

ANNUAL REPORT
& ACCOUNTS

20
22



Chesnara

WELCOME TO THE
**CHESNARA ANNUAL
REPORT & ACCOUNTS**
FOR YEAR ENDED
31 DECEMBER 2022

2022 FINANCIAL HIGHLIGHTS

CASH GENERATION[†]

EXCLUDING THE IMPACT OF ACQUISITIONS

£82.7M

2021: £20.3m

GROUP SOLVENCY

197%

2021: 152%

FUNDS UNDER MANAGEMENT[†]

£10.6BN

2021: £9.1bn

DIVIDEND GROWTH

3%

INCREASE IN ANNUAL DIVIDEND
FOR 18TH CONSECUTIVE YEAR

IFRS LOSS BEFORE TAX

£146.9M

2021: £28.8m PROFIT

M&A DELIVERY

**2 ACQUISITIONS COMPLETED WITH A
3RD ANNOUNCED DURING 2022**

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SECTION A OVERVIEW

Southbank, London

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AN INTRODUCTION TO CHESNARA

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

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

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

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

Who we are and where we came from

- Chesnara plc is a responsible and well capitalised European life and pensions consolidator, formed in 2004 and listed on the London Stock Exchange.
- The group comprises both open-book and closed-book operations.
- The group initially consisted of Countrywide Assured, a closed life and pensions book demerged from Countrywide plc, a large estate agency group.
- Since incorporation, the group has grown through the acquisition of predominantly closed UK businesses, an open life and pensions business in Sweden and both a closed-book group and an open life and pensions business in the Netherlands. See pages 7 to 9 for further detail on our history and businesses.
- We are committed to transitioning to be a sustainable and net zero group across our operational and financed emissions and this commitment is at the heart of our decision making.

What do we do?

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

OUR STRATEGIC OBJECTIVES:

01

MAXIMISE VALUE FROM EXISTING BUSINESS

02

ACQUIRE LIFE AND PENSIONS BUSINESSES

03

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

OUR CULTURE & VALUES – RESPONSIBLE RISK-BASED MANAGEMENT

How we create value

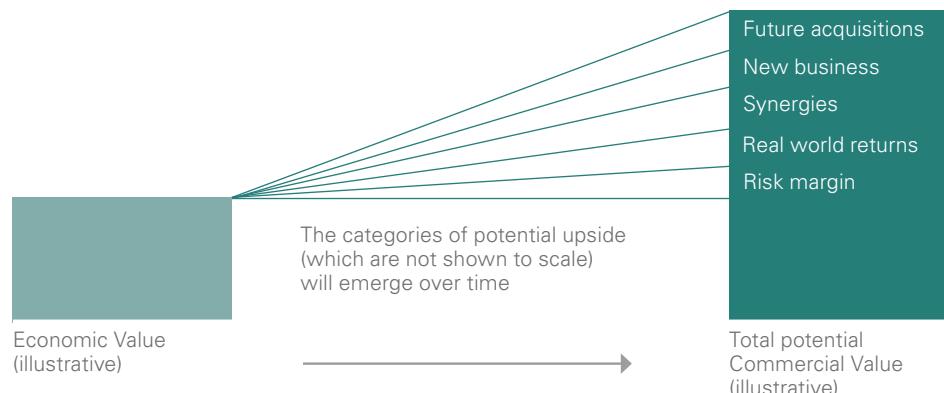
Customers

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

Shareholders

- Surpluses emerge from the in-force books of business through efficient management of the policy base and good capital management practices. These surpluses enable dividends to be paid from the subsidiaries to Chesnara, which fund the attractive shareholder dividend yield and support our wish to be a share held for the long term by our shareholders. The diagram below illustrates the primary sources of growth that contribute towards surplus emergence.

- Growth from both our proven acquisition model and from writing profitable new business in Sweden and the Netherlands has a positive impact on the Economic Value[†] of the business and supports longer-term cash generation.
- Customers are charged AMCs (annual management charges) for unit-linked products and pay premiums for insurance policies.



How we operate

- Chesnara has a centrally defined governance and Risk Management Framework operating across the group and all its divisions.
- Our management teams have clear responsibilities and are accountable for the delivery of set objectives and the identification and management of risks and opportunities, including those arising from climate change.
- We are committed to transitioning to be a sustainable and net zero group and this commitment is at the heart of our decision making.
- Our team has significant experience and a proven track record in governing, acquiring and successfully integrating life and pension businesses.

- Acquisitions form a key part of our strategy and are assessed against stringent financial criteria adopting a robust risk-based due diligence process.
- We maintain robust solvency and liquidity levels as part of our wider Capital Management Framework.
- Chesnara's governance and Risk Management Framework is designed to deliver long-term peace of mind to our customers, shareholders, employees, regulators, outsourcing partners and local communities.
- 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.

UK

FUNDS UNDER MANAGEMENT[†]
£4.4bn

POLICIES: c272,000

SWEDEN

FUNDS UNDER MANAGEMENT
£3.8bn

POLICIES: c316,000

NETHERLANDS

FUNDS UNDER MANAGEMENT*
£2.8bn

POLICIES: c415,000*

CHESNARA GROUP

FUNDS UNDER MANAGEMENT*
£11.0bn

POLICIES: c1,003,000*

* post Conservatrix acquisition, completed 1 January 2023.

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

DELIVERING OUR STRATEGY • WHAT WE'VE DONE

Eleven successful acquisitions across three territories with one more completed post year end

Our deals **demonstrate flexibility and creativity**:

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

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

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

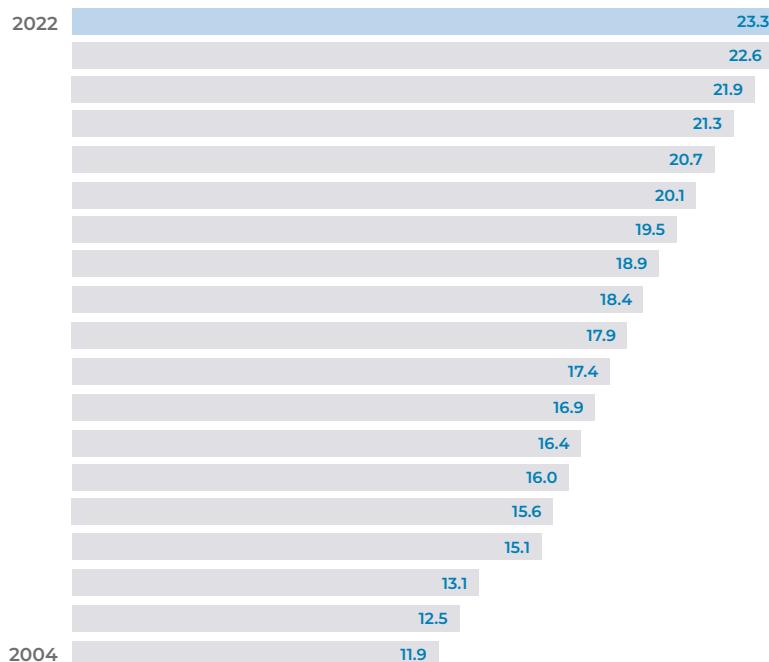
Focusing on our three strategic objectives has enabled us to deliver sustainable growth in cash generation over the long term. And we are confident we can continue this delivery in the future.

DIVIDEND HISTORY

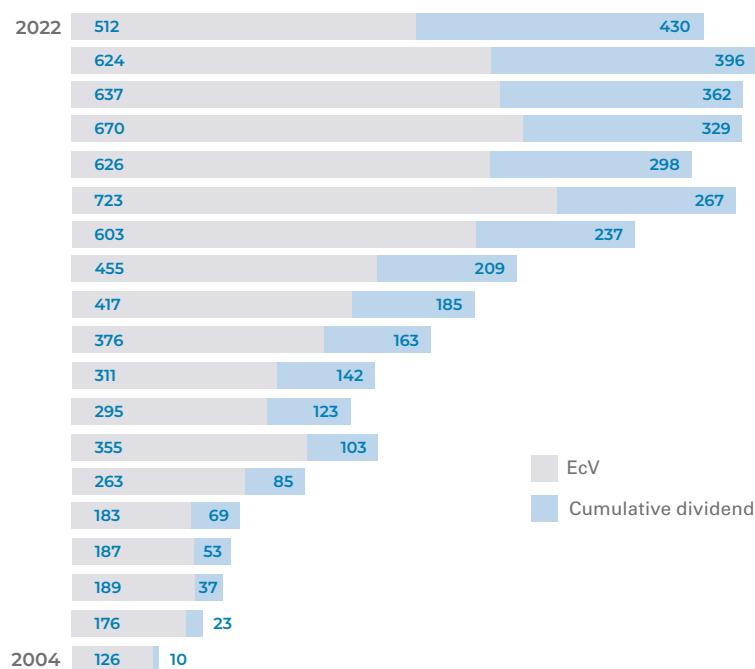
18 successive years of dividend growth

We recognise the importance of providing stable and attractive dividends to our shareholders. A full-year 2022 dividend of 23.28p per share represents an increase of 3% on the prior year and is Chesnara's 18th successive year of dividend growth. Chesnara has paid cumulative dividends of £430m.

Dividend per share history Pence per share



Economic Value history £m



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

CASH GENERATION[†]

Cumulative commercial cash generation[†] of £207m has exceeded our dividends by 28% over the last 5 years

The group generates cash to service its dividends and reinvest in the business including through acquisitions. We define cash generation as the movement in the group's surplus Own Funds above the group's internally required capital.

Our commercial cash generation[†] metric looks through the impact of technical components like the symmetric adjustment to show the group's view of the surplus being generated. Cumulative commercial cash generation over the last five years represents 128% of the total dividends over the same period.

ECONOMIC VALUE[†] GROWTH

305% of value growth since 2004

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

CUSTOMERS

Our primary responsibilities remain to our customers

- Post the Conservatrix acquisition, we look after over 1 million customers that have their pension, life assurance or other savings and investments with us.
- Customers and their advisors can be confident that they hold policies with a well-capitalised group where financial stability is central to our culture and values.
- Our investment returns remain competitive across the group.
- We deliver good customer service levels across the group.

2022 HIGHLIGHTS

CASH GENERATION

£82.7M 2021 £20.3m

GROUP CASH GENERATION⁷

(excluding the impact of acquisitions)

A strong cash result was delivered in 2022 with group cash generation of £82.7m (excluding the day 1 impact of the two acquisitions completed in the year), which includes £61.9m⁸ of cash generation from our divisions. The result has benefitted from the positive impact of the symmetric adjustment (which has been beneficial as a result of falling equity prices in the year). Commercial cash generation, which adjusts for items such as the symmetric adjustment, gives a view of the underlying cash generation in Chesnara and is analysed in more detail on page 51. Commercial cash generation of £46.6m more than covers the 2022 dividend. Both cash metrics include the impact (£36.5m) of having hedged an element of our FX exposure during the year. ^① Financial review p50

SOLVENCY

197% 2021 152%

GROUP SOLVENCY

The group solvency improvement is largely due to the impact Tier 2 debt raised, being significantly higher than the strains from the acquisitions completed in the period. Looking through these transaction impacts, the underlying solvency has increased by 10 percentage points. ^① Capital management p45

ECONOMIC VALUE

£511.7M 2021 £624.2m

ECONOMIC VALUE⁴

The EcV result was particularly affected by falls in equity markets and bond prices in the year, moving in line with our published sensitivities. Other negative factors include the impact of dividend distributions (£34.3m). Acquisitions completed in the year contributed £21.4m to EcV.

^① Financial review p53

£9.5M 2021 £9.6m

COMMERCIAL NEW BUSINESS PROFIT⁶

Profits from Scildon remain stable but challenging equity market conditions in Sweden have had a negative impact on their new business result versus 2021. ^① Business review pages 40-43

IFRS

£146.9M 2021 £28.8m profit

IFRS PRE-TAX LOSS

The result contains large losses arising from economic conditions¹ of £151.8m (2021: £11.8m), largely in our Dutch businesses. Our reserving approach in Scildon means that the result bears the full impact of interest rate increases on asset values but no credit is recognised for the associated reduction in liabilities.

£46.6M 2021 £53.0m

COMMERCIAL CASH GENERATION⁹

FuM

£10.6BN 2021 £9.1bn

FUNDS UNDER MANAGEMENT³

FuM growth since the start of the year has been primarily delivered through our two completed acquisitions. Volatile economic conditions impacted asset values which has had an adverse impact on FuM. ^① Financial statements p141

£(106.1)M 2021 £57.8m

ECONOMIC VALUE EARNINGS⁵

The year-on-year swing is predominantly due to volatile economic conditions in the period. ^① Financial review p52

£91.9M 2021 £3.8m profit

TOTAL COMPREHENSIVE LOSS

There was a relatively modest foreign exchange impact of £5.8m in 2022 compared to the prior year (loss of £23.9m). Total comprehensive income benefits from a £48.6m tax credit (2021: £1.5m tax charge). ^① Financial review p54

DIVIDEND

FULL YEAR DIVIDEND INCREASED FOR THE 18TH CONSECUTIVE YEAR

Total dividends for the year increased by 3% to 23.28p per share (8.12p interim and 15.16p proposed final). This compares with 22.60p in 2021 (7.88p interim and 14.72p final). The two completed acquisitions, and one recently announced acquisition, are expected to positively support future cash generation.

