as at 31 December 2019.

There were no holdings of assets that were below BBB in 2019 and 2018.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**6 Management of financial risk (continued)****(v) Credit risk management (continued)**

Included within unrated reinsurers' share of insurance contract provisions and unrated amounts deposited with reinsurers, in respect of investment contracts is a total significant exposure of £78.0m as at 31 December 2019 (31 December 2018: £72.0m) to ReAssure, which does not have a published credit rating. Of this amount £50.0m (31 December 2018: £48.0m) is in respect of currently guaranteed benefits. This counterparty exposure has been mitigated by ReAssure granting to CA a floating charge over related investment assets, which ranks that company equally with ReAssure policyholders. In order to monitor the ongoing creditworthiness of ReAssure, CA reviews the financial statements and regulatory returns submitted by ReAssure to the PRA on an annual basis. No credit limits were exceeded during the year ended 31 December 2019 and 31 December 2018.

Debt securities

	Policyholder linked £000	Policyholder with-profit £000	Non-linked/ shareholder £000	Total £000
As at 31 December 2019				
Austria	-	-	39,144	39,144
Belgium	-	-	34,195	34,195
France	2,081	1,382	240,900	244,363
Germany	1,620	-	254,801	256,421
Italy	-	-	58,515	58,515
Ireland	-	-	20,780	20,780
Netherlands	7,704	641	99,150	107,495
Poland	-	-	642	642
Portugal	-	-	2,972	2,972
Spain	-	-	44,746	44,746
UK	102,839	125,769	193,749	422,357
Other	11,668	1,165	110,125	122,958
Europe	125,912	128,957	1,099,719	1,354,588
Canada	2,377	1,781	-	4,158
USA	2,069	983	75,194	78,246
Other	-	-	3,813	3,813
North America	4,446	2,764	79,007	86,217
Australia	632	532	8,228	9,392
Singapore	488	405	-	893
Other	617	389	6,821	7,827
Asia Pacific	1,737	1,326	15,049	18,112
Total	132,095	133,407	1,193,775	1,458,917

Debt securities

As at 31 December 2018	Policyholder linked £000	Policyholder with-profit £000	Non-linked/ shareholder £000	Total £000
Austria	-	-	41,626	41,626
Belgium	-	-	53,581	53,581
France	2,584	1,452	241,429	245,465
Germany	2,146	181	198,268	200,595
Italy	-	-	93,226	93,226
Ireland	-	-	23,699	23,699
Netherlands	7,932	747	128,327	137,006
Poland	-	-	-	-
Portugal	-	-	1,219	1,219
Spain	-	-	59,433	59,433
UK	95,262	130,769	188,163	414,194
Other	7,547	892	115,610	124,049
Europe	115,471	134,041	1,144,581	1,394,093
Canada	1,366	843	2,309	4,518
USA	5,212	2,955	94,856	103,023
Other	-	-	2,498	2,498
North America	6,578	3,798	99,663	110,039
Australia	680	467	10,918	12,065
Singapore	531	360	171	1,062
Other	649	339	3,369	4,357
Asia Pacific	1,860	1,166	14,458	17,484
Total	123,909	139,005	1,258,702	1,521,616

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 2019, further interim distributions totalling £3,805 (2018: £2,718) 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 2019 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, 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 (CA) during 2006. This segment also contains Save & Prosper Insurance Limited which was acquired on 20 December 2010 and its then subsidiary Save & Prosper Pensions Limited. The S&P business was transferred to CA during 2011. This segment also contains the business of Protection Life, which was purchased on 28 November 2013 and the business of which was transferred to CA effective from 1 January 2015. CA is responsible for conducting unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk, as described in Note 6 'Management of Financial Risk'.

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

Waard Group: This segment represents the group's closed Dutch life and general insurance business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. On 1 October, the Waard Group acquired a small portfolio of c6,000 policies from Monuta insurance, which consists of term and savings policies.

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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Operating segments (continued)

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 and on the total assets and liabilities of the reporting segments and the group. There were no changes to the measurement basis for segment profit during the year ended 31 December 2019.

(i) Segmental income statement for the year ended 31 December 2019

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	Total £000
Net insurance premium revenue	28,941	9,329	1,943	183,903	-	224,116
Fee and commission income	25,376	21,291	16	46,212	-	92,895
Net investment return	310,711	563,534	6,838	209,037	520	1,090,640
Total revenue (net of reinsurance payable)	365,028	594,154	8,797	439,152	520	1,407,651
Other operating income	11,690	26,148	-	-	-	37,838
Segmental income	376,718	620,302	8,797	439,152	520	1,445,489
Net insurance contract claims and benefits incurred	(211,479)	(2,848)	(278)	(369,137)	-	(583,742)
Net change in investment contract liabilities	(95,876)	(563,163)	-	-	-	(659,039)
Fees, commission and other acquisition costs	(1,015)	(22,665)	(234)	(2,666)	-	(26,580)
Administrative expenses:						
Amortisation charge on software assets	-	(1,405)	-	(206)	-	(1,611)
Depreciation charge on property and equipment	-	(121)	(52)	(464)	-	(637)
Other	(19,775)	(11,673)	(3,326)	(25,086)	(5,703)	(65,563)
Operating expenses	(702)	(4,941)	-	-	8	(5,635)
Financing costs	(1)	(1,384)	(4)	-	(1,362)	(2,751)
Share of profit from associates	-	1,072	-	-	-	1,072
Profit/(loss) before tax and consolidation adjustments	47,870	13,174	4,903	41,593	(6,537)	101,003
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(3,226)	(2,769)	(663)	(3,787)	-	(10,445)
Charge for amortisation of acquired value of customer relationships	-	(70)	-	-	-	(70)
Fees, commission and other acquisition costs	-	2,350	-	2,480	-	4,830
Segmental income less expenses	44,644	12,685	4,240	40,286	(6,537)	95,318
Profit arising on portfolio acquisition	-	-	788	-	-	788
Profit/(loss) before tax	44,644	12,685	5,028	40,286	(6,537)	96,106
Income tax (expense)/credit	(7,555)	(438)	(1,428)	(9,247)	1,704	(16,964)
Profit/(loss) after tax	37,089	12,247	3,600	31,039	(4,833)	79,142

Further analysis of the segmental profit before tax and consolidation adjustments can be found on page 48 of the Financial Review section.

(ii) Segmental balance sheet as at 31 December 2019

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	Total £000
Total assets	2,669,705	3,466,925	148,289	1,977,223	78,829	8,340,971
Total liabilities	(2,532,017)	(3,372,615)	(103,275)	(1,801,519)	(56,054)	(7,865,480)
Net assets	137,688	94,310	45,014	175,704	22,775	475,491
Investment in associates	-	6,481	-	-	-	6,481
Additions to non-current assets	-	13,511	391	4,623	-	18,525

(iii) Segmental income statement for the year ended 31 December 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	Total £000
Net insurance premium revenue	34,028	13,663	1,698	169,991	-	219,380
Fee and commission income	28,143	23,567	19	50,054	-	101,783
Net investment return	(112,960)	(165,091)	629	(57,870)	257	(335,035)
Total revenue (net of reinsurance payable)	(50,789)	(127,861)	2,346	162,175	257	(13,872)
Other operating income	12,792	28,444	-	-	-	41,236
Segmental (expense)/income	(37,997)	(99,417)	2,346	162,175	257	27,364
Net insurance contract claims and benefits incurred	59,945	(5,018)	4,419	(135,091)	-	(75,745)
Net change in investment contract liabilities	30,321	165,008	-	-	-	195,329
Fees, commission and other acquisition costs	(1,215)	(29,563)	(293)	(1,907)	-	(32,978)
Administrative expenses:						
Amortisation charge on software assets	-	(1,463)	-	(208)	-	(1,671)
Depreciation charge on property and equipment	-	(126)	(52)	(468)	-	(646)
Other	(22,034)	(13,578)	(2,903)	(25,607)	(3,356)	(67,478)
Operating expenses	(838)	(3,991)	-	-	(11)	(4,840)
Financing costs	(4)	(1,953)	-	-	(2,394)	(4,351)
Share of loss from associates	-	(616)	-	-	-	(616)
Profit/(loss) before tax and consolidation adjustments	28,178	9,283	3,517	(1,106)	(5,504)	34,368
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(4,497)	(3,106)	(669)	(3,821)	-	(12,093)
Charge for amortisation of acquired value of customer relationships	-	(83)	-	-	-	(83)
Fees, commission and other acquisition costs	-	1,137	-	3,683	-	4,820
Segmental income less expenses	23,681	7,231	2,848	(1,244)	(5,504)	27,012
Profit/(loss) before tax	23,681	7,231	2,848	(1,244)	(5,504)	27,012
Income tax (expense)/credit	(3,125)	(944)	(642)	779	1,044	(2,888)
Profit/(loss) after tax	20,556	6,287	2,206	(465)	(4,460)	24,124

(iv) Segmental balance sheet as at 31 December 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	Total £000
Total assets	2,636,499	3,033,654	137,640	1,948,490	60,817	7,817,100
Total liabilities	(2,476,949)	(2,942,300)	(90,585)	(1,789,841)	(71,809)	(7,371,484)
Net assets	159,550	91,354	47,055	158,649	(10,992)	445,616
Investment in associates	-	5,840	-	-	-	5,840
Additions to non-current assets	-	14,480	21	6,140	-	20,641

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**8 Fees and commission income****Year ended 31 December**

	2019	2018
	£000	£000
Fee income		
Policy-based fees	41,477	44,823
Fund management-based fees	33,871	36,398
Benefit-based fees	12,516	13,614
Change in deferred income – gross	687	753
Change in deferred income – reinsurers' share	(140)	(54)
Total fee income	88,411	95,534
Commission income	4,484	6,249
Total fee and commission income	92,895	101,783

9 Net investment return**Year ended 31 December**

	2019	2018
	£000	£000
Dividend income	38,057	47,285
Interest income	31,933	31,643
Rental income from investment properties	5	7
Net fair value gains and losses		
Equity securities designated as at fair value through income on initial recognition	944,598	(365,159)
Debt securities designated as at fair value through income on initial recognition	82,280	(46,882)
Derivative financial instruments	(6,269)	(2,017)
Investment properties	36	88
Net investment return	1,090,640	(335,035)

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 2018: Enil).

10 Other operating income**Year ended 31 December**

	2019	2018
	£000	£000
Investment management fee rebate	34,045	37,023
Charges to policyholder funds for yield tax	3,728	3,971
Other	65	242
Total other operating income	37,838	41,236

11 Insurance contract claims and benefits

Year ended 31 December	2019 £000	2018 £000
Claims and benefits paid to insurance contract holders	445,265	471,205
Increase/(decrease) in insurance contract provisions	176,541	(351,812)
Total insurance contract claims and benefits	621,806	119,393
Reinsurer's share of claims and benefits	(38,064)	(43,648)
Net insurance contract claims and benefits incurred	583,742	75,745

12 Change in investment contract liabilities

Year ended 31 December	2019 £000	2018 £000
Changes in the fair value of investment contracts designated on initial recognition as fair value through income	626,432	(182,053)
Changes in the fair value of policyholders' funds held by the group designated on initial recognition as fair value through income	38,031	(14,887)
Total increase/(decrease) in investment contract liabilities	664,463	(196,940)
Reinsurers' share of investment contract liabilities	(5,424)	1,611
Net increase/(decrease) in investment contract liabilities	659,039	(195,329)

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	2019 £000	2018 £000
Directly expensed costs:		
Insurance contracts		
Commission, new business and renewal costs	9,576	14,654
Deferred amount	(4,393)	(6,055)
	5,183	8,599
Investment contracts		
Commission, new business and renewal costs	15,409	18,362
Deferred amount	(10,362)	(12,401)
	5,047	5,961
Amortisation of deferred acquisition costs:		
Insurance contracts	3,333	2,400
Investment contracts	8,214	11,229
Investment contracts-reinsurance	(27)	(31)
Total	21,750	28,158

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Administrative expenses

Year ended 31 December

	Note	2019 £000	2018 £000
Personnel-related costs	44	33,418	34,395
Investment management fees		5,099	5,718
Amortisation charge on software assets		1,442	1,671
Depreciation charge on property and equipment		538	647
Costs paid to third-party administrators		11,336	12,549
Depreciation of right-of-use assets		704	-
Other goods and services		15,274	14,815
Total		67,811	69,795

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

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's financial statements	211	200
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*	709	608
Audit-related assurance services**	302	235
Total	1,222	1,043

*Includes £169k (2018: nil) audit fees in respect of the Movestic audit in the year performed by EY.

**Chesnara plc and Countrywide Assurance plc are now exempt from audit for the regulatory returns following PRA legislation introduced in 2018.