ECONOMIC BACKDROP

2022 HAS SEEN VOLATILE ECONOMIC CONDITIONS WITH RISING INTEREST RATES, FALLING EQUITY MARKETS AND INFLATIONARY PRESSURE

The financial results have been heavily impacted by the economic conditions in 2022, particularly in the first half of the year. The war in Ukraine and uncertainty in financial markets have been reflected in falling equity values and rising interest rates which, coupled with the impact of inflationary pressures, have led to negative investment returns and economic losses across the operating divisions. The impact of these economic factors has been felt, to varying degrees, across all of our financial metrics.

GROWTH AND ACQUISITIONS

THE GROUP CONTINUES TO EXPAND THROUGH M&A

In 2022, we completed the two acquisitions announced late in 2021 and announced a further acquisition in the Netherlands. The acquisitions of Sanlam Life & Pensions UK Limited (now renamed CASLP) and Robein Leven in the Netherlands, both completed successfully during the second quarter of 2022, delivered a combined 9% uplift in policies within the group portfolio and a total day 1 EcV gain of £21.4m.

Expansion in the Netherlands has continued under the Waard Group in 2022, following the announcement of the acquisition of the insurance portfolio of Conservatrix NV, which subsequently completed early in 2023. This transaction is expected to deliver a material increase in Waard's policies under administration of c60%. We remain optimistic about the outlook for future deals.

Notes: Items 1 to 9 below are Alternative Performance Measures (APMs) used by the group to supplement the required statutory disclosures under IFRS and Solvency II, providing additional information to enhance the understanding of financial performance. Further information on these APMs can be found on page 12, throughout the Financial Review and in the APM appendix on pages 238 and 239.

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

MEASURING OUR PERFORMANCE

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

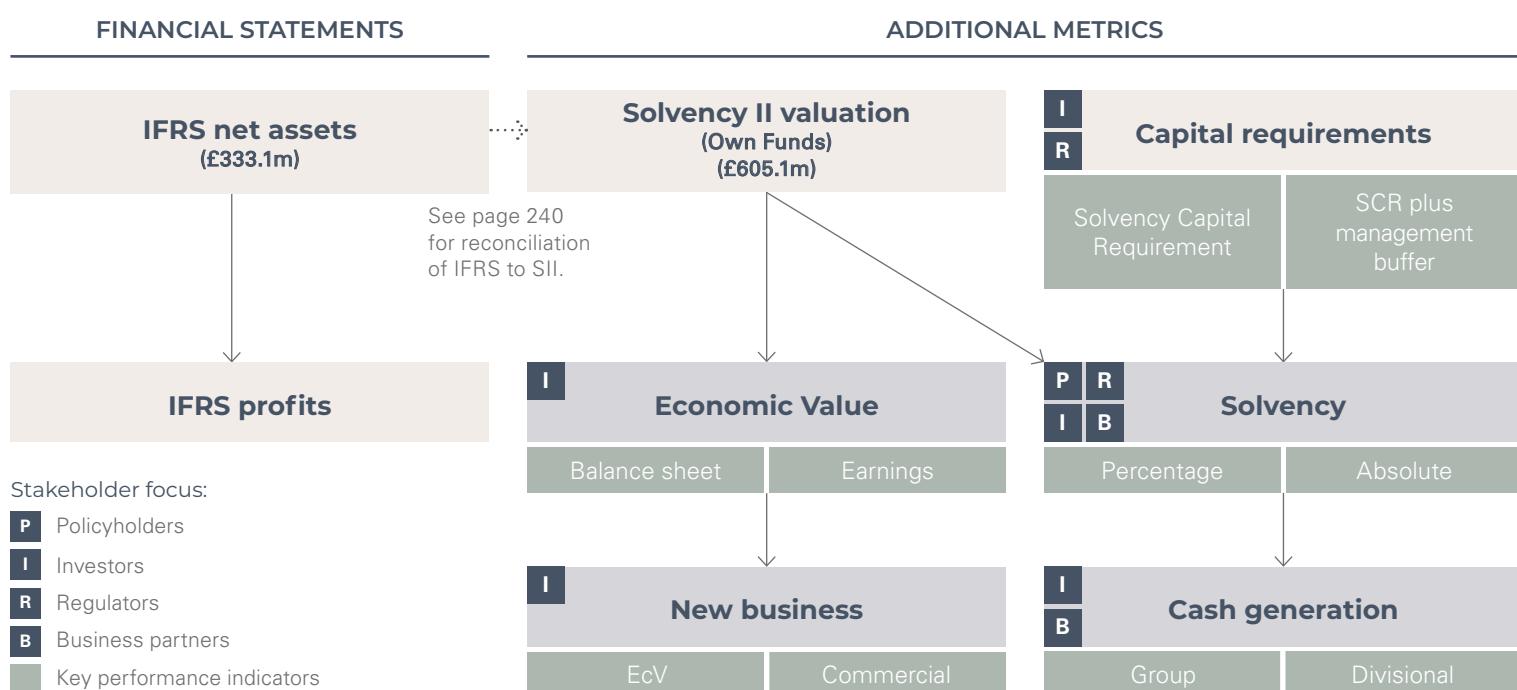
Financial analysis of a life and pension business

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

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

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

Further detail on APMs can be found in the appendix on pages 238 and 239.



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 than Own Funds. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations of long-term policies.

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

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

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 Chasnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.

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

Further details on pages 45 to 47 and 240 and 241.

Further details on pages 52 and 53 and 238 and 239.

Further details on pages 50 and 51 & 238 to 241.

OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

Measure	KEY STAKEHOLDERS				What is it and why is it important?	Page
	Policyholder	Investor	Regulators	Business partner*		
Customer service levels					How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report and Accounts refer to a number of indicators of customer service levels.	38-43
Broker satisfaction					Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Report and Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	40-43
Policy investment performance					This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating, and options available to invest in funds that focus on environmental, social and governance factors.	38-43
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.	38-43
Emissions and water/energy usage					Tracking our scope 1, 2 and 3 (non-financed) emissions is a core part of our transition to be a net zero and sustainable group.	81-84
Funds Under Management					This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds Under Management are also a strong indicator of fee income.	7
Policy count					Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed-book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.	7
Total Shareholder Returns					This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.	55
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'.	40-43
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.	40-43
Gearing ratio					The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources (defined as debt divided by debt plus equity). The appropriate use of debt is an efficient source of funding.	55
Knowledge, skills and experience of the board of directors					This is a key measure given our view that the quality, balance and effectiveness of the board of directors has a direct bearing on delivering positive outcomes to all stakeholders. This includes holding the management teams accountable for the delivery of set objectives and the proper assessment of known and emerging risks and opportunities, e.g. those arising from climate change.	83-89

KEY  Primary interest  Secondary interest

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

CHAIR'S STATEMENT

'I am delighted to report that our divisions have continued to deliver a strong level of cash generation despite significant economic volatility during the year. This has supported an increase in our dividend for an 18th consecutive year.'

LUKE SAVAGE, CHAIR



CASH EMERGENCE, DIVIDEND AND FINANCIAL STABILITY

Chesnara has a strong track record of delivering cash generation[†] across a variety of market conditions. 2022 has been no different, with total divisional cash generation of £61.9m leaving us well positioned to further extend our 18 years of continued dividend growth. Our shareholders will receive 23.28p per share, an increase of 3%.

Financial stability is at the heart of the Chesnara business and its financial model. First and foremost, it is fundamental to providing financial security to our customers. Strong and stable solvency is also critical to the investment case for both our equity and debt investors.

In light of this, I am pleased to report our solvency position remains robust, with a closing Solvency II ratio of 197%, significantly above our normal operating range, providing us with considerable strategic optionality. Our solvency position remains underpinned by a well-diversified business model, a focus on responsible risk-based management and resilient and reliable cash flows from our businesses. Our previously announced Tier 2 debt raise in February 2022 was also a material contributor to our improved solvency ratio.

PEOPLE AND DELIVERY

Following the initial impact from the pandemic, operating conditions have stabilised and across the group we have settled into effective and flexible hybrid working conditions. However, while operating conditions have become less challenging, we are aware that our workforce is becoming increasingly challenged by the wider cost of living crisis. With this in mind, we have supported all UK staff whose salaries are below the higher rate tax threshold with two one-off payments in August and December, broadly in line with the estimated increase in average household expenditure witnessed to date. We have also offered pay increases which are sympathetic to inflationary pressures our employees are exposed to. Beyond financial reward we have rolled out a Wellness Support programme. This offers tailored one to one lifestyle coaching designed to help staff manage the challenges associated with increasingly stressful but often sedentary lifestyles. The programme initially covers the UK head office but delivery of similar programmes will become a core requirement across the wider group as a key objective of our Sustainability Programme.

Across the group our people have continued to deliver. We have completed the acquisitions of Sanlam Life & Pensions UK Limited in the UK and Robein Leven in the Netherlands. On both deals, our teams have been working hard integrating those new businesses into the group. Positive progress has been made on the Sanlam integration, including planning for the Part VII process. The integration of Robein Leven is now largely complete. Furthermore, we completed the acquisition of the insurance portfolio of Conservatrix in the Netherlands on 1 January 2023. This transaction transforms our Dutch closed life business, Waard, increasing its policies under administration by over 60% and creating a second material closed-book consolidation business alongside Chesnara's existing UK platform.

In Sweden, there has been a strong focus on improving the transfer ratio with a marked reduction in the rate at which business transfers out from our portfolio. There are also positive early signs of improved new business as local management focus on maximising the expected opportunity from recent regulatory changes in Sweden.

Staff have also been working hard to ensure we can meet the requirements of IFRS 17 which became effective from the start of 2023. Our programme is progressing well and we are on track to produce the half year 2023 figures as required. We retain our view that the transition to IFRS 17 will have minimal commercial impact on how we manage the business, the risks it is exposed to or the financial outcomes we expect. This, together with the successful Tier 2 debt raise in February 2022, leaves us well placed to fund future acquisition activity.

One final action I wanted to highlight is the implementation of a foreign currency hedge during the second half of the year. This has materially reduced our exposure to FX movements between sterling and both the euro and Swedish krona. In addition to reducing the real world exposure the hedge has also materially reduced the level of currency risk capital we have to hold thereby increasing the headline solvency ratio by c11 percentage points.

Of course, these major developments are in addition to continuing to deliver all customer and regulatory business-as-usual responsibilities.

In short, it has been a period of significant operational delivery and I would like to take this opportunity to thank staff for their continued commitment and efforts.

PURPOSE

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

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

Our equity investors are a key stakeholder, and I am pleased that we have announced a 3% increase in the 2022 dividend to 23.28 pence per share. Our debt investors have also received their first full year's worth of debt coupon payments since the Tier 2 raise in February 2022.

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

Over recent years we have increased our focus on environmental matters and we have accelerated and deepened this focus during the year. As we take stock of our environmental status we continue to believe that our current position is relatively strong across all divisions and there are many examples of positive environmental actions. That said, we are also extremely conscious that we need to more formally substantiate our environmental footprint and, based on this assessment, agree and report targets for how we commit to reduce to net zero.

A group-wide sustainability programme has been initiated during the period which is building on the excellent work done in the divisions thus far. The programme has executive and non-executive sponsorship, with David Rimmington leading executive oversight of the programme and Jane Dale chairing our new Group Sustainability Committee. This work will look to transform Chesnara into a sustainable business. The scale of the task for us and the rest of the industry is huge and an initial priority for the programme will be to formally measure our scope 3 financed emissions, to go with our understanding of the impact of our operating framework. This will allow us to establish a formal road map to the ultimate net zero target and an action-based transition plan to demonstrate how we will deliver the associated real world change. We have produced our inaugural Annual Sustainability Report (available on the Chesnara website) which provides details on our commitments and long-term targets, as well as key activities for the wider sustainability strategy.

OUTLOOK

Sources of future growth remain strong. The reduction in Economic Value[†] during the period has been driven largely by the impact of the war in Ukraine and wider geopolitical factors have had on equity markets. However, we retain our view that, despite such short-term market volatility, equities continue to offer a source of long-term value enhancement. Furthermore, with completion of the Conservatrix acquisition we expect a material level of value recovery during the first quarter of 2023.

In addition, the outlook for acquisitions is positive. We continue to expect the market to be active and we have taken actions to enhance our ability to participate in that market, including the issuance of our inaugural Tier 2 bond in February 2022.



Luke Savage
Chair
29 March 2023

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

CHIEF EXECUTIVE OFFICER'S REPORT

'The acquisition of the Conservatrix insurance portfolio was the third transaction Chesnara has announced over the past year, highlighting the renewed growth momentum behind our M&A strategy.'

STEVE MURRAY, CEO



INTRODUCTION & RESULTS

As I look back on 2022, it is hard to underestimate the extreme and volatile economic and geopolitical backdrop we have all witnessed and operated in. As part of my annual 2021 report I highlighted Chesnara's track record of delivering through a very wide range of market conditions over its history and we have done so yet again in 2022, both in terms of cash generation[†] and acquisitions. We have generated £46.6m of commercial cash[†], representing 133% coverage of the 2022 total dividend. Commercial cash provides good insight into the underlying cash generation dynamics of the group. The symmetric adjustment (a feature of our capital model which means we hold more capital when equity markets rise sharply and can then release capital if we see corresponding falls) and the implementation of a FX hedge have generated additional cash, resulting in total group cash generation of £82.7m (excluding the impact of acquisitions). This level of cash generation, against such a negative external market backdrop, clearly demonstrates the resilience of our business model and is expected to enable our divisions to pay c£74m of dividends to Chesnara plc in early 2023. Our solvency position remains strong and well above our normal operating range of 140%-160%, leaving us well positioned to fund our M&A strategy and withstand future financial volatility.