15 Other operating expenses

Year ended 31 December

	2019 £000	2018 £000
Charge for amortisation of acquired value of in-force business	10,445	12,093
Charge for amortisation of acquired value of customer relationships (AVCR)	70	83
Other		
Direct operating expenses of investment properties		
Revenue-generating properties	-	(3)
Recovery of cash deposit	(8)	(3)
Payment of yield tax relating to policyholder funds	3,728	3,971
Other	1,915	875
Total	5,635	4,840

The recovery of cash deposit represents interim distributions received from the administrators of Kaupthing Singer & Friedlander relating to a cash deposit, previously written down and charged to operating expenses.

16 Financing costs**Year ended 31 December**

	2019	2018
	£000	£000
Interest expense on bank borrowings	1,363	2,398
Interest expense on financial reinsurance	1,300	1,899
Interest expenses on lease liabilities	63	-
Other interest	25	54
Total financing costs	2,751	4,351

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:**

	2019	2018
	£000	£000
CA and other group activities – net expense	(5,851)	(2,081)
Movestic – net expense	(438)	(944)
Waard Group – net expense	(1,428)	(642)
Scildon – net (expense)/credit	(9,247)	779
Total net expense	(16,964)	(2,888)

UK business**CA and other group activities****Year ended 31 December**

	2019	2018
	£000	£000
Current tax		
Current year	(6,101)	(2,369)
Overseas tax	(605)	(616)
Adjustment to prior years	(28)	(76)
Net expense	(6,734)	(3,061)
Deferred tax		
Origination and reversal of temporary differences	883	980
Total income tax expense	(5,851)	(2,081)

Reconciliation of effective tax rate on profit before tax**Year ended 31 December**

	2019	2018
	£000	£000
Profit before tax	38,107	18,177
Income tax using the domestic corporation tax rate of 19.0% (2018: 19.25%)	(7,240)	(3,453)
Other permanent differences	342	(2)
Effect of UK tax bases on insurance profits		
Offset of franked investment income	1,509	1,998
Variation in rate of tax on amortisation of acquired in-force value	(26)	(71)
Foreign tax	(529)	(498)
Effect of change in tax rate	98	22
Other	23	(1)
Over provided in previous years	(28)	(76)
Total income tax expense	(5,851)	(2,081)

There has been no change in tax rate during the year (tax rate 19%).

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Income tax (continued)

*Movestic***Movestic****Year ended 31 December**

	2019	2018
	£000	£000
Current tax		
Current year expense	(498)	(599)
Adjustments for prior years	13	(384)
Net expense	(485)	(983)
Deferred tax		
Origination and reversal of temporary differences	47	39
Total income tax expense	(438)	(944)

Reconciliation of effective tax rate on profit before tax**Year ended 31 December**

	2019	2018
	£000	£000
Profit before tax	12,685	7,231
Income tax using the domestic corporation tax rate of 22%	(2,715)	(1,591)
Non-taxable income in relation to unit-linked business	2,497	1,505
Impact of different tax rate for subsidiaries	(2)	2
Non-taxable fair value adjustment	(73)	(412)
Temporary differences	-	-
Permanent differences	14	(12)
Unrecognised tax recoverable	-	-
Non-deductible expenses	(173)	(52)
Over/(under) provided in prior years	14	(384)
Total income tax expense	(438)	(944)

*Waard Group***Waard Group****Year ended 31 December**

	2019	2018
	£000	£000
Current tax		
Current year expense	(2,308)	(924)
Adjustment to prior years	(12)	1
Net expenses	(2,320)	(923)
Deferred tax		
Origination and reversal of temporary differences	892	281
Total income tax expense	(1,428)	(642)

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2019	2018
	£000	£000
Profit before tax	5,028	2,848
Income tax using the domestic corporation tax rate of 25%	(1,257)	(712)
Impact of different tax rate for subsidiaries	(159)	69
(Under)/over provided in prior years	(12)	1
Total income tax expense	(1,428)	(642)

Scildon

Scildon
Year ended 31 December

	2019	2018
	£000	£000
Current tax	(2,034)	(1,490)
Adjustments for prior year	(1,310)	(14)
Net expense	(3,344)	(1,504)
Deferred tax		
Origination and reversal of temporary differences	(6,720)	1,785
Impact to changes in tax rates	817	498
Total income tax (expense)/credit	(9,247)	779

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2019	2018
	£000	£000
Profit/(loss) before tax	40,287	(1,244)
Income tax using the domestic corporation tax rate of 25%	(10,072)	311
Permanent differences	8	-
Non-deductible expenses	817	498
Under provided in prior years	-	(30)
Total income tax (expense)/credit	(9,247)	779

18 Deferred acquisition costs

Year ended 31 December

	2019	2018
	£000	£000
Balance at 1 January	65,039	61,858
Additions arising from new business	15,131	18,541
Amortisation charged to income	(11,547)	(13,629)
Impairment losses	(19)	-
Foreign exchange translation difference	(4,719)	(1,731)
Balance at 31 December	63,885	65,039
Current	10,803	7,822
Non-current	53,082	57,217
Total	63,885	65,039

The amortisation charged to income is recognised in fees, commission and other acquisition costs (see Note 13).

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Acquired value of in-force business (AVIF)

Year ended 31 December	2019 £000	2018 £000
Cost:		
Balance at 1 January	219,956	221,201
Foreign exchange translation difference	(8,592)	(1,245)
Balance at 31 December	211,364	219,956
Amortisation and impairment losses:		
Balance at 1 January	113,347	102,162
Amortisation for the year	10,445	12,093
Foreign exchange translation difference	(3,251)	(908)
Balance at 31 December	120,541	113,347
Carrying amounts:		
At 1 January	106,609	119,039
At 31 December	90,823	106,609
Current	17,006	15,286
Non-current	73,817	91,323
Total	90,823	106,609

The amortisation charged to the Consolidated Statement of Comprehensive Income is recognised in Other Operating Expenses (see Note 15).

20 Goodwill

The goodwill is arising from the purchase of Sparplatsen, a Sweden based software developer by the Movestic business, in order to gain access to the use of an automated investment advisory tool, including risk assessment, asset allocation model and investment guidance tool, for use by the company's customers and IFA network.

21 Software assets

31 December	2019 £000	2018 £000
Cost:		
Balance at 1 January	25,069	23,218
Additions	3,097	1,839
Foreign exchange translation difference	(2,392)	12
Balance at 31 December	25,774	25,069
Amortisation and impairment losses:		
Balance at 1 January	19,358	16,860
Amortisation charge for the year	1,442	1,671
Impairment charge	982	650
Foreign exchange translation difference	(1,996)	177
Balance at 31 December	19,786	19,358
Carrying amounts at 31 December	5,988	5,711
Current	2,042	1,579
Non-current	3,946	4,132
Total	5,988	5,711

22 Property and equipment**31 December**

	2019	2018
	£000	£000
Cost:		
Balance at 1 January	12,348	11,803
Additions	3,579	262
Disposals	(1,854)	(102)
Revaluation	520	-
Foreign exchange translation difference	(1,046)	385
Balance at 31 December	13,547	12,348
Amortisation and impairment losses:		
Balance at 1 January	8,055	7,476
Depreciation charge for the year	1,242	647
Disposals	(2,362)	(80)
Foreign exchange translation difference	(431)	12
Balance at 31 December	6,504	8,055
Carrying amounts at 31 December	7,043	4,293
Current	685	186
Non-current	6,358	4,107
Total	7,043	4,293

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	2019 Total £000
Carrying amounts at 1 January	2,655	85	165	92	-	19	3,016
Additions	239	27	94	6	-	-	366
Disposals	-	-	(18)	-	-	-	(18)
Depreciation charge	(547)	(17)	(83)	(49)	-	(8)	(704)
Foreign exchange translation difference	(133)	(4)	(6)	(1)	-	(1)	(145)
Carrying amounts at 31 December	2,214	91	152	48	-	10	2,515
Current							1,137
Non-current							1,378
Total							2,515

Amount recognised in profit and loss

	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2019 Total £000
Interest expense on lease liabilities	57	2	3	1	-	-	63
Fixed lease expense	549	18	81	45	-	8	701
Short-term lease expense	37	2	9	-	-	-	48
Low-value asset lease expense	-	-	-	-	-	-	-
Variable lease expense	-	-	-	-	-	-	-
Total cash outflow for leases	643	22	93	46	-	8	812

During 2020, Movestic will enter into a new agreement in regards to its office floor space, which will impact the right-of-use asset and lease liability value.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Investment in associate

31 December

	2019 £000	2018 £000
Balance at 1 January	5,840	6,407
Share of profit/(loss)	1,072	(616)
Foreign exchange translation difference	(431)	49
Balance at 31 December	6,481	5,840

	Assets £000	Liabilities £000	Revenues £000	Profit £000
Associates at 100%				
Modernac S.A.	18,211	4,981	4	2,187
Total at 31 December 2019	18,211	4,981	4	2,187

	Equity at 100% £000	Equity at 49% £000	49% share of profit £000
Associates at 49%			
Modernac S.A.	13,230	6,481	1,072
Total at 31 December 2019	13,230	6,481	1,072

24 Financial instruments

Group

Financial assets by measurement category at 31 December

	2019 £000	2018 £000
Fair value through income		
Designated at fair-value through income on initial recognition	7,715,441	7,030,924
Derivative financial instruments	2,076	446
Mortgage loan portfolio	32,187	41,191
Insurance and other receivables	53,936	55,849
Prepayments	8,353	7,309
Total	7,811,993	7,135,719

Financial assets that are not held at fair value or managed on a fair value basis consist of the 'Mortgage Loan Portfolio', 'Insurance and other receivables' and 'Prepayments'. The cash flows for all of these assets are solely of payments of principal and interest. The fair value of the Mortgage Loan Portfolio as at 31 December 2019 was £34.0m and the change in fair value in the year was an decrease of £8.8m. For the 'Insurance and other receivables' and 'Prepayments' assets, the carrying value is considered to be a reasonable approximation of fair value. All other financial assets are held on a fair value basis and have a value of £7,717.5m as at 31 December 2019 with a change in fair value in the year of an increase of £686.1m.

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables opposite 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 2019

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Equities – listed	432,645	–	–	432,645
Holdings in collective investment schemes	5,483,162	41,342	–	5,524,504
Debt securities – fixed rate				
Government bonds	949,641	25,647	–	975,288
Listed	476,904	345	–	477,249
Debt securities – floating rate listed	6,380	–	–	6,380
Total debt securities	1,432,925	25,992	–	1,458,917
Policyholders' funds held by the group	299,375	–	–	299,375
Derivative financial instruments	–	2,076	–	2,076
Total	7,648,107	69,410	–	7,717,517
Current				2,176,844
Non-current				5,540,673
Total				7,717,517
Financial liabilities				
Investment contracts at fair value through income	–	3,694,316	–	3,694,316
Liabilities related to policyholders' funds held by the group	299,375	–	–	299,375
Derivative financial instruments	–	547	–	547
Total	299,375	3,694,863	–	3,994,238

Fair value measurement at 31 December 2018

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Equities – listed	413,851	–	–	413,851
Holdings in collective investment schemes	4,835,621	–	–	4,835,621
Debt securities – fixed rate				
Government bonds	806,019	30,668	–	836,687
Listed	678,942	–	–	678,942
Debt securities – floating rate listed	5,987	–	–	5,987
Total debt securities	1,490,948	30,668	–	1,521,616
Policyholders' funds held by the group	259,836	–	–	259,836
Derivative financial instruments	–	446	–	446
Total	7,000,256	31,114	–	7,031,370
Current				4,858,901
Non-current				2,172,469
Total				7,031,370
Financial liabilities				
Investment contracts at fair value through income	–	3,235,519	–	3,235,519
Liabilities related to policyholders' funds held by the group	259,836	–	–	259,836
Derivative financial instruments	–	22,714	–	22,714
Total	259,836	3,258,233	–	3,518,069

The debt securities classified as Level 2 at 2018 and 2019 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.

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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**24 Financial instruments (continued)****Group (continued)**

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 overleaf.

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.

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

31 December	Carrying amount		Fair value	
	2019 £000	2018 £000	2019 £000	2018 £000
Financial liabilities				
Borrowings	88,163	109,202	90,124	111,456

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. The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date. There were no transfers between Levels 1, 2 and 3 during the year. The group holds no Level 3 liabilities as at the balance sheet date.

Company**Fair value measurement at 31 December**

	2019 £000	2018 £000
Holdings in collective investment schemes	74,758	47,288
Total	74,758	47,288
Current	74,758	47,288
Non-current	-	-
Total	74,758	47,288

There were no Level 2 and Level 3 assets.

Investment in subsidiaries**Company****Year ended 31 December**

	2019 £000	2018 £000
Balance at 1 January	354,720	354,720
Balance at 31 December	354,720	354,720
Current	-	-
Non-current	354,720	354,720
Total	354,720	354,720

A list of investments in subsidiaries held by the group is disclosed in Note 50.

25 Mortgage loan portfolio**Year ended 31 December**

	2019 £000	2018 £000
Loans and receivables at amortised cost	32,187	41,191
Current	2,151	9,950
Non-current	30,036	31,241
Total	32,187	41,191

The mortgage loan portfolio is stated at amortised cost.

26 Insurance and other receivables

Group

Insurance and other receivables

31 December

	2019 £000	2018 £000
Receivables arising from insurance contracts		
Brokers	746	726
Policyholders	2,033	2,543
Receivables arising from investment contracts		
Other	17,459	11,695
Other receivables		
Loan to associated companies	665	705
Accrued interest income	11,527	12,803
Receivables from fund management companies	8,068	12,108
Initial margin payments on derivatives	3,958	4,644
Other	9,480	10,625
Total	53,936	55,849
Current	53,129	55,084
Non-current	807	765
Total	53,936	55,849

The carrying amount is a reasonable approximation of fair value.

27 Derivative financial instruments

The group does not hold derivatives outside the unit-linked and with-profits funds, except for an option to repay a financial reinsurance contract early, which comprises an embedded derivative.

31 December

	2019		2018	
	Asset £000	Liability £000	Asset £000	Liability £000
Interest rate swaps	-	-	-	(21,191)
Exchange-traded futures	2,076	(483)	210	(1,523)
Financial reinsurance embedded derivative	-	(64)	236	-
Total	2,076	(547)	446	(22,714)
Current	2,076	(500)	269	(22,714)
Non-current	-	(47)	177	-
Total	2,076	(547)	446	(22,714)

Derivatives within unit-linked funds

As part of its investment management strategy, the group purchases derivative financial instruments as part of its investment portfolio for unit-linked investment funds, which match the liabilities arising on its unit-linked insurance and investment business.

A variety of equity futures are part of the portfolio matching the unit-linked investment and insurance liabilities. Derivatives are used to facilitate more efficient portfolio management allowing changes in investment strategy to be reflected by futures transactions rather than a high volume of transactions in the underlying assets.

All the contracts are exchange-traded futures, with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 24.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Derivative financial instruments (continued)
Derivatives within unit-linked funds (continued)
Exchange-traded futures (by geographical investment market)
31 December

	2019		2018	
	Asset £000	Liability £000	Asset £000	Liability £000
Australia	35	(29)	15	(19)
Canada	-	-	-	(66)
Switzerland	21	(18)	-	(3)
Europe	107	(13)	4	(192)
UK	86	(37)	65	(34)
Hong Kong	58	(6)	32	(28)
Japan	183	(36)	4	(293)
USA	1,585	(344)	90	(882)
Denmark	-	-	-	(6)
Sweden	1	-	-	-
Total	2,076	(483)	210	(1,523)

Financial reinsurance embedded derivative

In respect of Movestic, the group has a reinsurance contract with a third party that has an element that is deemed to transfer significant insurance risk and an element that is deemed not to transfer significant insurance risk. This assessment has been determined by management based on the contractual terms of the reinsurance agreement. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rates at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out in Note 24.

Derivatives within CA (S&P with-profits funds)

As part of its investment management strategy, CA enters into a limited range of derivative instruments to manage its exposure to various risks.

CA uses equity index futures in order to economically hedge equity market risk in the with-profit funds' investments.

The change in fair value of the futures contracts is intended to offset the change in fair value of the underlying equities being hedged. CA settles the market value of the futures contracts on a daily basis by paying or receiving a variation margin. The futures contracts are not discounted as this daily settlement is equal to the change in fair value of the futures. As a result, there is no additional fair value to recognise in relation to these derivatives on the balance sheet at the period end.

CA also purchases exchange rate futures to mitigate exchange rate risk within its with-profits funds.

These contracts are exchange-traded contracts in active markets with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 24.

Derivatives within Scildon

During the year, Scildon exited its interest rate swap and therefore no longer hold derivatives in non-linked funds.

28 Cash and cash equivalents
Group
31 December

	2019 £000	2018 £000
Bank and cash balances	54,307	104,015
Call deposits due within 1 month	23,650	46,465
Call deposits due after 1 month	29,999	64,732
Total cash and cash equivalents	107,956	215,212
Bank overdrafts	(1,174)	(958)
Cash and cash equivalents in the statement of cash flows	106,782	214,254

The effective interest rate on short-term bank deposits was 0.36% (2018: 0.29%), with an average maturity of 34 days (2018: 24 days). All deposits included in cash and cash equivalents were due to mature within 3 months of their acquisition.

Included in cash and cash equivalents held by the group are balances totalling £44.6m (2018: £92.8m) held in unit-linked policyholders' funds.

Company**31 December**

	2019 £000	2018 £000
Bank and cash balances	672	2,808
Cash deposits due within 1 month	97	97
Cash deposits maturing between greater than 1 month and less than 1 year	-	5,085
Total	769	7,990

31 December

	1 January 2019 £000	Financing cash flows £000	Foreign exchange translation differences £000	Amortisation of loan arrangement fees £000	New leases £000	Other changes (ii) £000	31 December 2019 £000
Bank loan	69,580	(15,214)	(1,976)	135	-	-	52,525
Financial reinsurance	39,622	(1,235)	(2,749)	-	-	-	35,638
Lease liabilities	3,016	(646)	(172)	-	266	63	2,527
Total	112,218	(17,095)	(4,897)	135	266	63	90,690

(i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and payments.

29 Capital management**(a) Regulatory context****Solvency II**

The Chesnara group is required to comply with the Solvency II capital regime. Solvency II came into force on 1 January 2016 and is an EU insurance legislation that aims to unify the EU insurance market and enhance consumer protection. This regime currently remains applicable to the UK post Brexit. The Solvency II regime includes rules over the quantity and quality of capital (known as 'Own Funds') that insurance companies and groups need in order to meet the regime's required level of capital (known as the 'Solvency Capital Requirement'). The Chesnara group operates exclusively within the UK and the EU and as a result the Solvency II regime applies to the group and all regulated insurance companies within the group. The regulators responsible for the supervision of the group and its subsidiaries have been shown in Section (c)(i).

The Solvency II regime has specific rules regarding how Own Funds are recognised and valued. In a number of cases, the IFRS and Solvency II value of an asset and liability are the same, but in some cases there are differences. In particular, liabilities for insurance and investment contracts are valued differently, with IFRS remaining largely based on the previous Solvency I regime. In addition, Solvency II has differing treatments for certain intangible assets. A high level reconciliation between the IFRS net assets and Solvency II Own Funds of the group and its subsidiaries has been provided in part (c)(iii) 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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Capital management (continued)

(b) Objectives, policies and processes for managing capital (continued)

(ii) Policies

In light of the objectives for the group's and its subsidiaries' capital management policies, the following quantitative limits for managing Own Funds are applied across the group:

Region	CA	Movestic	Ward Group	Scildon	Group
Dividend paying limit: Own Funds stated as % of SCR	120%	120%	185%	185%	110%
Management actions limit: Own Funds stated as % of SCR	110%	110%	175%	175%	105%

Dividend paying limit: This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point. This limit is set by the relevant board in each division with reference to its respective risk appetite, as articulated in each divisions' capital management policy.

Management actions limit: This is the point at which, should Own Funds fall below this level, additional management actions would be taken 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.

(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 2019 and at 31 December 2018, has been shown in the tables below. They present a view of the solvency position which may differ to the position of the individual insurance company(ies) within that division.

31 December 2019 (unaudited)

Region	CA £m	Movestic £m	Ward Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Own Funds (pre dividends)	172.5	237.6	50.4	157.8	(6.6)	611.7
Proposed dividend	(32.0)	(6.2)	(4.9)	(7.0)	29.3	(20.8)
Own Funds (post dividends)	140.5	231.4	45.5	150.8	22.7	590.9
SCR	107.6	149.7	9.1	71.8	41.9	380.1
Solvency surplus	32.9	81.7	36.4	79.0	n/a	210.8
Solvency ratio	131%	155%	500%	210%	n/a	155%
Dividend paying limit (% of SCR)	120%	120%	185%	185%	n/a	110%
Dividend paying limit (£)	129.1	179.6	16.8	132.8	n/a	418.1
Surplus over dividend paying limit	11.4	51.8	28.7	18.0	n/a	172.8

31 December 2018 (unaudited)

Region	CA £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Own Funds (pre dividends)	184.7	210.0	51.7	166.0	(39.6)	572.8
Proposed dividend	(59.0)	(2.9)	(3.2)	(5.2)	50.1	(20.2)
Own Funds (post dividends)	125.7	207.1	48.5	160.8	10.5	552.6
SCR	96.6	119.1	7.8	79.2	46.9	349.6
Solvency surplus	29.1	88.0	40.7	81.6	n/a	203.0
Solvency ratio	130%	174%	624%	203%	n/a	158%
Dividend paying limit (% of SCR)	120%	120%	200%	200%	n/a	110%
Dividend paying limit (£)	115.9	142.9	15.6	158.4	n/a	384.6
Surplus over dividend paying limit	9.8	64.2	32.9	2.4	n/a	168.0

(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 2019 (unaudited)

Region	CA £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Solvency II Own Funds (post dividends)	140.5	231.5	45.5	150.8	22.6	590.9
Add Back: Ring-fenced fund surplus restrictions	10.8	-	-	-	-	10.8
Add Back: Intangible assets	4.5	83.2	2.8	64.9	1.4	156.8
Add Back: Foreseeable dividends	32.0	6.2	4.9	7.0	(29.3)	20.8
Add Back: Difference in valuation of technical provisions	(61.0)	(226.9)	(10.6)	(39.7)	35.4	(302.8)
Add Back: Difference in deferred tax	10.6	1.2	4.1	(7.2)	(7.7)	1.0
Add Back: Other valuation differences	0.3	(0.8)	(1.7)	(0.1)	0.3	(2.0)
IFRS Net Assets	137.7	94.4	45.0	175.7	22.7	475.5

31 December 2018 (unaudited)

Region	CA £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments £m	Group £m
Solvency II Own Funds (post dividends)	125.7	207.1	48.5	160.8	10.5	552.6
Add Back: Ring-fenced fund surplus restrictions	5.7	-	-	-	-	5.7
Add Back: Intangible assets	7.7	89.2	4.4	70.9	1.3	173.5
Add Back: Foreseeable dividends	59.0	2.9	3.2	5.2	(50.1)	20.2
Add Back: Difference in valuation of technical provisions	(46.3)	(205.7)	(11.8)	(77.5)	34.4	(306.9)
Add Back: Difference in deferred tax	7.5	0.5	4.1	(0.7)	(7.0)	4.4
Add Back: Other valuation differences	0.3	(2.6)	(1.3)	(0.1)	(0.3)	(4.0)
IFRS Net Assets	159.6	91.4	47.1	158.6	(11.2)	445.5

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December

	Gross £000	2019 Reinsurance £000	Net £000	Gross £000	2018 Reinsurance £000	Net £000
CA	1,711,548	160,342	1,551,206	1,702,207	156,309	1,545,898
Movestic	70,761	26,291	44,470	84,296	53,174	31,122
Waard Group	92,789	2,815	89,974	83,801	3,827	79,974
Scildon	1,735,317	(996)	1,736,313	1,698,710	59	1,698,651
Total insurance contract provisions	3,610,415	188,452	3,421,963	3,569,014	213,369	3,355,645
Current	205,587	15,492	190,095	209,910	23,198	186,712
Non-current	3,404,828	172,960	3,231,868	3,359,104	190,171	3,168,933
Total	3,610,415	188,452	3,421,963	3,569,014	213,369	3,355,645

(b) Analysis of movement in insurance contract provisions

Year ended 31 December

	Gross £000	2019 Reinsurance £000	Net £000	Gross £000	2018 Reinsurance £000	Net £000
Balance at 1 January	3,569,014	213,369	3,355,645	3,962,279	233,154	3,729,125
Arising on portfolio acquisition	25,492	-	25,492	-	-	-
Premiums received	239,550	29,818	209,732	215,417	12,119	203,298
Fees deducted	(64,883)	(1,416)	(63,467)	(67,666)	(1,457)	(66,209)
Reserves released in respect of benefits paid	(389,053)	(23,921)	(365,132)	(432,529)	(44,819)	(387,710)
Movements in provisions for contracts sold – Movestic						
in current year	14,730	6,845	7,885	26,263	16,424	9,839
in prior years	(18,835)	(28,713)	9,878	(21,030)	(13,520)	(7,510)
Investment return	335,674	3,107	332,567	(122,557)	(1,969)	(120,588)
Other movements	(101,274)	(10,637)	(90,637)	8,837	13,437	(4,600)
Balance at 31 December	3,610,415	188,452	3,421,963	3,569,014	213,369	3,355,645

(c) Basis and assumptions for calculating insurance contract provisions

UK

(i) Basis

The process used to determine the assumptions underlying the calculation of IFRS technical provisions, which are checked to ensure that they are consistent with observed market prices or other published information, is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions which are considered include the expected number and timing of deaths, other claims and investment returns over the period of risk exposure. A reasonable allowance is made for the level of uncertainty within the contracts.