In 2022, we have re-energised our strategy whilst remaining focused on doing three things:

1. Running in-force insurance and pensions books efficiently and effectively.
 - We now look after 1 million policyholders and customers who have c£11.0bn of their assets with us following the acquisition of Conservatrix's insurance portfolio which completed on 1 January 2023.
 - We have seen the benefits of positive retention activity. In Sweden, we have seen a marked reduction in the rate at which policies have been transferring out from the Movestic portfolio.
 - Our business model has meant there has been a relatively immaterial impact on our balance sheet from the high inflationary backdrop across the UK and Europe.

2. Seeking out and delivering value enhancing M&A opportunities:

- This is an area where we have seen extensive activity across the group compared to recent years. During 2022, we completed the acquisitions of CASLP and Robein Leven and the integration of these businesses within the group is well underway.
- In July 2022, we also announced the acquisition of the insurance portfolio of Conservatrix in the Netherlands and the deal completed on 1 January 2023. A capital contribution of £35m has been provided by the group to support the solvency position of the Conservatrix business, ensuring that Conservatrix customers will benefit from becoming part of a well-capitalised group after a significant period of uncertainty. Our updated expectation is the transaction will add c£21m to Economic Value[†] and deliver steady state cash generation of c£4m each year, supporting our dividend strategy. As a reminder, CASLP and Robein Leven combined added £21.4m in EcV and should deliver additional steady state cash generation of c£6m each year.
- Our February Tier 2 debt raise of £200m proved to be very well timed to support this activity with capital resources required to support our three announced transactions, totalling over £110m (of which £85m was funded from holding company cash reserves). And it provides financial flexibility to support further acquisitions where we continue to have material resources of over £100m.

3. Writing focused, profitable new business where we are satisfied an appropriate return can be made.

- During the period, we have delivered record market shares of term new business in Scildon. Against a backdrop where the overall term market shrank in 2022, we have seen a 3.5% period on period increase in total volumes. In Movestic we have seen increments return to pre COVID-19 levels plus an encouraging trend in new transfer business. The inflated levels of transfers out we have seen over the last 24 months are also now back in line with our longer-term assumptions.

Remaining focused on these three strategic aims has had a positive impact on the results in the period and importantly enhanced the outlook for the group. However, these positive impacts have been more than offset by the adverse short-term impacts of very volatile economic and market conditions on the IFRS and Economic Value (EcV)[†] results during the period, where we have reported losses of £146.9m and £106.1m respectively.

CONTINUED DELIVERY OF RESILIENT CASH GENERATION AND ROBUST SOLVENCY

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

RESILIENT CASH GENERATION

The total group cash generation[†] (excluding the impact of acquisitions) during the year was £82.7m (2021: £20.3m). As a reminder, we define cash as the movement in the group's surplus Own Funds above the group's internally required capital. The surplus can be impacted by equity markets and currency movements in the near term and by consolidation adjustments. The divisional results pre-consolidation give a good reflection of the dividend potential rather than looking at the consolidated group figures in isolation.

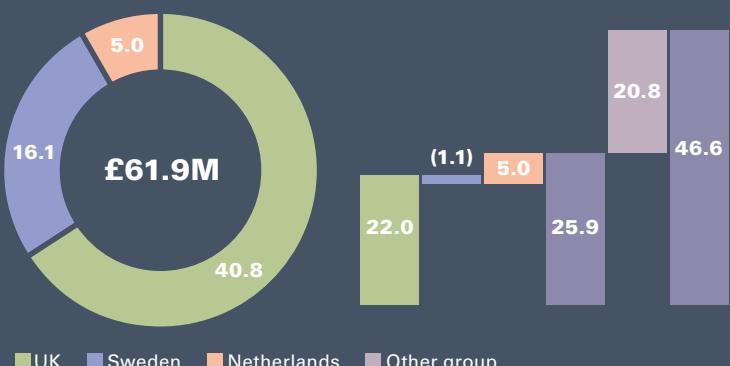
The total divisional cash generation[†] for the year was £61.9m (2021: £31.1m) and creates significant future dividend paying capacity. The headline divisional cash generation was positively impacted by £36.0m through technical factors such as the symmetric adjustment*. As I mentioned above, this is a feature of the Solvency II Standard Formula whereby reduced capital levels need to be held following periods of sharp equity market falls, such as we have seen this year.

To get a further sense of the inherent cash generation in Chesnara, our alternative commercial cash metric looks through the symmetric adjustment and foreign exchange translation impacts, along with other less material technical impacts (see financial review section on page 51 for more detailed cash generation analysis).

At a total divisional level, we have generated £25.9m of commercial cash. We have options to complement any base cash generation by taking capital enhancing management actions. During the latter part of the year we triggered one such management action and took out a hedge to reduce our exposure to foreign exchange rate movements which created c£26m of additional solvency surplus. This together with the divisional results provides coverage well in excess of the shareholder dividend.

Cash generation by territory:

Divisional cash generation (£m) Commercial cash generation (£m)



*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.

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

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

TOTAL COMMERCIAL CASH GENERATION REPRESENTS 133% COVERAGE OF THE 2022 SHAREHOLDER DIVIDEND

The Chesnara parent company cash and instant access liquidity fund balance at 31 December 2022 has increased to £108.1m (31 December 2021: £46.1m), which provides future acquisition funding capacity and further supports the sustainable funding of the group dividend. Cash reserves have increased, largely as a result of the £200m Tier 2 debt raise in February 2022. This has been offset by the repayment of the pre-existing RCF balances of £31.2m, £62.9m funding for the Sanlam Life & Pensions UK Limited (now renamed CASLP) acquisition and a £21.5m capital injection to Waard to support the Conservatrix acquisition (total capital injection of £35m with the remaining £13.5m funded directly by Waard). Waard were able to fund the acquisition of Robein Leven without additional capital support from the group. Excluding these items, the underlying balance has remained largely constant as divisional dividend receipts have broadly matched the shareholder dividend payment and other working capital outflows.

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

STRONG SOLVENCY

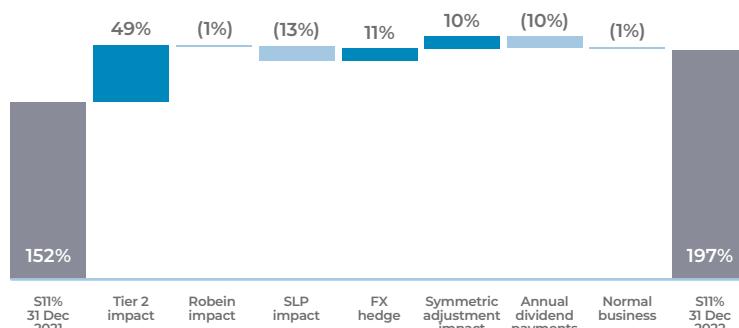
During the year we have seen a sharp increase in the group solvency ratio to 197%. The waterfall chart to the right illustrates that this increase is largely due to the Tier 2 debt issuance, partly offset by the capital resources (mainly the payment of consideration) required to complete the CASLP and Robein Leven acquisitions, together with the impact of a swing in the scale and direction of the symmetric adjustment. Excluding these individually material movements the ratio has continued to remain stable.

Solvency ratio



The closing headline solvency ratio of 197% is significantly above our normal operating range of between 140% and 160%. The solvency ratio does not adopt any of the temporary benefits available from Solvency II transitional arrangements (though we do apply the volatility adjustment in our UK and Dutch divisions). However, the ratio is impacted by the symmetric adjustment; a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth. At the end of 2021 the symmetric adjustment was suppressing the solvency ratio by 8%. We noted that this suppressing impact was likely to reverse out over time. This is indeed exactly what we have observed during 2022 when equity markets have fallen, with the symmetric adjustment shifting to a position where it is now enhancing the headline ratio by 10 percentage points.

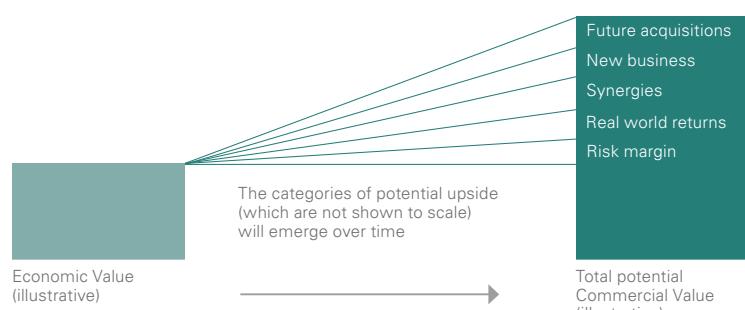
Solvency ratio movement



We expect to utilise this additional capital surplus as we undertake acquisitions, which should result in the ratio reverting back within the robust and stable 140% to 160% historical range. The recently completed Conservatrix acquisition is expected to reduce the solvency ratio by approximately 15 percentage points to 182% on a pro-forma basis as at 31 December 2022. Strategically, it is our intention to deploy further capital in support of value enhancing acquisitions in the future.

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

In our 2021 full-year accounts, we introduced the concept of the Chesnara 'fan' which illustrates the additional areas of growth potential the group may benefit from that aren't reflected in our Economic Value[†] metric.



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

Although a one year time period is short, it is worth looking at how the results for 2022 map against the value growth components of the Chesnara 'fan'.

A key element of the growth model is real world investment returns. The reported EcV of the group assumes risk free returns on shareholder and policyholder assets. Given the direct link to external market performance this source of value is the most volatile of the growth sources. In 2021, real world returns represented growth of c£110m. A large proportion of this has reversed with a corresponding loss in 2022 of c£109m. Despite this volatility in the short term, over the long term we expect average returns in excess of risk free, as we have seen historically. Valuing the group assuming relatively conservative returns above the risk free yield, for example using an average of 5% total equity returns per annum, would add significantly upwards of £150m of incremental EcV. In addition, we might reasonably expect a significant proportion of the recent losses to be reversed in the event that markets recovered.

Over time, we expect improvements to operational effectiveness to be a source of value creation, be that through M&A synergies, scale or other positive management actions. During the first half of the year, Countrywide Assured in particular has benefitted from synergies from the CASLP acquisition. Over recent years, including 2021, we have suffered some operational losses particularly relating to investments made in IT systems in Scildon, some regulatory changes, and higher than expected pension transfer outflows in Sweden. It is hugely encouraging to report that there has been a marked reduction in the rate at which business has transferred from the Swedish portfolio in 2022 and we start 2023 with outflow rates being back in line with the long-term assumption. The Countrywide Assured expense synergies together with the positive transfer experience in Sweden mean the outlook for operational value growth is much improved.

The other value growth components have all been a source of actual growth during the period. The Own Funds of the group have increased by £20.0m directly as a result of risk margin reductions. Acquisitions completed in the period have also added £21.4m of EcV on a marginal costing basis and the Conservatrix deal completed on 1 January 2023 is expected to add a further c£21m of EcV.

'We now look after 1 million policyholders and customers who have c£11bn of their assets with us'

STEVE MURRAY, CEO

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

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

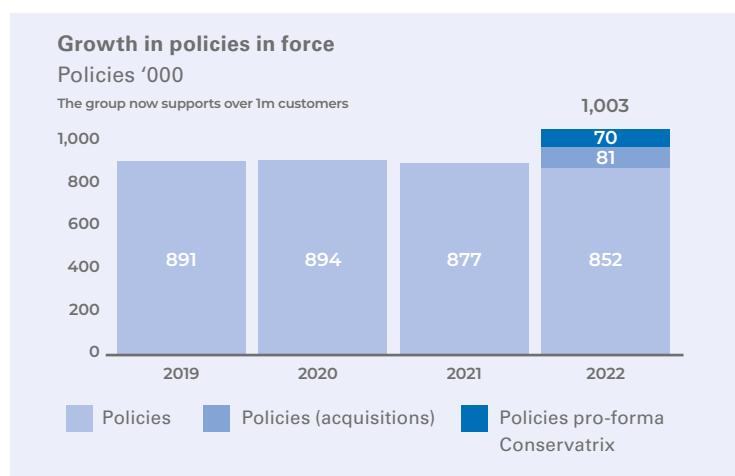
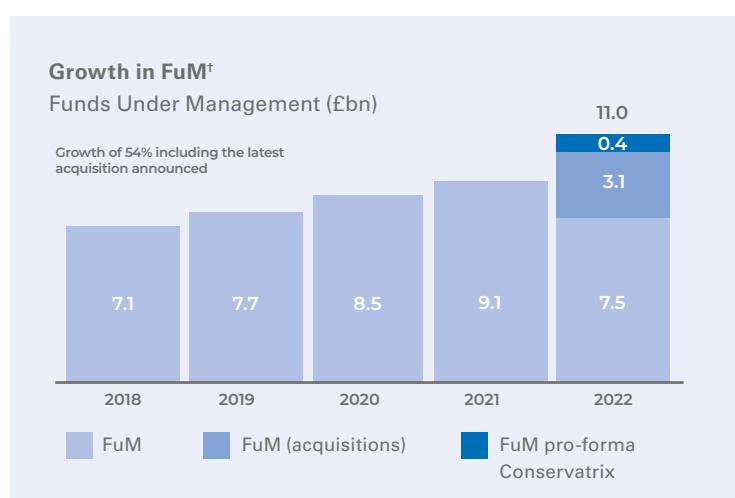
FOCUSED WRITING OF NEW BUSINESS

Writing new business is the third area of focus in the Chesnara strategy. Not only is new business value adding in its own right, importantly it adds scale which in turn enhances operational effectiveness and improves the sustainability of the financial model. During 2022, we have seen steady commercial new business[†] profits of £9.5m.