The technical provision for CA (S&P with-profits) contracts is based on the guaranteed minimum benefits and is calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised. Provision is not made for future bonuses as all bonuses are terminal bonuses.

For those classes of CA non-linked and unit-linked business where policyholders participate in profits, the liability is wholly reinsured to ReAssure. When performing the gross liability adequacy test allowance is made for expected future bonuses paid by ReAssure. This is based on the realistic liabilities of the underlying policies reinsured, as provided to CA by ReAssure.

For all other classes of unit-linked and quasi-linked business, the technical provision consists of a provision equal to the value of the matching unit-linked assets plus an additional reserve calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised.

For immediate annuities in payment the technical provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, interest rates and expenses.

For certain group business within the PL component of CA, the technical provisions are assessed on an unearned premium method considered appropriate for the nature and scale of the liabilities. For the remainder of the PL business, the technical provisions are calculated on a gross premiums basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or lapse or death if earlier. The gross premiums method makes explicit allowance for future policy maintenance costs. If the net present value of future discounted cash flows is positive no asset is recognised.

For all other classes of non-linked business the technical provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

(ii) Principal assumptions:

Mortality

A base mortality table is selected which is most appropriate for each type of contract taking into account rates charged by reinsurers. The mortality rates reflected in these tables are periodically adjusted, allowing for emerging experience and changes in reinsurer rates.

Morbidity

Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistence

In general, no allowance is made for lapses or surrenders within the valuation of insurance contract liabilities, which is a prudent assumption.

For CA (S&P) unit-linked business, when assessing additional reserves for expenses and mortality risk, allowance has been made for lapses at a prudent level of 75% of the expected level as indicated by recent experience, the rates used being:

Rate of lapse 31 December

	2019		2018	
	SPI	SPP	SPI	SPP
Assurances:				
Regular premium plans	2.063%	2.625%	2.625%	3.000%
Single premium contracts	2.813%	3.750%	3.000%	4.125%
Linked TIC*	-	5.000%	-	5.000%

*Trustee Investment Contract, a unit-linked contract ('TIC').

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2019 for the material product types, these lay between 0.55% and 2.15% (31 December 2018: between 0.50% and 2.10%).

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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)****UK (continued)****(iii) Valuation of options and guarantees***Contracts with discretionary participation features*

The principal financial options and guarantees in CA (S&P) are (i) minimum benefits payable on maturity or retirement for participating business; (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; and (iv) certain insurability options offered.

Provisions for CA (S&P) contracts with discretionary participation features ('DPF') provide for the present value of projected payments to policyholders based on guaranteed minimum investment returns, mainly at 5% per annum. When the insurance contract provisions established on this basis are greater than the associated policyholder asset shares, a shareholder charge for the cost of guarantees arises. The actual cost to shareholders depends principally on the future investment performance of the associated policyholders' assets and on the rate of discontinuance of policies prior to maturity.

The cost of guaranteeing a minimum investment return on participating contracts has been assessed on a market consistent basis. This has involved the use of a stochastic asset model, which is designed to establish a cost of guarantees which is consistent with prices in the market at the valuation date, for example the prices of derivative instruments. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

The following sets out the cumulative charge to shareholders for the cost of guarantees on these bases:

Year ended 31 December

	2019	2018
	£000	£000
At beginning of the year	23,097	19,235
(Credit)/charge to income	(5,775)	3,862
At the end of year	17,322	23,097

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 £904,000 as at 31 December 2019 (31 December 2018: £1,124,000).

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 3.10% per annum.

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 2019 was £3.8m (31 December 2018: £3.9m). 436 policies invested in the fund (31 December 2018: 459), of which 27 (31 December 2018: 30) were paying premiums (for a total of approximately £8,000 per annum (31 December 2018: £9,000)).

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	2.44% pa
Rate of return on cash	0.68% pa
Discount rate	0.60% 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 2019 was £0.1m (31 December 2018: £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 2019 was £3.6m (31 December 2018: £9.7m).

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 2019 was £0.1m (31 December 2018: £0.1m).

Insurability options

Policyholders with certain contracts have the right to increase their sum assured without underwriting, in certain circumstances. The reserve for this option as at 31 December 2019 was £0.3m (31 December 2018: £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 2019 is £0.1m (31 December 2018: £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.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)****Sweden (continued)****(ii) Principal assumptions:**

Income protection and waiver of premium benefits within individual contracts

For reported claims, the liabilities are reviewed on a case by case basis. A discounted cash flow model is used to determine the liabilities and the key factors used are:

- the probability of 'recovery' (i.e. return to work). The recovery rates depend on age, sex and length of time the claimant has been claiming the benefits;
- the mortality rate; and
- the discount rate.

For unreported claims, the claims development table is used. The development of insurance liabilities provides a measure of Movestic's ability to estimate the ultimate value of claims. The top half of the table below illustrates how Movestic's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be the most appropriate for the business written by Movestic. The information is presented on both a gross and net of reinsurance basis.

(iii) Analysis of claims development – gross

	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000
Estimate of ultimates						
End of accident year	25,965	26,080	31,297	29,125	26,665	17,755
One year later	19,809	19,878	22,848	21,611	17,463	
Two years later	16,833	17,687	19,991	21,026		
Three years later	14,115	15,187	19,343			
Four years later	13,190	14,798				
Five years later	12,546					
Current estimate of ultimate claims	12,546	14,798	19,343	21,026	17,463	17,755
Cumulative payments	8,848	9,372	11,328	10,440	7,538	5,500
In balance sheet	21,394	24,170	30,671	31,466	25,001	23,255
Provision for prior years						18,641
Liability in balance sheet						68,546

Analysis of claims development – net

	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000
Estimate of ultimates						
End of accident year	12,528	9,988	10,033	10,284	8,763	8,736
One year later	6,689	5,404	6,276	1,862	9,521	
Two years later	4,257	4,671	5,296	10,100		
Three years later	3,271	4,020	9,362			
Four years later	3,136	6,792				
Five years later	5,575					
Current estimate of ultimate claims	5,575	6,792	9,362	10,100	9,521	8,736
Cumulative payments	2,929	3,048	3,987	3,455	2,677	2,041
In balance sheet	8,504	9,840	13,349	13,555	12,198	10,777
Provision for prior years						11,357
Liability in balance sheet						43,306

Netherlands (Waard Group)**(i) Basis**

For protection policies insurance contract provisions comprise a technical reserve for future claims and a claim reserve for those not settled to completion at the reporting date.

For general insurance contracts an unearned premium reserve reflecting the non-expired term of contract is held plus claims provision.

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts) the Insurance Contract Provision equals the value of assets held.

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach. The continued appropriateness of these assumptions are assessed by undertaking a liability adequacy test.

Claims reserves for general insurance business in Waard Schade contain assessment of those Incurred But Not Reported (IBNR) which are regularly updated reflecting analysis of recent reporting patterns.

Netherlands (Scildon)**(i) Basis**

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts), the Insurance Contract Provision equals the value of assets held.

For other policies, a discounted value of claims is used.

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach.

For the annuity portfolio mark to market interest assumptions are used. Term policies written after 2015 are reserved on best estimate market value reserves.

(d) Sensitivity to changes in assumptions

Impact on reported profits and equity to changes in key variables:

	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	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(1.6)	(2.2)	(32.5)	(37.5)	n/a	n/a
100 basis point increase in investment return	(3.2)	0.9	(38.1)	(26.9)	(0.1)	0.4
100 basis point decrease in investment return	0.7	(1.9)	42.8	29.5	(0.0)	(0.6)
10% increase in mortality/morbidity	2.3	2.0	(0.6)	(0.3)	n/a	n/a
10% increase in mortality alone	2.9	2.6	(0.6)	(0.3)	n/a	n/a
10% increase in morbidity alone	(0.6)	(0.6)	-	-	n/a	n/a
10% increase in policy maintenance expenses	(3.5)	(4.5)	n/a	n/a	n/a	n/a
5% increase in loss ratio						
Gross before reinsurance	n/a	n/a	n/a	n/a	(2.7)	(3.9)
Net after reinsurance	n/a	n/a	n/a	n/a	(1.7)	(1.1)
5% decrease in loss ratio						
Gross before reinsurance	n/a	n/a	n/a	n/a	2.7	3.1
Net after reinsurance	n/a	n/a	n/a	n/a	1.7	1.1

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**UK businesses (CA)**

Assumptions are adjusted for changes in mortality, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and market experience and price inflation.

CA re-run their valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the sensitivity of the estimates to changes in assumptions in respect of its life assurance contracts. The table presented above demonstrates the sensitivity of assets and insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The above sensitivities are calculated as an expected impact on IFRS-based profits, net of reinsurance and tax and the analysis has been prepared for a change in the stated variable, with all other assumptions remaining constant. The sensitivities to the changes in investment returns are calculated taking into account the consequential changes to valuation assumptions.

The sensitivities to mortality and morbidity (critical illness) rates shown above are calculated on the assumption that there would be no consequential change in rates to policyholders. In practice, group policy is to pass costs on to policyholders where it is contractually permitted and where it considers that the impact of the change is significant and subject to treating customers fairly.

The main expense risk is that of unforeseen changes to third party administration expenses: the impact shown above quantifies a 10% increase in those expenses.

Swedish business (Movestic)

The key sensitivities in the measurement of the group and individual contracts insurance claim reserves within Movestic are a movement in the loss ratio applied to earned premium and the foreign exchange risk arising on business written in Norway. In addition, for the income protection and the waiver of premium benefits within the individual contracts, the claims reserves are impacted by the discount rate used. The impact of these sensitivities is shown overleaf.

Dutch business (Waard Group)

The most material sensitivity within Waard Group is interest rates. Due to the fact that Waard measures its insurance contract liabilities using historical rates of interest, a rise in interest rates results in a fall in the value of fixed-interest assets with no change in the value of liabilities. The impact on net of tax profits and equity at 2019 is negative £3.5m.

Dutch business (Scildon)

The key sensitivity within Scildon is interest rates. Similarly to Waard Group, Scildon measures the majority of its insurance contract liabilities using historical rates of interest. This means that a rise in interest rates results in a fall in the value of fixed-interest assets with only a small reduction in the value of liabilities. The impact on net of tax profits and equity at 2019 is negative £38.1m.

31 Investment contracts at fair value through income and amounts deposited with reinsurer**Analysis by operating segment****31 December**

	Investment contract liability £000	2019 Amount deposited with reinsurer £000	Net £000	Investment contract liability £000	2018 Amount deposited with reinsurer £000	Net £000
CA	739,819	37,330	702,489	692,318	34,349	657,969
Movestic	2,954,497	-	2,954,497	2,543,201	-	2,543,201
Total	3,694,316	37,330	3,656,986	3,235,519	34,349	3,201,170
Current	96,191	37,330	58,861	98,788	34,349	64,439
Non-current	3,598,125	-	3,598,125	3,136,731	-	3,136,731
Total	3,694,316	37,330	3,656,986	3,235,519	34,349	3,201,170

The fair values of the groups' investment contract liabilities have been disclosed according to a three-level valuation hierarchy in Note 24.

32 Liabilities relating to policyholders' funds held by the group

Unit-linked		
31 December		
	2019 £000	2018 £000
Balance at 1 January	259,836	265,729
Deposits received	62,092	64,093
Fees deducted from account balances	(2,672)	(2,941)
Investment yield	38,031	(14,887)
Foreign exchange translation difference	(19,204)	(8,098)
Other movements	(38,708)	(44,060)
Balance at 31 December	299,375	259,836
Current	3,193	10,243
Non-current	296,182	249,593
Total	299,375	259,836

The fair values of the 'Liabilities relating to Policyholders' funds held by the group' are determined according to a three-level valuation hierarchy, which is explained in Note 24.

The fair value of these liabilities is based on the aggregation of prices quoted in active markets of their associated assets (Level 1), as disclosed in Note 24.

33 Leases liabilities

The group leases several assets including office buildings, office and IT equipment and motor vehicles.

Maturity Analysis							
31 December 2019							
	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	2,220	536	998	734	93	-	2,361
Property and equipment	91	19	41	34	-	-	94
Motor vehicles	158	68	60	38	-	-	166
Hardware	48	23	27	-	-	-	50
Software	-	-	-	-	-	-	-
Other	10	8	2	-	-	-	10
Total	2,527	654	1,128	806	93	-	2,681
Current	1,118						
Non-current	1,409						
Total	2,527						

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Borrowings

Group
31 December

	2019 £000	2018 £000
Bank loan	52,525	69,580
Amount due in relation to financial reinsurance	35,638	39,622
Total	88,163	109,202
Current	24,024	25,785
Non-current	64,139	83,417
Total	88,163	109,202

Company
31 December

	2019 £000	2018 £000
Bank loan	52,525	69,580
Current	14,849	15,306
Non-current	37,676	54,274
Total	52,525	69,580

The bank loan as at 31 December 2019 comprises the following:

- on 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower. The proceeds of this loan facility were utilised, together with existing group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- on 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower.
- in April 2018 we converted our existing debt arrangement with RBS into a syndicated facility. This will provide access to higher levels of debt financing from a wider panel of lenders, which in turn will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, without being restricted by the lending capacity of one individual institution. This facility enables Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.

The fair value of the sterling denominated bank loan at 31 December 2019 was £21.0m (31 December 2018: £27.0m).

The fair value of the euro denominated bank loan at 31 December 2019 was £31.7m (31 December 2018: £42.8m).

The fair value of amounts due in relation to financial reinsurance was £37.5m (31 December 2018: £41.6m).

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

35 Defined benefit obligations

Scildon operated a defined Benefit Pension Scheme (Scheme) for the benefit of its present and past employees. This Scheme was closed during 2019 and transferred into a defined contribution scheme. From 1 October 2019, Scildon no longer bears any risks relating to the funding of the plan and all pension assets will be transferred to another administrator during 2020. Until that point, Scildon continues to bear only the fund administration costs. A summary of the defined Benefit Pension Scheme assets and liabilities as at the balance sheet date and the movements in the period are provided below.

The amount included in the balance sheet arising from the obligations in respect of the Scheme is as follows:

As at period ended	2019 £000	2018 £000
Present value of defined benefit obligations	-	50,781
Fair value of plan assets	75	(50,886)
Surplus	75	(105)
Effect of asset ceiling test	-	105
Net liability arising from defined benefit obligation	75	-

As at 31 December 2019, there was no surplus in the Pension Fund due to the closure and transfer of the Scheme. The remaining liability within the Scheme is in relation to the remaining fund administration costs. The Scheme was accounted for under the provisions of IAS 19. As such, pension surplus assets were not recognisable on the face of the balance sheet and as a consequence were subject to an asset ceiling test, which effectively reduces the asset value to nil. Scildon was unable to recognise the surplus position in terms of potential refunds of past contributions made or through lower future contributions to the Scheme.

Amounts recognised in income in respect of the Scheme are as follows:

	2019 £000	2018 £000
Service cost:		
Current service cost	1,422	1,780
Past service cost	-	-
Net interest income	(21)	(20)
Special event – past service cost	117	-
Components of defined benefit costs recognised in profit or loss	1,518	1,760

The costs charged to the income statement are recorded under operating expenses as personnel costs.

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2019 £000	2018 £000
The return on plan assets (excluding amounts included in net interest expense)	6,796	(598)
Actuarial gains and losses arising from changes in assumptions	(936)	(423)
Actuarial gains and losses arising from experience adjustments	(577)	302
Adjustment for the effect of asset ceiling test	103	789
Plan amendments, impact on asset ceiling	(5,385)	-
Foreign exchange translation	(1)	5
Tax effect	-	(19)
Total profit for the year not recognised in income	-	56

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**35 Defined benefit obligations (continued)**

Movements in the present value of defined benefit obligations in the period were as follows:

	2019 £000	2018 £000
Balance 1 January	50,781	47,459
Current service cost	1,434	1,790
Interest cost	267	895
Contributions from the plan participants	673	359
Actuarial gains and losses arising from changes in assumptions	936	423
Actuarial gains and losses arising from experience adjustments	577	(302)
Benefits paid	(397)	(480)
Individual settlements	-	83
Expected defined benefit obligation end of period	(9)	-
Past service pension costs	5,271	-
Transfer out of the defined benefit scheme	(58,395)	-
Foreign exchange translation	(1,138)	554
Balance at 31 December	-	50,781

Movements in the fair value of plan assets in the period were as follows:

	2019 £000	2018 £000
Balance 1 January	50,886	48,354
Benefits paid	(397)	(480)
Contributions from the employer	1,221	1,701
Contributions from the plan participants	267	359
Assets distributed on settlements	-	83
Settlement	(58,395)	-
Interest income	694	915
Other costs	(9)	-
The return on plan assets (excluding amounts included in net interest expense)	6,796	(598)
Foreign exchange translation	(1,138)	552
Balance at 31 December	(75)	50,886

The cost of defined benefit pension amounts:

	2019 £000	2018 £000
Pension costs		
Current service pension costs	1,422	1,780
Total pension costs	1,422	1,780
Net interest		
Interest cost on the present value of promised retirement benefits	673	895
Interest income on assets	(694)	(915)
Net interest on the net liability defined benefit	(21)	(20)
Special event – past service cost	117	-
Total charged to profit and loss account	1,518	1,760

The principal actuarial assumptions applied to the Scheme valuation are as follows:

	31 December 2019	31 December 2018
Discount rate	1.25%	2.00%
Interest income on assets	2.00%	2.00%
General salary increases	2.00%	2.00%
Deferred pension increases	0.00%	0.80%
Inflation	2.00%	2.00%

Distribution of plan assets:

	31 December 2019 £000	31 December 2018 £000
Equity type instruments	-	7,587
Fixed interest instruments – Government bonds	-	42,871
Cash	-	46
Other	(75)	382
Total	(75)	50,886

Period ended 31 December

	2019 £000	Not quoted	Quoted market price in an active market 2019 £000	2018 £000	Not quoted	Quoted market price in an active market 2018 £000
Equity type instruments	-	-	-	7,587	-	7,587
Fixed interest instruments – Government bonds	-	-	-	42,871	-	42,871
Cash	-	-	-	46	46	-
Other	(75)	-	-	382	382	-
Total	(75)	-	-	50,886	428	50,458

The plan assets do not include investments that are issued by Scildon and do not include assets used by Scildon.

	2019 £000	2018 £000
Actual return on plan assets	7,261	317

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**35 Defined benefit obligations (continued)**

The risks faced by Scildon in connection with the pension commitments are determined by the duration of these obligations. The table below shows how these obligations are distributed among active and non-active participants.

As at 31 December 2019

	Cash value of defined benefit number	Duration years
Active members	-	-
Deferred members	-	-
Wholly or partially disabled members	-	-
Pensioners	-	-
Total	-	-

The present value of the defined benefit obligations is sensitive to a change in the assumptions used. The table below shows the sensitivity of the value of pension rights and service costs, to changes in the underlying assumptions used:

As at 31 December 2019

	Change	Defined benefit obligation change	Funding cost change
Discount rate			
Plus	0.50%	-	(4)
Minus	0.50%	-	7
Salary increase			
Plus	0.50%	-	-
Minus	0.50%	-	-
Mortality			
Age set back	1 year	-	-

The Pension Fund held investments which take account of the risk profile of the underlying scheme liabilities, as part of the asset and liability management employed by the Scheme.

The employer contribution expected to be paid in respect of 2020 is £nil (2019: £1.2m).

36 Deferred tax assets and liabilities

Deferred tax liabilities comprise:

31 December

	2019 £000	2018 £000
Net deferred tax liabilities:		
CA and other group activities	(1,113)	(1,996)
Movestic	(195)	(253)
Ward Group	700	(175)
Scildon	(21,892)	(17,039)
Total	(22,500)	(19,463)
Current	(706)	(904)
Non-current	(21,794)	(18,559)
Total	(22,500)	(19,463)

CA and other group activities
(a) Recognised deferred tax assets and liabilities

31 December

	2018 Assets/ (liabilities) £000	Credit/ (charge) in year £000	2019 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(806)	208	(598)
Deferred acquisition costs	(322)	62	(260)
Deferred income	616	(102)	514
Acquired value in force	(1,872)	582	(1,290)
Unrealised and deferred investment gains	(11,477)	10,746	(731)
Excess expenses of management	11,477	(10,746)	731
Share-based payments	388	129	517
Right of use-assets/lease liabilities	-	4	4
Total	(1,996)	883	(1,113)
Comprising:			
Net deferred tax liabilities	(1,996)	883	(1,113)
Total	(1,996)	883	(1,113)

31 December

	2017 Assets/ (liabilities) £000	Credit/ (charge) in year £000	2018 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(1,008)	202	(806)
Deferred acquisition costs	(388)	66	(322)
Deferred income	739	(123)	616
Acquired value in force	(2,657)	785	(1,872)
Unrealised and deferred investment gains	(23,062)	11,585	(11,477)
Excess expenses of management	23,062	(11,585)	11,477
Share-based payments	338	50	388
Total	(2,976)	980	(1,996)
Comprising:			
Net deferred tax liabilities	(2,976)	980	(1,996)
Total	(2,976)	980	(1,996)

Note (i) The deferred tax credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December

	2019 £000	2018 £000
Income tax credit	883	992

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

(b) Items for which no deferred tax asset is recognised

31 December

	2019 £000	2018 £000
BLAGAB transitional amounts	1,430	1,906
Unrelieved expenses	82,197	132,241
Total	83,627	134,147

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.

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 2018: £0.3m), in respect of fair value adjustments arising upon acquisition. Unrecognised deferred tax assets was nil at the balance sheet date in respect of corporation tax recoverable (31 December 2018: nil).

Waard Group

(d) Recognised deferred tax assets and liabilities

31 December

	2018 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Foreign exchange translation difference £000	2019 Assets/ (liabilities) £000
Intangible assets				
Fair value adjustment on acquisition	(947)	113	46	(788)
Valuation differences	772	779	(63)	1,488
Total	(175)	892	(17)	700
Comprising:				
Net deferred tax asset	(175)	892	(17)	700
Total	(175)	892	(17)	700

Scildon

(e) Recognised deferred tax assets and liabilities

31 December

	2018 Assets/ (liabilities) £000	Credit/ (charge) In year £000	Recognised through equity £000	Foreign exchange translation difference £000	2019 Assets/ (liabilities) £000
Fair value adjustment on acquisition	(14,630)	327	-	754	(13,549)
Deferred acquisition costs	4,508	(264)	-	(228)	4,016
Defined benefit pension scheme obligations	(14)	14	-	-	-
Revaluation of buildings and investment properties	(553)	(45)	-	30	(568)
Valuation differences on technical provisions	(9,707)	1,359	-	448	(7,900)
Valuation differences on investments at fair value through profit and loss	3,357	(7,294)	-	46	(3,891)
Total	(17,039)	(5,903)	-	1,050	(21,892)
Comprising:					
Net deferred tax liabilities	(17,039)	(5,903)	-	1,050	(21,892)
Total	(17,039)	(5,903)	-	1,050	(21,892)

37 Reinsurance payables**Payable to reinsurers****31 December**

	2019 £000	2018 £000
Payables in respect of insurance contracts	2,998	10,299
Payables in respect of investment contracts	13	14
Reinsurers' share of deferred acquisition costs and claims deposits	196	222
Total	3,207	10,535
Current	3,207	10,535
Non-current	-	-
Total	3,207	10,535

The carrying value of payables to reinsurers is a reasonable approximation of fair value.

38 Payables related to direct insurance and investment contracts**31 December**

	Gross £000	2019 Reinsurance £000	Net £000	Gross £000	2018 Reinsurance £000	Net £000
Accrued claims	65,330	14,132	51,198	65,216	17,640	47,576
Intermediaries' liabilities	1,313	-	1,313	1,140	-	1,140
Policyholder premium liabilities	19,029	-	19,029	23,388	-	23,388
Other	1,464	-	1,464	1,485	-	1,485
Total	87,136	14,132	73,004	91,229	17,640	73,589
Current	87,136	14,132	73,004	91,229	17,640	73,589
Non-current	-	-	-	-	-	-
Total	87,136	14,132	73,004	91,229	17,640	73,589

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value.

39 Deferred income**31 December**

	2019 £000	2018 £000
Balance at 1 January	3,948	4,701
Additions	646	-
Release to income	(687)	(753)
Balance at 31 December	3,907	3,948
Current	376	476
Non-current	3,531	3,472
Total	3,907	3,948

The release to income is included in fees and commission income (see Note 8).