EQUITY MARKET PERFORMANCE HAS DRIVEN A MARKED REDUCTION IN ECV

Despite a degree of recovery towards the end of the year, we have seen falls in equity markets over the period, particularly in Sweden, and this has been the primary reason why we are reporting a group EcV loss of £106.1m for the year. The overall movement in the group's EcV over the period includes a £21.4m positive impact of the two acquisitions that we completed in the year.

We have grown our Funds Under Management (FuM)[†] in 2022, primarily through the completion of CASLP and Robein Leven. This growth was largely offset by the negative effects of increasing yields and falling equity markets on the value of funds.



AN INCREASED FOCUS ON ACQUISITION ACTIVITY

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

Successful acquisitions have been key to Chesnara's development historically and will remain so in the future. During 2022, we completed two acquisitions, Robein Leven in the Netherlands and CASLP in the UK. Robein Leven added further scale to Waard, the group's Dutch closed-book operations, and CASLP increased the UK Funds Under Management by £2.9bn. Together they added £21.4m of EcV on a marginal cost basis and are expected to create additional steady cash generation potential of c£6m per annum.

In July 2022, we announced the acquisition of Conservatrix in the Netherlands. This deal completed on 1 January 2023 and our updated expectation is that this deal will deliver an immediate increase of c£21m of EcV, with further value generated from future real world investment returns and the run-off of the risk margin. The new portfolio is expected to generate c£4m of steady state incremental cash per annum meaning the enlarged Waard business will generate c£8m of cash per year, covering about one quarter of the shareholder dividend. Taken together, accessing these value enhancing acquisitions will have required us to deploy over £110m of capital resources (of which £85m was funded from holding company cash reserves), primarily from the £200m inaugural Tier 2 debt raise we executed in February 2022.

CONFIDENCE IN OUR ABILITY TO EXECUTE FUTURE M&A

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

2022 has continued to see an active M&A market across European insurance with sources of capital readily available to support transactions, large international insurance groups refocusing their strategies away from legacy businesses and management teams that actively managed their business portfolios being rewarded by shareholders.

Even with the current market volatility, we expect positive activity levels in insurance M&A to continue. A market with plenty of activity provides opportunities for Chesnara as a consolidator. We continue to believe there is also likely to be a little less competition in the sub £250m deal valuation end of the market that we currently participate in. The three deals that we have announced in recent times should provide positive reference points for sellers and their advisors about our renewed ability to execute M&A.

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

We continue to have material cash resources to deploy following the £200m Tier 2 debt issue and, after paying down existing debt, funding the CASLP deal and Conservatix capital injection, we hold cash balances of £108m at a group level (of which a good proportion is readily available for deployment). Our revolving credit facility creates an additional level of working capital flexibility. For more transformational deals, we retain the ability to raise equity and are mindful of the potential benefits from other funding arrangements such as joint ventures or vendor part-ownership.

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

PEOPLE CHANGES

We announced that Sam Perowne was joining our executive team early in 2022. Sam, along with two new Independent NED appointments in February, Karin Bergstein and Carol Hagh, has extensive M&A experience. In August, we announced two further changes to our senior leadership team with Al Lonie moving from Company Secretary to become my Chief of Staff and Amanda Wright joining from abrdn to become General Counsel and Company Secretary.

These changes will further enhance the capacity, capability and experience we have available to pursue further strategic opportunities.

In February this year, we also announced that our Scildon CEO, Gert-Jan Fritzsche, will be leaving the business as we enter the next phase of Scildon's strategic development. I want to thank him for all his efforts over the past six years as Scildon CEO. Our market search for his replacement is well under way.

A SUSTAINABLE CHESNARA

We are committed to becoming a sustainable group. As a steward and a safe harbour for our c1 million policyholders and c£11bn of policyholder and shareholder assets, we have a real responsibility to help drive the change needed to deliver decarbonisation and a sustainable society and economy. As a business, we are still at the beginning of our journey and our principles are: 'Do no harm. Do good. Act now for later'. We're determined to get there and we know that speed is of the essence.

To drive our sustainability agenda, we have established our Group Sustainability Committee chaired by our Senior Independent Director, Jane Dale, which will help oversee our group sustainability programme that is being led by Dave Rimmington. The committee consists of senior management from across the group, including myself. Our inaugural Annual Sustainability Report (ASR), which we've published alongside this Annual Report and Accounts, details our vision and commitments. This first ASR positions what we're going to do and how we're going to do it, alongside why being sustainable is so important to us. Simply put, we will make decisions based on all of our stakeholders, including the planet and its natural resources. Positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. Based on this, we're committed to:

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

These commitments will shape what we do and how we do it. We are working to put sustainability at the heart of everything we do and 2023 will further embed this. Our reporting will evolve as our plans and targets become more established so please take a look at our first ASR and we look forward to updating you on our progress.

OUTLOOK

Chesnara has an excellent track record of sustainable long-term cash generation over its history through recessions, pandemics, global financial crisis and other variable market conditions. 2022 has seen us continue this impressive record of cash generation in difficult markets.

The war in Ukraine played a large role in the volatile start to 2022 that we saw across global markets. The Chesnara business model has delivered positive cash generation in uncertain markets before, and we have confidence it will continue to do so in future. We are not dismissive of the material reduction in Economic Value that equity market falls and interest rate rises have created during 2022 but equally, we do not see the value loss in the period as being a factor that at all compromises the medium to longer-term outlook. In fact, we start 2023 with even greater optimism about the prospects we see in relation to potential acquisitions.

We have ambitious plans to grow the business and the achievements during 2022 leave us well positioned to do so.

Finally, I want to thank our people across the UK, Sweden and the Netherlands for all their remarkable efforts during an exceptionally busy period. Their efforts, the robustness of our business model and positive outlook for M&A give me every confidence that the future remains bright for Chesnara.



Steve Murray
Chief Executive Officer
29 March 2023

SECTION B: STRATEGIC REPORT

Hammarby Sjöstad, Stockholm



- 24** Overview of strategy, business model and culture & values
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- 28** Our culture & values
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- 45** Capital management
- 48** Financial review
- 55** Financial management
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- 66** Corporate and social responsibility

OVERVIEW OF OUR STRATEGY, BUSINESS MODEL, AND CULTURE & VALUES

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

OUR STRATEGY

STRATEGIC OBJECTIVES		
01 MAXIMISE THE VALUE FROM EXISTING BUSINESS	02 ACQUIRE LIFE AND PENSIONS BUSINESSES	03 ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS
Managing our existing customers fairly and efficiently is core to delivering our overall strategic aims.	Acquiring and integrating companies into our business model is key to continuing our growth journey.	Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book.
KPIs Cash generation EcV earnings Customer outcomes	KPIs Cash generation EcV growth Customer outcomes Risk appetite	KPIs EcV growth Customer outcomes
Read more on p27	Read more on p27	Read more on p27

HOW WE ORGANISE OURSELVES

UK	NETHERLANDS	SWEDEN	DIVISION
COUNTRYWIDE ASSURED	WAARD GROUP	MOVESTIC	OPERATING COMPANY
01 02	01 02	01 03	STRATEGIC OBJECTIVES
Read more on p38	Read more on p42	Read more on p40	KEY PRODUCTS
Underwriting linked pension business; life insurance, covering both index-linked and unit-linked; endowments; whole of life; annuities and some with-profit business.	Underwriting mainly term life policies, with some unit-linked and non-life policies.	Predominantly the underwriting of unit-linked pensions and savings. Also provides some life and health product offerings.	NUMBER OF POLICIES
c272,000	c185,000*	c316,000	DISTRIBUTION METHOD
N/A	N/A	Sold through a broker network.	
CHESNARA CULTURE & VALUES – RESPONSIBLE RISK-BASED MANAGEMENT			

*post Conservatrix acquisition, completed 1 January 2023

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

OUR BUSINESS MODEL

STAKEHOLDERS	CUSTOMERS	REGULATORS	STAFF	SUPPLIERS & PARTNERS	THE PLANET & NATURAL ENVIRONMENT
OBJECTIVES	Good outcomes	Financial stability and regulatory compliance	Attract, promote and retain quality staff Job satisfaction and motivation	Long-term reliable relationships	Progress to being a nature positive and net zero group
KPIs	Cash generation [†] EcV [†] growth Solvency	Good outcomes Investment return	Good outcomes Solvency	Staff survey results Staff retention rates	Emissions Energy and water usage Investment in positive solutions Investment footprint

Chesnara

OUR CULTURE AND VALUES

RESPONSIBLE RISK-BASED MANAGEMENT FOR THE BENEFIT OF ALL OUR STAKEHOLDERS	FAIR TREATMENT OF CUSTOMERS	MAINTAIN ADEQUATE FINANCIAL RESOURCES	PROVIDE A COMPETITIVE RETURN TO OUR INVESTORS	ROBUST REGULATORY COMPLIANCE	A JUST TRANSITION TO A SUSTAINABLE GROUP
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STAKEHOLDERS

- SHAREHOLDERS - STAFF - SUPPLIERS AND PARTNERS - NATURAL ENVIRONMENT - CUSTOMERS	- CUSTOMERS	- CUSTOMERS - REGULATORS - STAFF	- SHAREHOLDERS - DEBTHOLDERS	- SHAREHOLDERS - DEBTHOLDERS - CUSTOMERS - REGULATORS - NATURAL ENVIRONMENT	- ALL STAKEHOLDERS INCLUDING THE PLANET
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[†] Alternative Performance Measure (APM) used to enhance understanding of financial performance.
Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

OUR STRATEGY

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

STRATEGIC OBJECTIVE	WHY THIS MATTERS	HOW WE DELIVER: OUR BUSINESS MODEL
MAXIMISE VALUE FROM EXISTING BUSINESS	<p>The existing books of policies are the principal source of cash generation[†] and Economic Value[†] and are at the heart of the investment case for our shareholders and debtholders.</p>	<p>A centralised governance oversight and corporate management team ensures robust and consistent governance across the group. Operational execution is devolved to the divisions to ensure we benefit from our strong divisional management teams and the need to ensure processes are fit for purpose locally. The UK business adopts an outsourced business model: the legacy UK business already operates in this way and there are plans in place to deliver the same for the newly acquired CASLP. Core operations are not outsourced in Sweden or the Netherlands.</p> <p>We create value and generate cash through:</p> <ul style="list-style-type: none"> – running our in-force books of business efficiently and effectively; – executing management actions that create value and/or generate cash; – optimising the risk/reward balance in how we invest our assets and hence generate future returns; – accessing broader group synergies; and – ensuring our customer processes deliver good outcomes (recognising Consumer Duty requirements for UK customers) and remain robust and in line with customer expectations, which in turn supports stronger persistency.
01		
ACQUIRE LIFE AND PENSION BUSINESSES	<p>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.</p>	<ul style="list-style-type: none"> – Identify potential deals through an effective network of our own relationships, supplemented by advisors and industry associates. – We assess deals by applying well established criteria which consider the impact on cash generation and Economic Value and solvency under best estimate and stressed scenarios. – 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. – We work cooperatively with regulators.
02		
ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS	<p>The Chesnara financial model supports modest incremental value generation through writing profitable new business. New business profits are a welcome source of regular value growth which supplements the growth delivered from our existing policy base and periodic acquisitions.</p>	<ul style="list-style-type: none"> – Our two operating subsidiaries that are open to new business are Movestic in Sweden and Scildon in the Netherlands. – Movestic primarily focuses on unit-linked pensions and savings business, distributed largely through IFAs, and has a profitability model based upon realistic market shares. – Scildon sells protection products, individual savings and group pensions contracts via a broker-led distribution model, and as with Movestic, new business operations assume realistic market shares. – When writing new business we retain a keen focus on ensuring the business is profitable.
03		

HOW WE MEASURE DELIVERY

PRINCIPAL RISKS: FOR FURTHER INFORMATION SEE PAGES 59-65

RISKS:	RISKS:	UPDATE
RISKS:	RISKS:	UPDATE
<p>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.</p> <p>EcV growth Value generation is measured by reference to the movement in Economic Value[†] over the period.</p> <p>Customer outcomes This is measured through monitoring:</p> <ul style="list-style-type: none"> – customer service metrics; – policyholder fund performance against industry and market expectations; – customer complaint levels; and – our compliance with regards to regulatory conduct matters. 	<p>– PR1 Adverse investment market conditions can result in lower assets under management and hence lower fee income from unit-linked business. For products with guarantees, this can increase the cost of fulfilling the guarantees.</p> <p>– PR4 Increased lapses on cash generative/value enhancing products.</p> <p>– PR4 PR6 Loss of key brokers, or aggressive competitor pricing, can result in increases in the level of customers moving to competitors.</p> <p>– PR2 Regulatory change can potentially impact the cash flows arising from the existing business.</p> <p>– PR5 Expenditure levels could exceed those assumed.</p> <p>– PR1 Foreign currency fluctuations can impact the sterling value emerging from overseas operations.</p>	<p>– Where appropriate, active investment management with the aim of delivering competitive investment returns for policyholders.</p> <p>– Outsourcer service levels that ensure strong customer service standards.</p> <p>– Expense assumptions are deemed to be realistic and the cost base is well controlled, predictable and within direct management influence.</p> <p>– 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.</p>
<p>Cash generation Collectively our future acquisitions must be suitably cash generative to support the funding of the Chesnara dividend.</p> <p>EcV enhancement Acquisitions are required to have a positive impact on the Economic Value per share in the medium term.</p> <p>Customer outcomes Acquisitions must ensure we protect, or ideally enhance, customer interests.</p> <p>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.</p>	<p>– PR3 A lack of value adding acquisition opportunities come to market, the investment case for Chesnara diminishes over time.</p> <p>– PR3 PR9 There is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the group.</p>	<p>– Operating in three territories increases our options thereby reducing the risk that no further value adding deals are done.</p> <p>– A broader target market also increases the potential for deals that meet our strategic objectives.</p> <p>– 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.</p>
<p>EcV enhancement We measure the amount of Economic Value added through selling new contracts.</p>	<p>– PR8 The attractiveness of products can be influenced by economic conditions, politics and the media.</p> <p>– PR6 PR8 PR9 New business volumes are sensitive to the quality of service to intermediaries and the end customer.</p> <p>– PR8 In Sweden, new business remains relatively concentrated towards several large IFAs.</p> <p>– PR8 A competitive market puts pressure on new sales margins.</p>	<p>– In Sweden, continue to extend the breadth of IFA support and develop more direct-to-customer capabilities.</p> <p>– Ensure high quality of service to existing network of intermediaries.</p> <p>– Focus on other margin drivers beyond product pricing, such as the fund management operation.</p> <p>– In the Netherlands, enhance business processes and product offering to be attractive to brokers and consumers.</p>

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

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?