Group
31 December

	2019 £000	2018 £000
Accrued expenses	9,768	14,374
VAT	64	48
Employee tax	2,813	3,115
Other	29,083	27,219
Total	41,728	44,756
Current	41,728	44,756
Non-current	-	-
Total	41,728	44,756

Company
31 December

	2019 £000	2018 £000
Accrued expenses	3,347	2,156
Other	843	655
Total	4,190	2,811
Current	4,190	2,811
Non-current	-	-
Total	4,190	2,811

41 Share capital and share premium

Group
31 December

	2019		2018	
	Number of shares issued	Share capital £000	Number of shares issued	Share capital £000
Share capital	150,061,567	43,767	149,908,956	43,767
		Share premium £000		Share premium £000
		142,053		142,053

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Share capital for the group includes the impact of 'reverse acquisition accounting' associated with Chesnara plc's acquisition of Countrywide Assured Life Holdings Ltd (CALH) from Countrywide plc (Countrywide) on 24 May 2004. As a result of this, included within share capital of the group is £41.5m, which represents the amount of issued share capital of Countrywide Assured Life Holding (the legal subsidiary) immediately before the acquisition. As a result of this accounting treatment the group share capital differs from the Chesnara plc company position, which is set out below.

Company
31 December

	2019		2018	
	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	150,061,567	7,495	149,908,956	7,495
		Share premium £000		Share premium £000
		142,053		142,053

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2018: nil).

42 Other reserves

Group
31 December

	2019 £000	2018 £000
Capital redemption reserve	50	50
Foreign exchange translation reserve	8,568	27,108
Balance at 31 December	8,618	27,158

Company
31 December

	2019 £000	2018 £000
Capital redemption reserve	50	50

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Retained earnings

Group

31 December

	2019 £000	2018 £000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	232,638	238,341
Profit for the year	79,142	24,124
Revaluation of pension obligations	-	56
Share based payment	593	501
Dividends		
Final approved and paid for 2017	-	(19,578)
Interim approved and paid for 2018	-	(10,806)
Final approved and paid for 2018	(20,178)	-
Interim approved and paid for 2019	(11,142)	-
Balance at 31 December	281,053	232,638

The interim dividend in respect of 2018, approved and paid in 2018 was paid at the rate of 7.21p per share. The final dividend in respect of 2018, approved and paid in 2019, was paid at the rate of 13.46p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2018 was made at the rate of 20.67p per share.

The interim dividend in respect of 2019, approved and paid in 2019, was paid at the rate of 7.43p per share to equity shareholders of the parent company registered at the close of business on 6 September 2019, the dividend record date.

A final dividend of 13.87p per share in respect of the year ended 31 December 2019 payable on 2 June 2020 to equity shareholders of the parent company registered at the close of business on 24 April 2020, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £20.8m 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 2018 and 31 December 2019:

Year ended 31 December

	2019 p	2018 p
Interim – approved and paid	7.43	7.21
Final – proposed/paid	13.87	13.46
Total	21.30	20.67

Company

Year ended 31 December

	2019 £000	2018 £000
Balance at 1 January	193,548	158,571
Profit for the year	64,939	64,860
Share based payment	593	501
Dividends paid		
Final approved and paid for 2017	-	(19,578)
Interim approved and paid for 2018	-	(10,806)
Final approved and paid for 2018	(20,178)	-
Interim approved and paid for 2019	(11,142)	-
Balance at 31 December	227,760	193,548

Details of dividends, approved and paid, are set out in the 'group' section above.

44 Employee benefit expense, including directors**Year ended 31 December**

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	2019 £000	2018 £000
Wages and salaries	2,206	6,920	1,155	10,568	3,612	24,461	25,188
Social security costs	284	3,046	155	1,480	465	5,430	5,009
Pension costs-defined contribution plans	146	1,513	115	–	238	2,012	2,389
Pension costs-defined benefit plans	–	–	–	1,515	–	1,515	1,809
Total	2,636	11,479	1,425	13,563	4,315	33,418	34,395
Monthly average number of employees							
Company						36	37
Subsidiaries						280	326
Total						316	363

Directors

The Directors' Remuneration Report and Note 45 provides detail of compensation to directors of the company.

UK

UK-based employees are all employed by Chesnara plc.

At the end of May 2005, the group allowed eligible employees to enter a pension scheme known as the Chesnara plc Stakeholder Scheme, on a basis where employer contributions are made to the scheme at the same rate as would be payable had their membership of their predecessor scheme continued, provided that employee contributions also continued to be made at the same rate. The employee may opt to request the company to pay employer contributions into a personal pension plan, in which instance, employer contributions will be made on the same terms as for the Chesnara plc Stakeholder Scheme.

The group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

The group has established frameworks for approved and unapproved discretionary share option plans which may, at the discretion of the Remuneration Committee, be utilised for granting options to executive directors and to other group employees. Options have been granted to executive directors in the period, in relation to the share-based payment components of the new executive incentive schemes that was introduced under the 2014 terms. Further details can be found in the Directors' Remuneration Report section and in Note 45 – share based payments on page 188.

Waard

The Waard business participates in a defined contribution scheme.

Scildon

Scildon operated a defined Benefit Pension Scheme for the benefit of its present and past employees. This Scheme was closed during 2019 and transferred into a defined contribution scheme. From 1 October 2019, Scildon no longer bears any risks relating to the funding of the plan and all pension assets will be transferred to another administrator during 2020. Until that point, Scildon continues to bear only the fund administration costs. Further details are provided in Note 35.

Under the company's new defined contribution scheme, Scildon pays a contribution to the scheme and subsequently has no further financial obligations with respect to this part of the scheme. This contribution is recognised as an expense when paid.

Movestic

The Swedish business participates in a combined defined benefit and defined contribution scheme operated by Försäkringsbranschens Pensionskassa, 'FPK'. The scheme is a multi-employer scheme with participants including other Swedish insurance companies not related to the group. The scheme provides, for those born in 1971 or earlier, benefits to employees which are linked to their final salary and to the amount of time working for companies which are members of the scheme. For those employees born in 1972 or later, the scheme operates on a defined contribution basis.

Assets and liabilities are held on a pooled basis and are not allocated by the Trustee to any individual company. Consequently, reliable information is not available to account for the scheme as a defined benefit scheme and therefore, in accordance with IAS 19 Employee Benefits, the scheme is accounted for as a defined contribution scheme.

Contributions to the scheme are based on the funding recommendations of the independent qualified actuary: the contributions paid to the scheme subsequent to the acquisition of the Swedish Business on 23 July 2009 and up to 31 December 2018, totalled £4.2m.

During 2019 further contributions of £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 2018.

The Annual Report states that the scheme's surplus is £143.6m as at 31 December 2019 (£193.9m as at 31 December 2018).

As at 31 December 2019, the fund had assets under management of £1.2bn (£1.3bn as at 31 December 2018). During 2019 there have been 116 (31 December 2018: 121) employer insurance companies participating in the scheme and 26,000 (31 December 2018: 26,000) insured individuals.

From the available information, it cannot be determined with certainty as to whether there would be a change in the required employer funding rate, although there is currently no deficit in the scheme.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**45 Share-based payments**

The group issues equity-settled share based payments to the two executive directors based on the 2014 terms. Equity settled share-based payments are measured at fair value at the date of the grant, and expensed on a straight-line over the vesting period, based on the group's estimate of shares that will eventually vest. The executive bonus scheme consists of two components:

(a) Short-Term Incentive Scheme (STI)

(b) Long-Term Incentive Scheme (LTI)

The STI Scheme is based upon a 1 year performance period measured against cash generation, EcV operating profit and strategic group objectives. In relation to 2019, 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 75% 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 invest 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) 2019 award under the Short-Term Incentive Scheme (STI)

Details of the short-term incentive awards made in the year are as follows:

2019 Short-Term Incentive Scheme Awards made in year

	2019 £000	2018 £000
Amount paid as cash bonus through the income statement (65%)	451	140
Amount deferred into shares for 3 years and subject to forfeiture (35%)	242	76
Total bonus award for the year	693	216
Amount of deferred expense recorded in the current year	57	18

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) 2019 award made under the Long-Term Incentive Scheme (LTI)

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 embedded 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

	Options number 000	2019 Weighted average exercise price £
Outstanding at the beginning of the year	-	-
Granted during the year	196	-
Outstanding at the end of the year	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 £81,000 related to equity-settled share based payments transactions in 2019.

(c) 2018 award made under the Short-Term Incentive Scheme (STI)

The group has recorded an expense of £18,000 with regards to the 35% element that has been deferred over the vesting period.

(d) 2018 award made under the Long-Term Incentive Scheme (LTI)

In April 2018, the group granted 168,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and total shareholder return ('TSR').

The fair value of the non-market base condition was determined to be 410.00p, which was the share price as at 28 April 2018, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2018 Long-Term Incentive Scheme

	Options number 000	2019 Weighted average exercise price £	Options number 000	2018 Weighted average exercise price £
Outstanding at the beginning of the year	168	-	-	-
Granted during the year	-	-	168	-
Outstanding at the end of the year	168	-	168	-

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	410.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	229.78
Expected volatility	25.77
Expected life	3 years
Risk free rate	1.190%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £153,000 related to equity-settled share based payments transactions in 2019.

(e) 2017 award under the Short-Term Incentive Scheme (STI)

The group has recorded an expense of £48,000 with regards to the 35% element that has been deferred over the vesting period.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Share-based payments (continued)**(f) 2017 award made under the Long-Term Incentive Scheme (LTI)**

In April 2017, the group granted 174,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and total shareholder return ('TSR').

The fair value of the non-market base condition was determined to be 382.75p, which was the share price as at 28 April 2017, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2017 Long-Term Incentive Scheme

	Options number 000	2019 Weighted average exercise price £	Options number 000	2018 Weighted average exercise price £
Outstanding at the beginning of the year	174	-	174	-
Granted during the year	-	-	-	-
Outstanding at the end of the year	174	-	174	-

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

	Monte Carlo
Valuation method	Monte Carlo
Weighted average share price (pence)	382.75
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	211.73
Expected volatility	26.97
Expected life	3 years
Risk free rate	0.70%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £111,000 related to equity-settled share based payments transactions in 2019.

(g) 2016 award under the Short-Term Incentive Scheme (STI)

The group has recorded an expense of £66,000 with regards to the 35% element that has been deferred over the vesting period.

(h) 2016 award made under the Long-Term Incentive Scheme (LTI)

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

	Options number 000	2019 Weighted average exercise price £	Options number 000	2018 Weighted average exercise price £
Outstanding at the beginning of the year	221	-	221	-
Exercised during the year	(48)	3.715	-	-
Lapsed during the year	(71)	-	-	-
Exercisable at the end of the year	102	-	-	-
Outstanding at the end of the year	-	-	221	-

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	312.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	179.72
Expected volatility	28.07
Expected life	3 years
Risk free rate	0.86%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £54,000 related to equity-settled share based payments transactions in 2019.

(i) 2015 award under the Short-Term Incentive Scheme (STI)

The group has recorded an expense of £10,000 with regards to the 35% element that has been deferred over the vesting period.

(j) 2015 award made under the Long-Term Incentive Scheme (LTI)

In April 2015, the group granted 181,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in embedded value and total shareholder return ('TSR').

The fair value of the non-market base condition was determined to be 319.00p, which was the share price as at 28 April 2015, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2015 Long-Term Incentive Scheme

	Options number 000	2019 Weighted average exercise price £	Options number 000	2018 Weighted average exercise price £
Outstanding at the beginning of the year	89	-	165	-
Exercised during the year	(69)	2.765	(45)	4.025
Lapsed during the year	-	-	(31)	-
Exercisable at the end of the year	20	-	89	-

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)	319.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	187.62
Expected volatility	30.21
Expected life	3 years
Risk free rate	1.07%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £nil related to equity-settled share based payments transactions in 2019.

(k) 2014 award made under the Long-Term Incentive Scheme (LTI)

In May 2014, the group granted 169,000 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').

Fair value is measured by use of the Monte Carlo model of the TSR condition. The LTI Scheme also contains embedded value growth. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date. The fair value of the non-market base condition was determined to be 310.25p, which was the share price as at 20 May 2014, the grant date of the options.

There were no share options outstanding during at either balance sheet date.

The group recognised no expense related to equity-settled share based payments transactions in 2018 and 2019.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**46 Earnings per share**

Earnings per share are based on the following:

Year ended 31 December	2019	2018
Profit for the year attributable to shareholders (£000)	79,142	24,124
Weighted average number of ordinary shares	149,972,471	149,847,736
Basic earnings per share	52.77p	16.10p
Diluted earnings per share	52.47p	16.01p

The weighted average number of ordinary shares in respect of the year ended 31 December 2019 is based upon 150,061,567 shares. No shares were held in treasury.

There were 859,641 share options outstanding at 31 December 2019 (2018: 845,346). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2018 and 2019.