<p>FAIR TREATMENT OF CUSTOMERS</p> <p>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 45 to 47.</p>	<p>A JUST TRANSITION TO A SUSTAINABLE GROUP is a key basis of our strategy. We are committed to ensuring that our operations and investments are sustainable and that sustainability is at the heart of our decision making across the group. Further information is included on pages 66 to 85 and in our Annual Sustainability Report.</p>	<p>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 (including Consumer Duty in the UK), we place a high priority on taking account of the fair treatment of our customers.</p>
<p>RESPONSIBLE RISK-BASED MANAGEMENT FOR THE BENEFIT OF ALL OF OUR STAKEHOLDERS</p>		<p>In managing the business, it is essential that our decision making assesses the risk impact of the decision. We achieve this by understanding the key risk drivers of the business plan and strategy and by making sure we monitor these risks across our whole range of stakeholders.</p>
<p>PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS</p>		<p>As a public company, it is imperative that we offer an attractive investment proposition for investors. Given the majority of our shareholders hold our shares through 'income funds', it is important that we deliver an attractive and sustainable dividend. Debt holders also want confidence we can pay any interest coupon. We also recognise the benefit of an investment that offers clarity and consistency of performance.</p>
<p>ROBUST REGULATORY COMPLIANCE</p>		<p>Working constructively with our regulators and complying with regulatory requirements and guidance is imperative to the delivery of our objectives. The regulators' desire for robust and responsible governance is very much part of our culture and a principal aim of the Chesnara board.</p>

WHAT WE HAVE DONE

- Across the group we have continued to focus on delivering good outcomes to our customers, recognising Consumer Duty requirements for UK customers. Divisional highlights include:
- **Sweden** – Continued with its digitalisation journey, having introduced a new pension policy transfer process during the year. The division has also focused on other ways it can support its customers. This has included introducing an advice service for those customers approaching retirement as well as introducing a new service which gives customers access to online legal advisory services.
- **UK** – Completed the acquisition of Sanlam Life & Pensions UK Limited (subsequently renamed to CASLP) and focused on continuing to deliver a high level of service to our customers. The division has continued work on ensuring it continues to meet the high standards expected by its regulators. This has included focusing on delivering its ongoing operational resilience programme as well as performing an initial assessment of the actions that are required to meet the new Consumer Duty rules which were finalised during the year. This included board sign-off of proposed plans to comply with the new rules. The division has also continued with its activity of seeking to stay in contact with customers and to reunite customers with unclaimed assets. The UK's administrative outsource service partners are held to stringent service level requirements.
- **Netherlands** – Focused on continuing to provide flexible solutions to its customers, mindful of the impact of the cost of living crisis. For Waard's new acquisitions, a key focus has been on ensuring that customers continue to receive a continued high standard of service throughout the change in ownership process and new staff are successfully onboarded.
- Where complaints do arise, we continue to manage them in accordance with the appropriate regulatory practice.
- We closely monitor any regulatory developments to ensure we continue to treat our customers fairly in accordance with any changing regulatory requirements.

THE OUTCOMES

- Generally low level of complaints across the group has continued.
- Transparent customer communications, supporting better customer outcomes.
- Strong ongoing service levels over the course of the year, with a high level of customer satisfaction and low levels of complaints.

- The ORSA process has been fully utilised in the context of providing risk oversight over the course of the year.
- Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review.

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

- Continued our track record of increasing our dividend for the last 18 years, even during turbulent investment market conditions.
- Maintained a robust solvency position in all divisions and at group level which supports the continued dividend growth and provides substantial headroom for future acquisitions.
- Completed two value adding acquisitions during the year, Robein Leven in the Netherlands and Sanlam Life & Pensions UK in the UK.
- Announced the acquisition of the insurance portfolio of Nederlandse Algemeene Maatschappij van Levensverzekering 'Conservatrix' N.V., which completed on 1 January 2023.

- Dividend growth track record continues, with 3% dividend growth in 2022.
- Over the past five years, £165m of dividends have been paid.
- Further growth potential in both the UK and Europe as a result of the acquisitions that were both completed and announced during the year as well as future M&A opportunities.

- Maintenance of robust levels of solvency throughout the group and all divisions throughout the year.
- Continued to place a high priority on compliance and maintaining an open dialogue with our regulators.
- Progressed our environmental, social and governance (ESG) strategy during the year, including establishing the Group Sustainability Committee which is responsible for overseeing climate-related risks and opportunities of the group.
- Progressed the group's IFRS 17 project, broadly in line with plan, with an expectation that we will comply with reporting requirements in 2023.

- Ongoing constructive relationships with UK, Swedish and Dutch regulators.
- Continued adherence to internal governance policies and principles.
- Established oversight for the group's sustainability agenda and targets.
- IFRS 17 project expects to comply with the reporting requirements in 2023.

SECTION 172 • THE BOARD'S APPROACH

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

Section 172 statement

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

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

The following disclosures provide further insight supporting the above statement over the course of 2022. The disclosures have been split into three key sections:

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

THE BOARD'S APPROACH

Role of the Chair

As described on page 92 within the Corporate Governance Report, it is the role of the Chair to lead the board in the determination of the group's strategy; to ensure that the board is furnished with sufficient information in order to support its decision making; and to ensure that relevant stakeholders have been taken into account when making decisions.

Business planning

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

STAGE 1	STAGE 2	STAGE 3
<p>Strategic planning</p> <p>The first stage of the business planning process incorporates reviewing and challenging the strategy of the group as a whole. It presents an opportunity to 'stand back' and review the overall strategy of the group. Approving the strategy provides a framework for the group and its business units to prepare more detailed operational plans.</p>	<p>Review and challenge of divisional and group operational plans</p> <p>Following completion of the strategic planning, including any associated feedback to the operating business units, operational plans are developed and critically reviewed by the group. The key objectives within the operational plans are explicitly linked to the strategic objectives of the group in order to ensure that the key management actions that have been identified support delivery of the group strategy.</p>	<p>Detailed business plans supported by financial projections</p> <p>Following review and feedback from the operational planning stage, final business plans are produced at both a divisional and group level. These include the final operational deliverables for the short to medium term and their associated consequences, alongside the projected financial outcomes of delivering the plans.</p>

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

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 2022 confirmed that the board wishes to continue to pursue the following strategy:

01

MAXIMISE THE VALUE FROM EXISTING BUSINESS

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

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

- Fair treatment of customers
- Responsible risk-based management for the benefit of all of our stakeholders
- Providing a competitive return to our investors
- Robust regulatory compliance
- Maintaining adequate financial resources
- A just transition to a sustainable group.

These are described in more detail on pages 25 to 29.

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 32 to 34.

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

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

02

ACQUIRE LIFE AND PENSIONS BUSINESSES

Acquiring and integrating companies into our business model is key to continuing our growth journey.

03

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book.

Key financial metrics in the business planning process:

ECONOMIC VALUE[†]

CASH GENERATION[†]

SOLVENCY

IFRS PROFITS

DIVISIONAL AND GROUP DIVIDENDS

EXPENSES

NEW BUSINESS PROFIT EXPECTATIONS[†]

Corporate Governance and Responsibilities Map

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

Board papers and matters discussed

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

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

SECTION 172 • KEY STAKEHOLDERS

The following table identifies the key stakeholders that the board considers are important to the long-term success of the company. It provides insight into how the company engages with these stakeholders and how they are considered when making strategic decisions. Matters arising in relation to each stakeholder group are communicated by management to the board in an MI pack at each board meeting. It is worth noting that not

CUSTOMERS	DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
	<p>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.</p>	<p>Our primary concern is ensuring that our customers have policies with a financially strong company that treats them fairly and meets their expectations and needs. Our financial management, culture and values statements ensure that this is embedded across the group. We closely manage all aspects of the customer journey, covering customer experience, communications, policyholder expectations, product value for money, and our solvency.</p>	<p>Our primary engagement with customers comes from a combination of outward communication from the company, coupled with the company dealing with customer contact, be it through policy changes, queries or claims.</p> <p>From an outwards communication perspective, our aim is to ensure we provide transparent and understandable information to our customers, be it in the form of regular written letters/booklets, information available on our website or through any other material made available to customers.</p> <p>From the perspective of responding to customer contact, we seek to make our processes as helpful to the customer as possible, mindful of different customer group preferences. This involves ensuring that our customer contact staff are well trained for telephony or email correspondence and making other technology available where feasible (such as the use of apps).</p> <p>We obtain feedback on the way we engage with our customers through periodic market research or customer focus groups.</p>	<p>Policy lapses Complaints Customer survey scores</p>
INVESTORS	<p>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.</p>	<p>Any business decision that is made that affects either the future dividend payments of the group, or its long-term sustainability may be of significant interest to our investors. If either of those elements are put under pressure, it could reduce confidence in the group, and could lead to a reduction in shareholder returns.</p>	<p>We primarily engage with investors through the following key channels:</p> <ul style="list-style-type: none"> – Formal public financial reporting, which we produce every six months. – Meetings with current and potential investors during the year, including as part of investor roadshows after formal results and at investor conferences. – Our Annual General Meeting. – Periodically, we hold ‘investor days’ with our shareholders and other market related stakeholders which are designed to provide further insight into our business and give investors an opportunity to meet a wider range of Chesnara senior management. – Periodically, we will contact investors for feedback in advance of formal publication of particular matters, such as material changes to our Remuneration Policy. <p>In the event that we are looking to raise additional debt or equity our investors are actively engaged at the appropriate point in the process.</p>	<p>Significant investor purchases/sales Investor register Investor feedback Share price TSR</p>
DEBT INVESTORS	<p>The support of our debt investors facilitates the pursuit of our long-term strategy, including the potential for raising new capital for acquisition purposes.</p>	<p>Any business decision that is made that affects the group’s long-term sustainability may be of significant interest to our debt investors, and any decision that could reduce capacity is likely to reduce confidence in the group.</p>	<p>We primarily engage with debt investors through the following key channels:</p> <ul style="list-style-type: none"> – Formal public financial reporting, which we produce every six months. – Meetings with debt investors, during the year, including as part of investor roadshows after formal results and at investor conferences. – Our Annual General Meeting. 	<p>Debt investor feedback Price of listed debt instruments</p>

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.

SUPPLIERS AND PARTNERS

DEPENDENCIES OF BUSINESS ON STAKEHOLDER	IMPACT OF BUSINESS ON STAKEHOLDER	HOW WE ENGAGE WITH STAKEHOLDER	KPIs monitored relating to stakeholder
<p>Key suppliers and partners include our bankers, outsourcers, intermediaries and professional services providers. We depend on these for delivering various aspects of our business model, covering:</p> <ul style="list-style-type: none"> – <i>Bankers</i>: Access to ongoing short-term lending to support our business. – <i>Outsourcers</i>: Supporting the day-to-day policy administration, customer contact and associated accounting of our business, primarily in the UK. – <i>Intermediaries</i>: Distributing our products in Sweden and the Netherlands. – <i>Suppliers</i>: Support and advice from our key suppliers, including professional services. – <i>Derivative counterparty</i>: Provision of financial instruments to enable us to manage our risk profile in line with our tolerances. – <i>Rating agency</i>: Fitch has assigned an investment grade credit rating for the group's subordinated debt, which supports the group in raising capital at attractive rates of interest. – <i>Asset managers</i>: support the delivery of positive investment outcomes for customers through management of certain assets on behalf of the group and its divisions. 	<p>Our various suppliers and partners are impacted by Chesnara as follows:</p> <ul style="list-style-type: none"> – <i>Bankers</i>: They earn a return on the facilities they provide and take a keen interest in ensuring we manage our finances and strategy in a way that minimises their risk of loss. – <i>Outsourcers</i>: Our outsourcers have an opportunity to share in the growth of the group through further acquisitions or portfolio transfers. Our outsourcers rely on the ongoing financial stability of the group in order to ensure that the services they provide continue to be paid for by Chesnara. – <i>Intermediaries</i>: Selling our products will be a source of immediate and ongoing revenue for our intermediaries. When dealing with the end customer, intermediaries will rely on quality information being provided by us in a timely manner. – <i>Suppliers</i>: For those key suppliers of Chesnara, we are likely to be an important source of revenue, and therefore Chesnara's ongoing success in terms of delivering its growth plans and remaining financially stable will be of interest to our suppliers. – <i>Derivative counterparty</i>: They manage their own risk exposures through the derivative instruments or make a return as market makers for the trades. – <i>Rating agency</i>: Any business decision that affects the group's long-term sustainability may be of significant interest to Fitch, and could impact the credit rating assigned. – <i>Asset managers</i>: our asset management partners earn fees on the assets they manage and have an opportunity to share in the success of the group through additional assets brought into the group through new business and acquisitions. 	<p><i>Bankers</i>: Our regular engagement with banks takes the form of quarterly covenant compliance reporting, which is required for our existing debt Revolving Credit Facility (RCF) 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 short-term debt funding, we work with our bankers and other advisors to ensure that we are providing relevant information in order to support the banks' loan decision making process.</p> <p><i>Outsourcers</i>: We view having strong, open and honest relationships with our outsourcers as key to the long-term success of our business. We engage with our outsourcers through various scheduled meetings, focusing on a combination of specific function-driven relationship meetings and wider meetings focusing on the overall relationship. We view it as important that our outsource partners are suitably informed regarding business developments in Chesnara, and that Chesnara is aware of any relevant business changes in our outsourcers. This ongoing communication enhances the relationships and works towards maintaining the longer-term success of the group.</p> <p><i>Intermediaries</i>: We strive to work closely with our intermediaries, engaging in a number of ways. In both Movestic and Scildon, all intermediaries have access to a partner website, where they can administer customer processes and obtain information as required. The Swedish division also hosts an annual conference to engage with intermediaries, facilitating two-way discussion around products, services and market developments. Other areas of engagement include frequent meetings with intermediaries, on an individual basis.</p> <p><i>Suppliers</i>: A number of Chesnara's suppliers take the form of the provision of a service or advice as opposed to the supply of goods. For these suppliers our engagement focuses on ensuring that the service or advice is fit for purpose and meets the intended scope. This typically involves up front interaction in scoping the work, coupled with close monitoring of progress throughout the duration of the services. The group ensures that it adheres to supplier payment terms.</p> <p><i>Derivative counterparty</i>: Once a risk exposure has been identified that we want to manage, we engage with the derivative counterparty about the structures available to mitigate that risk. We engage with them through to execution of the trade and then via regular reporting during the life of the instrument.</p> <p><i>Rating agency</i>: We primarily engage with Fitch through a formal annual review process. In addition, we will engage with Fitch in advance of any key events, such as acquisitions or other key corporate activity.</p> <p><i>Asset managers</i>: Regular meetings held with our main asset management partners to review performance and sustainability of the investment mandates in place including their fit with our sustainability objectives.</p>	<p>Gearing ratio[†]</p> <p>EcV position[†]</p> <p>Solvency</p> <p>Key intermediary KPIs, including sales volumes, profitability and customer complaints</p> <p>Service levels</p> <p>Adherence to timescales</p> <p>Level of overruns</p> <p>Quality of service</p> <p>Credit rating applied to Chesnara plc and its subsidiaries</p> <p>Investment performance</p>

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

SECTION 172 • KEY STAKEHOLDERS (CONTINUED)

REGULATORS

DEPENDENCIES OF BUSINESS ON STAKEHOLDER

IMPACT OF BUSINESS ON STAKEHOLDER

HOW WE ENGAGE WITH STAKEHOLDER

KPIs monitored relating to stakeholder

Compliance with regulatory requirements is fundamental to the success of the group. Without it, we would not be able to maintain our existing status as a life and pensions provider.

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.
- Annual regulatory college meeting where a number of the group's regulators meet with the Group CEO and CRO.

Relationship with supervisory team
Formal feedback from regulators

DEBT INVESTORS

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.

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 in place.

Staff surveys
Feedback from employee forums
Feedback from appointed NED
Staff turnover

THE PLANET AND NATURAL ENVIRONMENT

Our business relies on natural capital and the environment, both for our operations and our investments. Changes in the natural environment and the effect of global warming can potentially affect the way we operate our businesses, and also the returns to our customers and shareholders. We are committed to applying sustainability-based decision making across the group.

Our main impact is from the assets in which we and our policyholders invest and their carbon and wider impact, together with the emissions created from our operations.

The impact of our investment decisions and the investment choices made by our customers are wide-ranging and will continue to be a key focus area as we transition to a sustainable group and our net zero targets.

The main emissions from our operations fall within four categories: business travel, home working, employee commuting and direct office emissions.

We impact the planet and natural environment through the business decisions that we and our policyholders make. Ensuring that sustainability is at the heart of our decision making is critical to ensuring that we consider the planet and natural environment.

For policyholders who choose where they wish to invest, we provide access to a range of sustainability-focused funds and we continue to provide relevant material so that they can make informed decisions. Our corporate and social responsibility statement is set out on pages 66 to 85.

In line with our support for the United Nations Sustainable Development Goals (UNSDGs) and our commitment to invest responsibly, our business units are working closely with their respective fund managers to fully embed sustainability within our own investment decision making criteria.

Chesnara's business units are taking practical steps to reduce our carbon footprint and minimise the impact that our operations have on the environment by reducing, re-using and recycling materials, as described on pages 81 to 84.

Climate change is recognised as a risk and is monitored as part of our risk identification and assessment processes (see pages 58, 65 and 70 to 85).

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

SECTION 172 • SIGNIFICANT DECISIONS

The principal process that the board uses to make shorter and longer-term decisions is the group business planning process. Key decisions also arise outside of the business planning process depending on how the business develops during the year and the challenges and opportunities that it faces. The table below lists the key decisions made by the board during 2022 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
CREATION OF THE GROUP SUSTAINABILITY COMMITTEE AND SETTING OF THE GROUP'S LONG-TERM NET ZERO TARGETS	<ul style="list-style-type: none"> Overview: During 2022, the group's sustainability vision was established, setting the path for Chesnara to transition to being a sustainable group, including setting our long-term net zero targets for financed and operational emissions which are to: become a net zero emitter (net zero financed emissions by 2050 and net zero operational emissions by 2028); become an investor in positive solutions; and create an inclusive environment for all employees, customers and stakeholders. These targets were presented to the board and formally approved in March 2023. Further details are included in our new Annual Sustainability Report. The Group Sustainability Committee was established at the start of 2023 to oversee the delivery of the strategy and its targets. Key considerations and decision: A cross-group review was performed, considering the status of current activities in each of the divisions and what we ultimately wanted to achieve as a group, together with our regulatory requirements and market expectations. This also considered where the group was able to have the most impact and what could realistically be achieved by any targets and goals we set. We also considered how to communicate our vision, strategy and progress, whilst also ensuring that we would not be greenwashing our activities. This process concluded that Chesnara was committed to becoming a sustainable group, considering profit, people and the planet, setting net zero targets for financed and operational emissions and developing a plan for delivering its vision. Primary beneficiaries: All stakeholders are impacted by Chesnara being a sustainable business, including: <ul style="list-style-type: none"> <i>Shareholders:</i> Being a sustainable group helps to ensure our long-term success and therefore provide more certainty over long-term returns. <i>Regulators:</i> Confirms our commitment to meet our regulatory obligations and comply with disclosure requirements. <i>Employees:</i> Takes due account of the welfare of our colleagues and raises awareness of the relevance of sustainability in our day-to-day operations, providing opportunities to work in an organisation making positive contributions to society and the planet. <i>Customers:</i> Provides customers with the confidence that we continue to do the right thing, alongside developing our sustainable product offerings for policyholders looking for sustainable investment opportunities and improves the sustainability of investment returns where we are responsible for investment decisions. <i>The planet and natural environment:</i> A just transition to being a net zero organisation and one which directs capital to positive solutions delivers positive outcomes for the planet and environment. Other stakeholder considerations: <ul style="list-style-type: none"> <i>Suppliers and outsourcers:</i> Sustainability criteria form part of our supplier selection process. <i>Asset managers:</i> Our asset managers are fundamental to the transition to net zero for financed emissions. We will have to actively engage and direct them to ensure that our targets are met.
GOVERNANCE CHANGES	<ul style="list-style-type: none"> Overview: During the year there were a number of key governance changes the most notable of which are: new board members appointed to Chesnara group board (plus other board positions across the group); increased segregation between Chesnara and its UK business units through a reduction in the size of the CA board from 10 to 7 with three Chesnara directors stepping off it; appointment of a new NED on the Movestic Livförsäkring AB board; and the appointment of a new workforce engagement NED. Key considerations and decision: Governance Code guidance as well as skills, experience, geographical knowledge & capability, diversity, segregation and adequate oversight were all taken into account by the Nominations & Governance Committee in its deliberations. Primary beneficiaries: Strong governance and a breadth of knowledge, experience and capability in the board and its committees puts the company in the best possible position to drive positive outcomes for its shareholders and all other stakeholders.
STRENGTHENING OF THE EXECUTIVE TEAM	<ul style="list-style-type: none"> Overview: During 2022, Sam Perowne joined the group as Group Head of Corporate Development and Investor Relations and Amanda Wright joined the group as Group General Counsel and Company Secretary, with Al Lonie moving to become Group Chief of Staff. They are all members of the Group Executive Committee. In light of Scildon entering its next phase of strategic development, the Scildon CEO, Gert-Jan Fritzsche, will be leaving the business. Our market search for his replacement is well under way. Key considerations and decision: In reaching their decisions, the board considered the business case for the appointments. They decided that the appointment of Sam would help drive the group's acquisition strategy and investor engagement, and the appointment of Amanda would strengthen commercial and legal advice to the board and wider leadership team on key areas of Chesnara's strategic development, including acquisitions, as well as supporting strong governance across the group as Company Secretary. Finally, they recognised Al's appointment would provide additional support to the setting and delivery of the group's renewed strategic agenda. With regard to the Scildon CEO, the local supervisory board were the primary drivers of this decision with the board confirming their support. Primary beneficiaries: The appointment of an appropriately skilled and experienced Group Executive Committee and search for an appropriately skilled and experienced new Scildon CEO are in the interest of all our stakeholders. Other stakeholder considerations: <ul style="list-style-type: none"> <i>Employees:</i> the impact of changes in the employee structure and creation of new posts was considered in the context of the group's existing employees.

SECTION 172 • SIGNIFICANT DECISIONS (CONTINUED)

SIGNIFICANT DECISION	DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS
STAFF AND REMUNERATION DECISIONS	<ul style="list-style-type: none"> Overview: Over the course of the year, there have been a number of significant staff and remuneration related decisions, the most notable of which are: inflationary increases for staff to address the cost of living crisis including one-off cost of living payments for a number of employees (dependent on earnings); the launch of a new save as you earn share save scheme for staff; a review of the Executive Director Remuneration Policy; and consideration of the LTIP scheme including the proposed increase to the Group CEO's participation level. Key considerations and decision: Each decision was discussed by board giving consideration as to the relevant merits of each item and whether the cost was appropriate given the current economic climate. For each of the decisions, the impact, the benefits and the position in the market/to competitors were considered (where appropriate), and a balanced argument was put forward to the relevant board or committee for approval, in some cases, this included opinions from a third party advisor. Primary beneficiaries: <ul style="list-style-type: none"> Employees: The primary stakeholder affected by this decision is the group workforce as these decisions directly affect their benefits packages. Other stakeholder considerations <ul style="list-style-type: none"> Shareholder: Investment in staff provides a sustainable environment and workforce, which in turn is expected to have a positive impact on the business. Where required, the proposed changes to the Executive Director Remuneration Policy were communicated in advance to major shareholders and are being put forward as resolutions at the forthcoming 2023 AGM.
ACQUISITIONS ANNOUNCED IN THE YEAR	<ul style="list-style-type: none"> Overview: The board is required to approve any acquisitions that the group enters into. In addition to this, the board reviews and approves any material acquisition offers. Key considerations and decision: In April 2022, following board approval in 2021, the acquisitions of Sanlam Life & Pensions UK Limited (subsequently renamed to CASLP) and Robein Leven (NV). In July 2022 the group board approved the acquisition of Conservatrix, a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. This transaction completed on 1 January 2023 and furthers the group's acquisition strategy, particularly in the Netherlands. Primary beneficiary: <ul style="list-style-type: none"> Shareholder: The Conservatrix transaction is expected to: deliver an estimated day 1 EcV[†] gain on completion of £21m (originally assessed as £18m); significantly increase the FUM and policy count of Waard; and enhance the group's future cash generation[†] potential. Other stakeholder considerations: <ul style="list-style-type: none"> Regulators: The transaction required approval by the Dutch regulator, De Nederlandsche Bank (DNB), who need to ensure that the transactions do not cause any prudential or conduct issues. All approvals were obtained during 2022, with completion taking place on 1 January 2023. Customers: The announcement of bankruptcy is expected to have given rise to significant uncertainty to the organisation's customers, and therefore we expect this acquisition to provide that certainty and a clear way forward for them. Staff: The decision is of interest to the staff of our existing group given the integration plans underpinning the announcements, as well as the staff of the acquired business, particularly due to the uncertainty created when the company was declared bankrupt in 2020.
COMPLETION OF A TIER 2 DEBT RAISE	<ul style="list-style-type: none"> Overview: In February 2022, the board executed the completion of a £200m Tier 2 debt raise. Key considerations and decision: The board considered the merits of raising subordinated debt for funding general corporate activity, including acquisitions. This took account of the ongoing finance servicing cost, the impact of the solvency of the group and the leverage within the business, as well as the positioning of the business when considering future acquisition activity. Based on this assessment the board decided to approve the debt raise. Primary beneficiaries: <ul style="list-style-type: none"> Debt holders: The raise has introduced a new stakeholder group to Chesnara during February 2022, being the new debt holders of the instrument. This group will benefit from the return on the debt (being the interest coupon) and will also be interested in ensuring that their initial investment remains secure over the duration of the debt. Chesnara will take into account the considerations of the debt holders on an ongoing basis. Shareholders: The debt raise provides a relatively low cost and solvency beneficial funding approach to finance announced and potential future acquisitions, and positions Chesnara positively when discussing future acquisition activity. This improves Chesnara's ability to continue to acquire commercially beneficial businesses. Regulators: The debt raise materially improves Chesnara's solvency position removing the strain associated with acquiring businesses over recent years. Other stakeholder considerations: <ul style="list-style-type: none"> Rating agencies: As part of the process Chesnara became a rated insurer. This process means that we have a new category of stakeholder, namely of rating agencies, in this case Fitch. Chesnara will take into account the considerations of Fitch on an ongoing basis.