47 Contingencies**Past sales**

The group has made provision for the estimated cost of settling complaints in respect of past sales of endowment mortgages. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management, including future regulatory actions.

48 Capital commitments

There were no capital commitments as at 31 December 2019 or as at 31 December 2018.

49 Related parties**(a) Identity of related parties**

The shares of the company were widely held and no single shareholder exercised significant influence or control over the company.

The company has related party relationships with:

- (i) key management personnel who comprise only the directors of the company;
- (ii) its subsidiary companies;
- (iii) its associated company;
- (iv) other companies over which the directors have significant influence; and
- (v) transactions with persons related to key management personnel.

(b) Related party transactions**(i) Transactions with key management personnel.**

Key management personnel comprise of the directors of the company. Key management compensation is as follows:

	2019 £000	2018 £000
Short-term employee benefits	1,495	988
Post-employment benefits	70	68
Total	1,565	1,056

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:

	2019 £000	2018 £000
Annual bonus scheme (included in the short-term employee benefits above)	694	216

These amounts have been included in accrued expenses as disclosed in Note 40. The amounts payable under the annual bonus scheme were payable within 1 year.

(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

	2019	2018
	£000	£000
Recovery of expenses	3,533	3,976

(iii) Transactions with associate

Movestic Livförsäkring AB and its associate Modernac SA

Year ended 31 December

	2019	2018
	£000	£000
Reinsurance premiums paid	(68)	(8,253)
Reinsurance recoveries received	2,071	5,460
Reinsurance commission received	(42)	(1,561)
	1,961	(4,354)
Amounts outstanding as at balance sheet date	-	(2,700)

Movestic Livförsäkring AB had the following amounts outstanding at the balance sheet date:

	2019		2018	
	Amounts owed by associate	Amounts owed to associate	Amounts owed by associate	Amounts owed to associate
	£000	£000	£000	£000
Modernac S.A.	-	-	-	2,700

These amounts have been included in other payables as disclosed in Note 40 and other receivables as disclosed in Note 26.

(iv) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel.

I NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Group entities

Control of the group

The issued share capital of Chesnara plc, the group parent company, is widely held, with no single party able to control 20% or more of such capital or of the rights which such ownership confers.

Group subsidiary companies

Name	Country of incorporation	Ownership interest 31 December 2019	Ownership interest 31 December 2018	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 Kapitalförvaltning AB	Sweden	100% of all share capital (2)	100% of all share capital (2)	Swedish krona
Registered address Box 7853, S-103 99 Stockholm, Sweden				
Movestic Fund Management S.A.	Luxembourg	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Registered address 12 Rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg				
Modernac S.A.	Luxembourg	49% of all share capital (2)	49% of all share capital (2)	Swedish krona
Registered address BP 593 L-2015 Luxembourg, 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 11 1687 CL Wognum, Netherlands				
Scildon N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Registered address Laapersveld 68 Hilversum, Netherlands				

(1) Held indirectly through Countrywide Assured Life Holdings Limited.

(2) Held indirectly through Movestic Livförsäkring AB.

(3) Company formed on 25 November 2014.

(4) Held indirectly through Chesnara Holdings B.V.

(5) Held indirectly through Waard Leven N.V.

(6) Company formed on 6 March 2017.

51 Portfolio acquisition

On 1 October 2019, Waard completed a deal to acquire circa 6,000 term and endowment policies, together with associated net assets from Monuta Verzekeringen N.V., a Netherlands based funeral insurance provider, for a total consideration of €1. The acquisition creates a natural fit for Waard, enabling it to increase its overall policy base whilst being able to integrate the acquired book of policies into its systems and processes seamlessly.

The acquisition of this policy portfolio has given rise to a profit on acquisition of €0.9m (£0.8m) calculated as follows:

Fair value	£000
Assets	
Cash and cash equivalents	28,589
Total assets	28,589
Liabilities	
Insurance contract provisions	27,801
Total liabilities	27,801
Net assets	788
Net assets acquired	788
Total consideration, paid in cash	-
Profit recognised on portfolio acquisition	788

Gain on acquisition: A gain of £0.8m has been recognised on acquisition. At the point of price negotiation and subsequent deal completion, Monuta Verzekeringen N.V. was following a strategic plan to dispose of non-core business, which included this book of policies. In the opinion of the Directors, this resulted in a disposal pricing strategy that sought to offer an attractive investment opportunity for potential buyers. This gain on acquisition has been recorded as a 'profit recognised on portfolio acquisition' on the face of the statement of comprehensive income.

Acquisition-related costs: The costs in respect of the transaction amounted to £0.3m and have been included in Administration Expenses within the Consolidated Statement of Comprehensive Income in 2019.

52 Post balance sheet event

The directors consider the emergence of COVID-19 as a pandemic during 2020, and the associated government measures both in the UK and overseas in response, as a non-adjusting post balance sheet event.

The overall financial impact of COVID-19 on the IFRS results cannot be reliably estimated at this time. However, COVID-19 has affected some key investment market indicators that can have a material effect on the group IFRS results. These have been listed below, along with an unaudited estimate of their impact on the group's IFRS net assets:

- **Equity prices:** Equity prices have seen some significant falls since 31 December 2019, with some leading indices showing falls of up to 25%. An across the board equity price reduction of 25% is estimated to reduce the IFRS net assets of the group by c£20m.
- **Yield reductions:** Yields on fixed income securities, such as government bonds, have generally fallen since the start of the year. For example, UK 10 year gilts have fallen from 84bps at 31 December 2019 to 39bps as at 31 March 2020, representing a fall of 45bps. The EUR and SEK yield curves have seen slightly lower falls of c.20bps. It is estimated that this reduction in yields would increase the group's IFRS net assets by c£10m since the start of the year. This is largely driven by the Dutch divisions' use of historical IFRS discount rates which means that the fall in yields causes asset values to rise with only a small increase in liabilities.
- **Corporate bond spreads:** Corporate bond spreads have generally widened since 31 December 2019. It is estimated that the impact of this would be to reduce the group's IFRS net assets by c£25m since the start of the year.
- **Exchange rates:** Based on an assessment of how the SEK/GBP and EUR/GBP exchange rates have moved since 31 December 2019 up to 31 March 2020, it is estimated that the IFRS net assets will have increased by c£8m.

In this environment, the board have recognised that the group will need to adjust its client service and operational capability as events unfold in the period ahead, and are in response upscaling its ability to deliver core services from the home environment, and executing plans to minimise the risk of transmission from within the group's office spaces.

The strength of the capital position means that although the COVID-19 outbreak has resulted in significant global economic disruption, Chesnara remains well capitalised, with the group's solvency estimated as being 163% (unaudited) at 31 March 2020, after allowing for the payment of the proposed dividend. The solvency position is being monitored frequently, with appropriate actions being taken to protect the long-term interest of policyholders.

Chesnara, and all of its regulated legal entities continue, to have a capital position in excess of the levels required by the regulations, which themselves are designed to provide a strong level of protection for policyholders.

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Zaanse Schans Windmills, Netherlands

I FINANCIAL CALENDAR

15 April 2020

Results for the year ended
31 December 2019 announced

23 April 2020

Ex dividend date

23 April 2020

Published Report & Accounts issued
to shareholders

24 April 2020

Dividend record date

11 May 2020

Last date for dividend reinvestment
plan elections

26 May 2020

Annual General Meeting

02 June 2020

Dividend payment date

27 August 2020

Half year results for the 6 months
ending 30 June 2020 announced

I KEY CONTACTS

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Auditor

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I NOTICE OF THE ANNUAL GENERAL MEETING

This document is important and requires your immediate attention

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial advisor.

If you have sold or otherwise transferred all of your shares in Chesnara plc, please pass this document (together with the accompanying proxy form) as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Chesnara plc has a policy of not paying to have access to governance and sustainability analysts' databases on which voting recommendations and reports are produced. We encourage early, open and timely engagement to ensure the accuracy of the information contained in any analysis and reports issued in respect of Chesnara plc.

Company No. 4947166

Notice is given that the 2020 Annual General Meeting of Chesnara plc will be held at the offices of Chesnara plc, West Strand Business Park, West Strand Road, Preston, PR1 8UY on 26 May 2020 at 11am, for the business set out below. In light of the Coronavirus (COVID-19) pandemic and the social distancing measures in place, shareholders will not be able to attend the AGM in person. Only the business of the AGM will be held at that time.

Resolutions 1 to 15 inclusive will be proposed as ordinary resolutions and resolutions 16 to 19 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2019, together with the reports of the directors and auditor thereon.
2. To approve the Directors' Remuneration Report (other than the part of it which contains the Directors' Remuneration Policy) for the year ended 31 December 2019.
3. To approve the Directors' Remuneration Policy (as contained in the Directors' Remuneration Report for the year ended 31 December 2019).
4. To declare a final dividend of 13.87 pence per ordinary share for the financial year ended 31 December 2019.
5. To re-elect John Deane as a director.
6. To re-elect David Rimmington as a director.
7. To re-elect Jane Dale as a director.
8. To elect Luke Savage as a director.
9. To re-elect Veronica Oak as a director.
10. To re-elect David Brand as a director.
11. To re-elect Mark Hesketh 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 2021 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.

I NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

15. That the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the 'Act'), to exercise all the powers of the company, to allot shares in the company and/or to grant rights to subscribe for or to convert any security into shares in the company ('Allotment Rights'):

- (a) up to an aggregate nominal amount of £2,501,026 such amount to be reduced by the aggregate nominal amount of any equity securities allotted pursuant to the authority in paragraph (b) below in excess of £2,501,026; and
- (b) up to an aggregate nominal amount of £5,002,052 (such amount to be reduced by the nominal aggregate amount of any shares allotted or rights granted pursuant to the authority in paragraph (a) above) in connection with an offer by way of a rights issue:
 - i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the company, expire at the conclusion of the company's next Annual General Meeting (or, if earlier, at the close of business on 30 June 2021) 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.

16. That, subject to the passing of resolution 15 in this notice, the directors be and are hereby empowered pursuant to Section 570 of the Companies Act 2006 ('the Act') to allot equity securities (as defined in Section 560 of the Act) for cash, pursuant to the authority conferred on them by resolution 15 of this notice or by way of a sale of treasury shares as if Section 561 of the Act did not apply to any such allotment, provided that this power is limited to:

- (a) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the Financial Conduct Authority's listing rules) or any other pre-emptive offer that is open for acceptance for a period determined by the directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
- (b) the allotment of equity securities (other than pursuant to paragraph (a) above) with an aggregate nominal value of £375,154

and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 15 of this notice, save that, before the expiry of this power, the company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities under any such offer or agreement as if the power had not expired.

17. That, subject to the passing of resolution 15 of this notice and, in addition to the power contained in resolution 16 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 15 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 £375,154; 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 15 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 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 15,006,157;
- (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 2021); 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.

19. 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

14 April 2020

I EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

Potential impact of the Coronavirus pandemic

The company has been closely monitoring the situation in respect of the Coronavirus pandemic and the restrictions and precautionary measures being taken across the country. As a result of these restrictions, physical attendance at the AGM by shareholders will not be possible this year and arrangements for the AGM may also need to change at short notice. The company will continue to update shareholders in the usual way, via the Regulatory News System (RNS). Please do not attempt to attend the AGM in person as the company reserves the right to take such measures as it considers appropriate to comply with Government guidance and to seek to ensure the health and security of those attending and/or take measures that are mandated or recommended by the UK Government. There will be no presentation given on business progress at this year's AGM and nor will refreshments be provided.

Given the current circumstances, the company strongly encourages shareholders to vote electronically. Instructions on voting are attached to the Notice of AGM sent out to shareholders and can also be found on the company's website. Shareholders may also wish to submit questions in advance via e-mail to info@chesnara.co.uk. We will endeavour to respond to questions raised directly, or by publishing responses on our website.

1. Any member who is entitled to attend and vote at this Annual General Meeting is entitled to appoint another person, or two or more persons in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and to vote at the Annual General Meeting. Members who wish to appoint a proxy should appoint the Chairman of the meeting as their proxy. As a result of the public health measures taken by the Government to reduce the public health risks posed by the spread of Coronavirus, no other person appointed as a proxy will be permitted to attend the meeting in person. Members are therefore 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 Asset Services, 34 Beckenham Road, Beckenham, BR3 4TU (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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received by 11am on Thursday 21 May 2020.
3. Any member wishing to vote at the Annual General Meeting without attending in person or (in the case of a corporation) through its duly appointed representative, which is unfortunately not permitted in the current circumstances in line with Government measures to protect public health, must appoint a proxy to do so. A proxy need not be a member of the company, but as noted above members should appoint the Chairman of the meeting as their proxy as no other person appointed as a proxy will be permitted to attend the meeting in person. Members may appoint a proxy online by following the instructions for the electronic appointment of a proxy at www.signalshares.com by entering the company name 'Chesnara plc' and following the on-screen instructions. To be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by 11am on Thursday 21 May 2020. Members who hold their shares in uncertificated form may also use the 'CREST' voting service to appoint a proxy electronically, as explained in Note 4.
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 Asset Services (ID RA10), by 11am on Thursday 21 May 2020, 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.