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

SIGNIFICANT DECISION	DESCRIPTION OF DECISION AND IMPACT ON DIFFERENT STAKEHOLDER GROUPS
MITIGATED CURRENCY RISK THROUGH THE USE OF DERIVATIVES	<ul style="list-style-type: none"> Overview: We continually assess the impacts and benefits of hedging our exposure to different risks, including foreign exchange movements. During the year, it was determined to be an appropriate point to mitigate the retranslation risk at group level through the use of derivatives. Key considerations and decision: A thorough review of potential options, together with their expected impacts and benefits, was performed, including discussions with various counterparties about potential structures. This review also considered the potential costs, liquidity and capital impacts to determine the cost/benefit of mitigating the risk. Primary beneficiary: The primary beneficiary of decisions in relation to hedging strategy are our shareholders in that it reduces potential risk and volatility, thus providing more certainty over the results and capital position of the group.
GROUP IT INVESTMENT	<ul style="list-style-type: none"> Overview: The group continues to invest in its IT infrastructure. This includes replacing the previous pension product policyholder administration system in Scildon with work continuing on this during the year. In addition to this, during the year, Scildon launched an IT system improvement project for individual products that is expected to run until 2024 and generate cost efficiencies. Within Chesnara plc a consolidation tool was implemented to enhance controls around group reporting, whilst also streamlining the process. Key considerations and decision: The board continued to consider the pros and cons of the development at key milestones and project stage gates, including the associated risks, the financial impact and viable alternatives with regards to the existing pension IT project. Based on this assessment, the board decided to continue to support Scildon's implementation of the pension platform and gave support towards a business case to undergo a number of improvements to the existing platform for its remaining products, which in turn would generate longer-term efficiencies. In Chesnara, the board approved a business case to invest in a new consolidation tool which considered the cost and implementation impacts vs the associated merits of more efficient consolidation routines and enhanced control environment. Primary beneficiaries: <ul style="list-style-type: none"> <i>Shareholders:</i> The ongoing investment in IT is designed to provide value enhancements to the business and hence to our shareholders. The target IT infrastructure is designed to be more robust and more efficient to run. <i>Customers and brokers:</i> Of equal importance is the benefit to customers and the interactions with brokers. The new systems in Scildon will support a more digitalised service, increasing speed, optionality and efficiency to the brokers and end customers. Other stakeholder considerations: <ul style="list-style-type: none"> <i>Employees:</i> The staff impact was appropriately considered by the board in making these decisions, both in terms of the delivery of these programmes and the target operating models. <i>Suppliers:</i> Having reliable suppliers to support the implementation and, where relevant, the ongoing maintenance of the new systems is an important consideration when making this decision.
APPLICATION OF CAPITAL MANAGEMENT AND DIVIDEND POLICIES	<ul style="list-style-type: none"> Overview: Every year the board is required to consider what level of dividends are appropriate for shareholders, whilst also ensuring that it continues to adhere to its own Capital Management Policy. Dividend proposals are subject to board approval, with proposed final dividends being included in a resolution voted for at the Annual General Meeting. Key considerations and decision: The Directors' Report on page 126 provides information on the key considerations made by the board when approving dividends. The aim is to satisfy investor expectations by delivering an attractive dividend, with steady growth where possible. That said, this dividend cannot and will not be delivered at the expense of financial security, be it through solvency or liquidity. During 2022, the board approved an updated Capital Management Policy which does not permit a dividend to be paid such that, after the payment of that dividend, the group solvency ratio falls below 110%, with triggers in place to reassess dividend capacity if the solvency ratio drops below 130%. In approving a dividend, the board is presented with a paper by management which considers the various aspects of the dividend decision, including cash generation, solvency, the group's acquisition strategy and investor expectations. The dividend decisions made by the board in the year gave full consideration to market turmoil seen over 2022, including the potential for further investment market disruption and inflationary pressures. During 2022 the board approved the year end 2021 final dividend, amounting to 14.72p per share, and the interim 2022 dividend of 8.12p per share. Primary beneficiary: Dividend decisions are made primarily for the benefit of our shareholders. Other stakeholder considerations: <ul style="list-style-type: none"> <i>Banks:</i> Our bankers are considered in terms of the impact of distributions on our liquidity and solvency position. <i>Regulators and customers:</i> These stakeholders are considered in the context of ensuring that the solvency position of the group post dividend remains robust.

Engagement with the board on the aforementioned S172 considerations is of critical importance. The board receive management information tailored to incorporate the KPIs referred to above where appropriate. They also receive specific papers or reports back from other Executive Committees (e.g. Remuneration Committee) to support their involvement in S172 related decisions.

BUSINESS REVIEW UK

The UK division is made up of Countrywide Assured plc and Sanlam Life & Pensions UK Limited (now renamed CASLP). CASLP was acquired by Chesnara on 28 April 2022 following the announcement to purchase the company in September 2021. The combined businesses manage c272,000 policies covering linked pension

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.

MAXIMISE VALUE FROM EXISTING BUSINESS

CUSTOMER OUTCOMES

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

GOVERNANCE

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

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

INITIATIVES & PROGRESS IN 2022

- The acquisition of Sanlam Life & Pensions UK Limited (now renamed CASLP) was completed on 28 April 2022. This increased the number of policies by over 68,000 and added EcV¹ of £54.5m to the division.
- Combined UK division delivered cash generation[†] of £40.8m in the year, and combined foreseeable dividends of £56.0m.
- As a result of the acquisition, central overheads can now be shared across a wider policy base, which has resulted in a benefit to CA Own Funds of £8.1m.
- Work is progressing well on integrating CASLP into the division which includes preparing the business for moving to the division's target operating model for CASLP. The planned activity of transferring the policies of CASLP into CA is progressing in line with plans.
- CA completed a transfer of £13.4m of capital out of its with-profit funds which increased solvency surplus by £7.8m.
- Investment markets have influenced the results of the division over the year. Falls in equity prices and rises in yields have generally been positive to solvency, but less favourable to the division's EcV.
- CA solvency has increased during the period, largely driven by the aforementioned group cost sharing exercise, the with-profit capital extraction and the positive benefits from increasing yields and the fall in the equity symmetric adjustment.

- Following the acquisition of CASLP, its customer-facing website was developed and we have ensured customers continue to receive the same high quality standard of service. The division's process of aligning, where appropriate, CASLP's and CA's customer governance framework is progressing in line with plans.
- The UK's operational resilience programme has remained a key focus. All regulatory deadlines have been met and work is now in progress on the next phase of the work, which includes identifying and remediating any weaknesses identified through the journey mapping phase of work.
- Throughout the year the activity of seeking to stay in contact with customers and to reunite customers with unclaimed assets has continued, as has the activity on product reviews with remediation undertaken where required.
- The FCA published their final paper on Consumer Duty in July 2022. An assessment of actions needed to meet the requirements of the paper has been undertaken for the division, with no major concerns identified and a plan is being implemented.

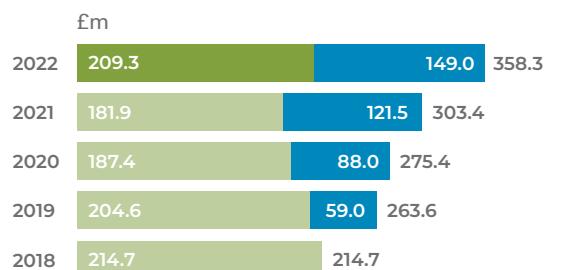
- The integration of CASLP into the existing UK governance framework has been a focus and is largely complete.
- The division's IFRS 17 project has remained a priority over 2022. The project has progressed well for both the existing CA business as well as integrating CASLP's programme. The division is well placed to apply IFRS 17 which went live on 1 January 2023.

business, life insurance, endowments, annuities and some with-profit business. Countrywide Assured follows an outsourcer-based operating model, whereas CASLP's is currently largely delivered through internal resources.

KPIs

Economic Value[†] – UK

■ Reported value
■ Cumulative dividends



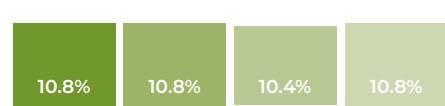
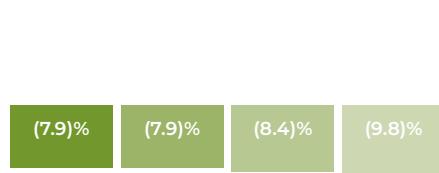
Cash generation[†] – UK



Note: The 2022 closing value includes the additional EcV from the acquisition of CASLP, which includes the value of the acquired business plus a capital injection from Chesnara plc. There is a corresponding value outflows of £62.9m at the parent company.

Policyholder fund performance – UK

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

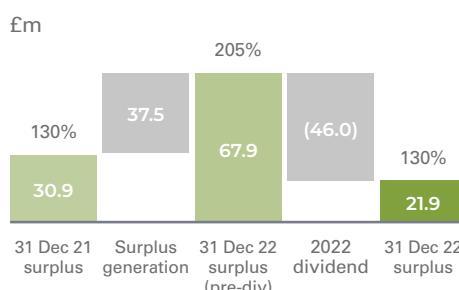


12 months ended 31 December 2022

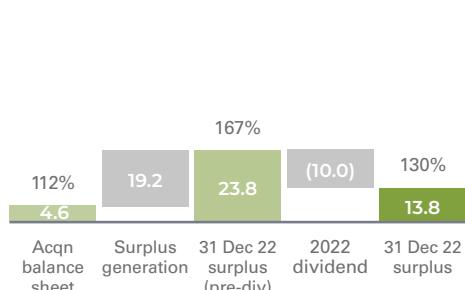
12 months ended 31 December 2021

Throughout the year our main managed funds performed ahead of industry benchmarks.

SOLVENCY RATIO CA: 205%



SOLVENCY RATIO CASLP: 167%



Solvency is strong in both businesses with surplus generated in the year increasing the pre-dividend solvency ratio from 130% to 205% and from 112% to 167% in CA and CASLP respectively. Note, the increase in CASLP solvency includes the £25m capital injection from group on acquisition.

FUTURE PRIORITIES

- Move to the planned longer-term target operating model for CASLP.
- Continue with the work that is required to deliver the planned transfer of the insurance business of CASLP into the UK's principal operating company, Countrywide Assured plc.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Identify potential management actions with a focus on those that have the potential to accelerate cash generation.
- Support Chesnara in identifying and delivering UK acquisitions.

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

- Finalise the transition of CASLP to align with the UK division's governance framework.
- Deliver IFRS 17 reporting for the division, which became effective from 1 January 2023.
- Deliver the UK aspect of the group-wide sustainability programme.

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

BUSINESS REVIEW SWEDEN



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

BACKGROUND INFORMATION

01

CAPITAL & VALUE MANAGEMENT

Movestic creates value predominantly by generating growth in unit-linked Funds Under Management¹ (FuM), whilst assuring a high-quality customer proposition and maintaining an efficient operating model. FuM growth is dependent upon positive client cash flows and positive investment performance. Capital surplus is a factor of both the value and capital requirements and hence surplus can also be optimised by effective management of capital.

MAXIMISE VALUE FROM EXISTING BUSINESS

CUSTOMER OUTCOMES

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

GOVERNANCE

Movestic operates to exacting regulatory standards and adopts a robust approach to risk management.

Maintaining strong governance is a critical platform to delivering the various value-enhancing initiatives planned by the division.

03

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

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

INITIATIVES & PROGRESS IN 2022

- 2022 has seen uncertainty in the Swedish and global financial markets, resulting in rising Swedish interest rates and inflation and falling equity markets.
- These events were reflected in the lower returns on the policyholders' investment assets as well as Movestic's own investments.
- Movestic's solvency ratio has strengthened over the year and it has an expected year end 2022 dividend of £12.0m.
- The division has continued to strengthen its offering and distribution within its relatively new custodian business.
- Over 2022, incoming volumes have been in line with the prior year despite the financial markets' dampening effect.
- Pension transfers continue to be a feature of the market through new regulations, particularly those introduced in July 2022, along with digitalisation, transparency, lower fees, and new working processes. The net transfer outflow has improved significantly due to the removal of competitors' aggressive pricing activities, coupled with the impact of Movestic's retention initiatives.
- Favourable claims development in the risk insurance segment has also been seen.