I 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. They will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.
6. The time by which a person must be entered on the register of members in order to have the right to vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast) is close of business on Thursday 21 May 2020. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Annual General Meeting.
7. The right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006; as such rights can only be exercised by the member concerned. Any person nominated to enjoy information rights under Section 146 of the Companies Act 2006 who has been sent a copy of this notice of Annual General Meeting is hereby informed, in accordance with Section 149(2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Annual General Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
8. As at 31 March 2020 (being the last practicable date prior to the publication of this document), the company's issued share capital consisted of 150,061,567 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 31 March 2020 (being the last practicable date prior to the publication of this document) were 150,061,567.
9. Information regarding this Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available at **www.chesnara.co.uk**. Any electronic address provided either in this notice or any related documents may not be used to communicate with the company for any purposes other than those expressly stated.
10. In accordance with Section 319A of the Companies Act 2006, any member attending the Annual General Meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the Annual General Meeting, but no such answer need be given if (a) to do so would interfere unduly with the preparations for the Annual General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the company or the good order of the Annual General Meeting that the question be answered. As shareholders will be unable to attend this year's AGM due to the public health measures introduced by the Government in response to the Coronavirus pandemic, the company encourages shareholders to submit their questions electronically in advance of the meeting via **info@chesnara.co.uk**
11. Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement in accordance with Section 528 of the Companies Act 2006 setting out any matter relating to (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or (ii) any circumstances connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the company has been required under Section 527 of the Companies Act 2006 to publish on a website.
12. Members meeting the threshold requirements in Sections 338 and 338A of the Companies Act 2006 have the right to require the company (i) to give to members entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or (as applicable) the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the company not later than 11am on Tuesday 15 April 2020, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The notes on the following pages give an explanation of the proposed resolutions:

Resolution 1**Report & Accounts**

The Companies Act 2006 requires the directors of a public company to lay its Annual Report & Accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report & Accounts comprise the audited Financial Statements, the Auditor's Report, the Directors' Report, the Directors' Remuneration Report, and the Directors' Strategic Report.

Resolutions 2 and 3**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 2019. The Directors' Remuneration Report can be found on pages 76 to 93 of the 2019 Report & Accounts and, for the purposes of this resolution, does not include the parts of the Directors' Remuneration Report containing the Directors' Remuneration Policy as set out on pages 87 to 93, which is the subject of a separate vote at resolution 3. The vote on this resolution is advisory only and the directors' entitlement to remuneration is not conditional on it being passed.

Approval of the Directors' Remuneration Policy

The Companies Act 2006 requires the Directors' Remuneration Policy (the '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. Although the company is not proposing any material changes to the Policy, it was last approved at the Annual General Meeting in 2017 and is therefore presented for approval as resolution 3 at the Annual General Meeting. The Policy can be found on pages 87 to 93 of the Annual Report & Accounts. The vote on the new Policy is a binding vote, meaning that payments to directors may only be made if they are within the boundaries of the approved Policy. If approved, the Policy will replace the policy approved in 2017, becoming effective following the AGM and it is currently intended that it will continue to apply for 3 years until the Annual General Meeting in 2023, when further shareholder approval will be sought. Any future changes to the Policy will require shareholder approval. Once approved, the company will only be able to make remuneration payments to current and prospective directors and payments for loss of office to current or past directors within the boundaries of the new Policy, unless an amendments to the Policy authorising the company to make such payments has been approved by a separate shareholder resolution.

Resolution 4**Final dividend**

The declaration of the final dividend requires the approval of shareholders in general meeting. If the 2020 Annual General Meeting approves resolution 4, the final dividend of 13.87 pence per share will be paid on 02 June 2020 to ordinary shareholders who are on the register of members at the close of business on 24 April 2020 in respect of each ordinary share.

Resolutions 5 – 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. Biographical details of each director can be found on pages 64 and 65 of this document. The Chairman confirms that each of the directors proposed continues to make an effective and valuable contribution and demonstrates commitment to their responsibilities. This is supported by the annual performance evaluation that was undertaken recently. The board unanimously recommend that each of these directors be re-elected as a director of the company.

In accordance with the Code, the board has reviewed the independence of its non-executive directors and has determined that they remain fully independent of management.

Resolutions 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.

I EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

Resolution 15

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 2020 Annual General Meeting. The board is, therefore, seeking to renew its authority over shares having an aggregate nominal amount of £2,501,026, representing approximately one-third of the issued ordinary share capital of the company (excluding treasury shares) as at 31 March 2020 (being the latest practicable date prior to the publication of this document). The board is also seeking authority to allot shares having an aggregate nominal amount of £5,002,052, representing approximately two-thirds of the issued share capital of the company (excluding treasury shares) as at 31 March 2020 by way of a rights issue.

The allotment authority sought is in line with the Share Capital Management guidelines issued by the Investment Association. For the avoidance of doubt, the authority sought pursuant to this resolution will give the directors the ability to allot shares (or grant rights to shares) up to a maximum aggregate nominal amount of £5,002,052.

As at 31 March 2020, 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 2021.

Passing resolution 15 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 16 and 17

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 2020 Annual General Meeting and, in accordance with the Statement of Principles issued by the Pre-Emption Group, resolutions 16 and 17 (which will be proposed as special resolutions) seek to renew the directors' authority to disapply pre-emption rights as referenced below.

Resolution 16, 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 £375,154, 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 31 March 2020 (being the latest practicable date prior to the publication of this notice of Annual General Meeting).

Resolution 17 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 18

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 31 March 2020, 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 2021.

The company has options and awards outstanding under existing share schemes over an aggregate of 859,641 ordinary 5p shares, representing 0.57% of the company's issued ordinary share capital (excluding treasury shares) as at 31 March 2020 (the latest practicable date prior to the publication of this document). This would represent approximately 0.64% of the company's issued share capital (excluding treasury shares) if the proposed authority being sought at the Annual General Meeting to buy back 15,006,157 ordinary shares was exercised in full (and all the repurchased ordinary shares were cancelled).

Resolution 19

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 19 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.

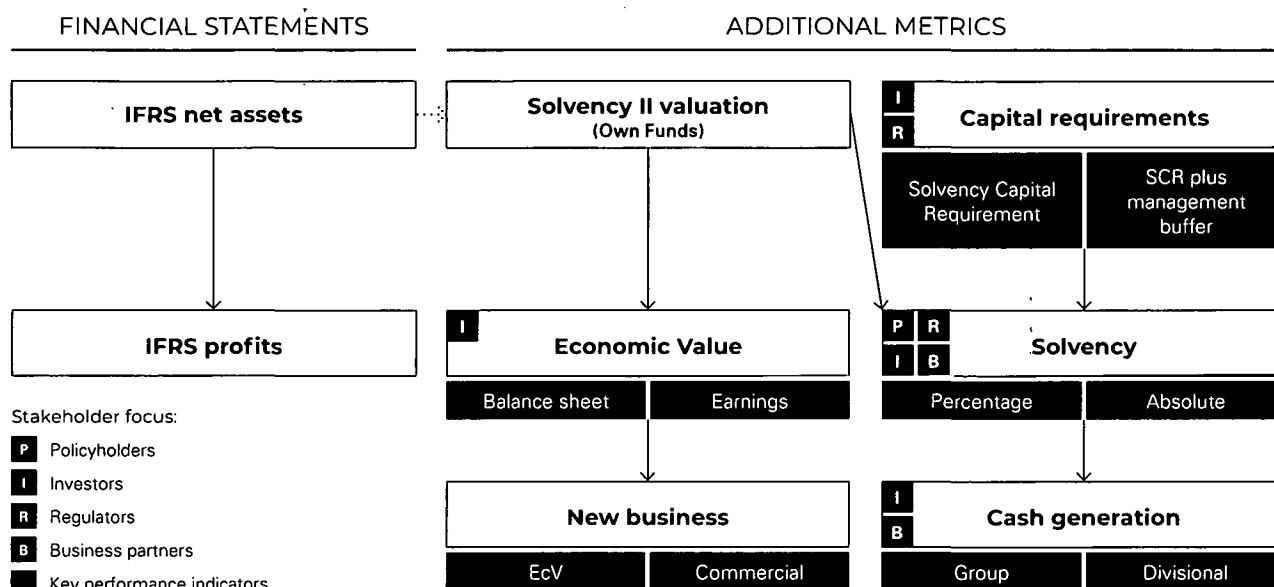
The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

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.

I RECONCILIATION OF METRICS

Within these Report & Accounts and as described on page 12, we use alternative performance measures to detail the position and performance of the group and its divisions. We believe that these measures are of greater commercial relevance than IFRS to users of the Report & Accounts. The diagram below shows the interaction between the measures:



As shown above, the key interaction between our statutory reporting rules under IFRS and the alternative performance measures is with the Solvency II valuation and the Own Funds balance. A reconciliation from IFRS net assets to Solvency II Own Funds is shown below:

£m	31 Dec 2019	31 Dec 2018	Rationale
Group IFRS net assets	478.2	445.6	
Removal of intangible assets; AVIF, DAC and DIL	(157.5)	(173.5)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	7,375.9	6,817.6	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II technical provisions. The main differences in methodology are discussed further below.
Inclusion of SII technical provisions, net of reinsurance	(7,076.1)	(6,510.7)	
Other valuation differences	2.0	3.9	Other immaterial valuation differences.
Deferred tax valuation differences	–	(4.4)	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(20.8)	(20.2)	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	(10.8)	(5.7)	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	590.9	552.6	

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.

I GLOSSARY

AGM	Annual General Meeting.	IFA	Independent Financial Adviser.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	KPI	Key performance indicator.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	LGN	LGN or Legal & General Nederland refers to the legal entity Legal & General Nederland Levensverzekering Maatschappij N.V. acquired by Chesnara in April 2017.
CA	Countrywide Assured plc.	London Stock Exchange	London Stock Exchange plc.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	LTI	Long-Term Incentive Scheme – A reward system designed to incentivise executive directors' long-term performance.
BAU cash generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Movestic	Movestic Livförsäkring AB.
BLAGAB	Basic life assurance and general annuity business.	Modernac	Modernac SA, an associated company which is 49% owned by Movestic.
Cash generation	This represents the operational cash that has been generated in the period. The cash generating capacity of the group is largely a function of the movement in the solvency position of the insurance subsidiaries within the group and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators. Cash generation is reported at a group level and also at an underlying divisional level reflective of the collective performance of each of the divisions prior to any group level activity.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
Commercial cash generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the underlying commercial cash generated by the business.	Official List	The Official List of the Financial Conduct Authority.
Divisional cash generation	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.	Operating profit	A measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance metric – APM).
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	Ordinary shares	Ordinary shares of 5 pence each in the capital of the company.
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.	ORSA	Own Risk and Solvency Assessment.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	Own Funds	Own Funds – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the company in those capital resources.
Economic Profit	A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance measure – APM).	PRA	Prudential Regulation Authority.
EcV	Economic Value is a financial metric that is derived from Solvency II Own Funds that is broadly similar in concept to European Embedded Value. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.	QRT	Quantitative Reporting Template.
FCA	Financial Conduct Authority.	ReAssure	ReAssure Limited.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
Form of proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	RMF	Risk Management Framework.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	Scildon	Scildon NV.
Group	The company and its existing subsidiary undertakings.	Shareholder(s)	Holder(s) of Ordinary Shares.
Group cash generation	This represents the absolute cash generation for the period at total group level, comprising divisional cash generation as well as both exceptional and non-exceptional group activity.	Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
Group Own Funds	In accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the group in those capital resources.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
Group SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors' short-term performance.
Group solvency	Group solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold in accordance with Solvency II regulations.	SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
HCL	HCL Insurance BPO Services Limited.	Swedish business	Movestic and its subsidiaries and associated companies.
IFRS	International Financial Reporting Standards.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
		TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
		TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
		UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
		UK Business	CA and S&P.
		VA	The volatility adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.
		Waard	The Waard Group.

I NOTE ON TERMINOLOGY

As explained in Note 7 to the IFRS financial statements, the principal reporting segments of the group are:

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; S&P which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December; and Protection Life Company Limited which was acquired by the group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
Movestic	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	which was acquired on 19 May 2015 and comprises two insurance companies; Waard Leven N.V. and Waard Schade N.V.; and a service company, Tadas Verzekering; 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.

Registered and Head Office

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