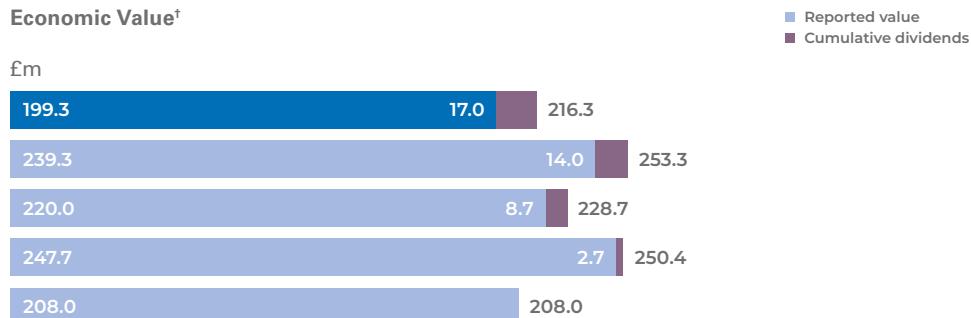
- A third party survey completed during 2022 demonstrated the importance of an occupational pension as the most important benefit when choosing a new employer, hence an important tool for employers to stay attractive.
- A new concept 'Movestic Frihet', which includes personal advice on savings and insurance for customers approaching retirement, was launched during the year with positive response from the market.
- A new partnership with Lexly was also entered into which gives Movestic customers access to online legal advisory services.
- A new concept for onboarding of individuals within the direct market segment was launched during the first half of the year.
- The processing of policy transfers was further digitalised during the year, both from the perspective of brokers and individual customers.
- Launch of an opportunity for both existing and new individual customers to engage in new savings by subscribing to an endowment policy on the Movestic website.

- The IFRS 17 programme has continued during the year and Movestic remains on track with its implementation.
- Sustainability has remained a focus area. Efforts have been made to integrate sustainability risk in various internal processes in order to be compliant with changes in the Solvency II delegated regulation which entered into force in August 2022. Movestic has also been playing a strong role in the group's wider sustainability programme.
- Further implementation on the EU sustainability regulation (the SFDR and the EU Taxonomy) was carried out during the year, including integrating sustainability as a parameter in the advisory process.
- During the year, a new Swedish NED, Marita Odélius Engström, for Movestic joined the Movestic board and A&RC, with Karin Bergstein (who is a non executive director on the group board) also joining the Movestic board.

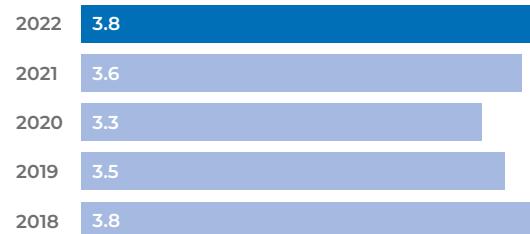
- Sales volumes developed positively in 2022 and were 14% above 2021 for the unit-linked segment. The custodian sales volumes were on par with the previous year despite the unfavourable financial market conditions. Sales volumes in early 2023 also appear positive.
- The division delivered new business profit of £3.4m (2021: £4.2m). The prior year included higher pension increments profit, largely due to salary and bonus processes being postponed in 2020 to 2021, which is not the case in 2022.
- Movestic will continue to develop its offering to increase competitiveness and build customer loyalty. A special focus was also put on new volumes that became available on the Swedish transfer market from the second half of 2022.
- The intense competition in the unit-linked market continues, resulting in Movestic's market share of new business currently being below the long-term target. Movestic saw some positive sales development in the broker channel during the year. In the custodian market, Movestic is well within the target range for custodian market share, achieving 9.5% on a rolling 12 month basis.

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

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2022 EXCHANGE RATES)



Broker assessment rating

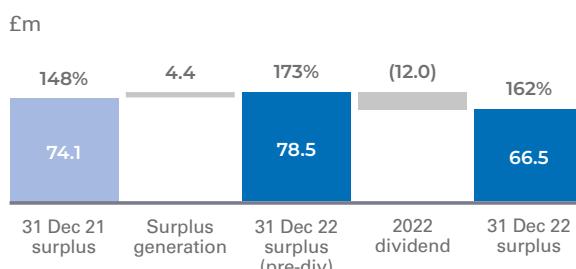


The total average fund performance needs to be assessed in light of the reduction in value of wider equity markets, especially the main Swedish OMX index that fell by 25%. Against this backdrop the performance is seen as a positive outcome. This is supported by the fact Söderberg and Partners, a major Swedish distributor, cited improved fund payout rates as a key factor in selecting Movestic as 'Insurance Company of the Year'.

POLICYHOLDER AVERAGE INVESTMENT RETURN

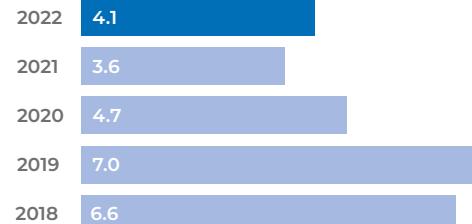
-14.6%

SOLVENCY RATIO: 162%

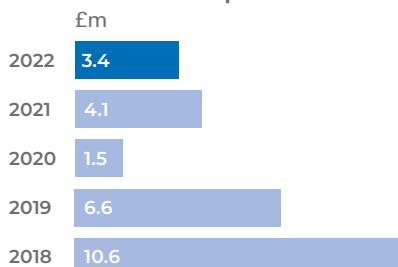


SOLVENCY REMAINS STRONG POST A FORESEEABLE DIVIDEND OF £12M

Occupational pension market share %



New business profit



FUTURE PRIORITIES

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

- Continued development of new digital self-service solutions and tools to support the brokers' value enhancing customer proposition, and to facilitate smooth administrative processes making Movestic a partner that is easy to do business with.
- Further strengthen the relationship with brokers through increased presence, both physical and digital.
- Seek to capitalise on the new rules that came into effect in July 2022 that enhances our ability to transfer policies onto our platform, where it is in the interest of customers to do so.

- Deliver the remaining aspects of the division's IFRS 17 programme.
- Continue implementation of sustainability regulations.

- Launch new risk product offerings in the broker channel, including a new technical solution for administration.
- Strengthen distribution capacity within the direct business area, as a complement to the broker channel and partner distributed custodian business.

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

BUSINESS REVIEW NETHERLANDS

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

BACKGROUND INFORMATION

01

CAPITAL & VALUE MANAGEMENT

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

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

MAXIMISE VALUE FROM EXISTING BUSINESS

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.

03

ENHANCE VALUE
THROUGH PROFITABLE
NEW BUSINESS

GOVERNANCE

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

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

INITIATIVES & PROGRESS IN 2022

- Waard completed the acquisition of Robein Leven in April 2022 with the integration largely complete by the end of the year. Waard also entered into an agreement to acquire the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. The transaction completed on 1 January 2023, adding 70,000 policies and £0.4bn of assets under management. These acquisitions further strengthen Waard's position as an acquirer of business and portfolios in the Netherlands.
- Despite market pressures during 2022, both businesses continue to have strong solvency positions, inclusive of the use of the volatility adjustment: Scildon at 188% at 31 December 2022; and Waard at 591%.
- Scildon launched an IT system improvement project for individual products that is expected to run until 2024 and generate cost efficiencies.

- Scildon's focus has been on providing flexible solutions and offerings to its clients, including sustainable options, and continuing to meet the needs of its customers during the impacts of the war in Ukraine and the cost of living crisis.
- Work has continued on the Scildon pension portal and work also started to improve the existing system that services all other products providing improved functionality for customers.
- Waard has provided certainty to the policyholders and staff of both Robein Leven and Conservatrix through its acquisition activity.

- The IFRS 17 and IFRS 9 work has continued to progress, with significant strides being made during the year. Work has continued with our auditors on the technical decisions and the operational processes underpinning the implementation. Both businesses remain on track to deliver IFRS 17 reporting for half year 2023.
- Waard has implemented a new actuarial tool during the year to strengthen its systems and controls.
- Further implementation on the EU sustainability regulation (the SFDR and the EU Taxonomy) was carried out during the year.
- The 2022 results have been audited by the newly appointed local auditor, EY, following a tender process for both Waard and Scildon during 2021.

- Despite significant market turmoil over the course of 2022, Scildon continues to generate commercial new business profits, with £6.1m earned in the year. The overall volume of business increased by c3% versus 2021 against a term market that materially shrank during the year.
- Underpinning this, Scildon APE¹ and policy count continue to increase, now with more than 230,000 policies. The market share for the Scildon term lifestyle product is 18.2% (YTD to December 2022).
- Scildon was awarded a 5 star rating for its lifestyle product by independent trade body, Moneyview.

¹Annual Premium Equivalent – see glossary on page 242 for further information.

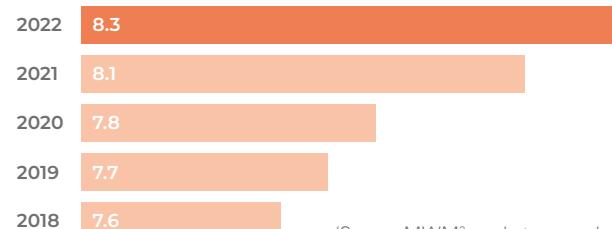
KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2022 EXCHANGE RATES)

Economic Value[†] – The Netherlands



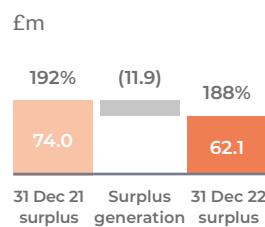
Note: The 2022 closing value includes the additional EcV in Waard relating to the capital injection of £21.5m from Chesnara plc in respect of the Conservatrix acquisition. There is a corresponding value outflow of £21.5m at the parent company.

Client satisfaction rating

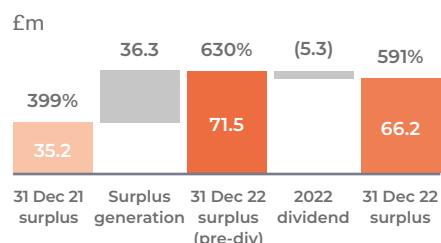


(Source MWM² market research agency, Netherlands)

SOLVENCY RATIO SCILDON: 188%

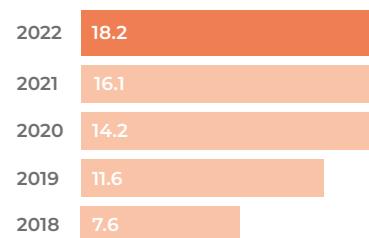


SOLVENCY RATIO WAARD: 591%

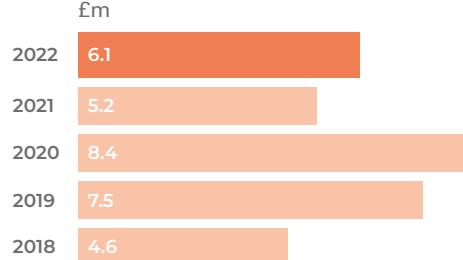


Solvency is robust in both businesses, with post-dividend solvency ratios (inclusive of the volatility adjustment) of 188% and 591% for Scildon and Waard respectively. Note, the increase in Waard solvency includes the benefit of the £21.5m capital injection from group in respect of the Conservatrix acquisition, which completed 1 January 2023.

Term assurance market share %



Scildon new business profit



FUTURE PRIORITIES

- Integrate the Conservatrix business and continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Effective management of the closed-book run-off in Waard to enable ongoing dividend payments to Chesnara.
- Continue to progress the ongoing IT projects to generate capital efficiencies.

- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue to progress the IT development programme in Scildon to enhance functionality for customers.
- Maintain stability to customers of Conservatrix during the integration process.

- Finalising the preparation for IFRS 17 and IFRS 9 financial reporting, which are live as of 1 January 2023.
- Continue implementation of sustainability regulations.

- Continue to deliver product innovation and cost management actions.
- Consider alternative routes to market that do not compromise our existing broker relationships, such as further product white labelling.

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

BUSINESS REVIEW • ACQUIRE LIFE & PENSIONS BUSINESSES

During 2022 we completed the acquisitions of CASLP and Robein Leven and announced the purchase of the insurance portfolio of Conservatrix. Well considered acquisitions 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 own contacts and advisors and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in our existing territories, although we will consider other territories should the opportunity arise and this is supportive of our strategic objectives.
- We assess deals by applying well established criteria which consider the impact on cash generation and Economic Value under best estimate and stressed scenarios.
- We work cooperatively with regulators.
- The financial benefits are viewed in the context of the impact the deal will have on the enlarged group's risk profile.
- Transaction risk is reduced through stringent risk-based due diligence procedures and the senior management team's acquisition experience and positive track record.
- We fund deals with a combination of own resources, debt or equity depending on the size and cash flows of each opportunity and commercial considerations.

HOW WE ASSESS DEALS

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

INITIATIVES AND PROGRESS IN 2022

In July 2022, Chesnara announced the acquisition of the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. The transaction completed on 1 January 2023.

The insurance portfolio has increased Waard's number of policies under administration by over 60%, transforming Waard into a second material closed-book consolidation business alongside Chesnara's existing UK platform.

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

A capital contribution of £35m was provided by the group (£21.5m from the parent and the remaining £13.5m funded by Waard) to support the solvency position of the Conservatrix business and Conservatrix customers will benefit from becoming part of a well capitalised group, after a significant period of uncertainty.

Future cash generation from the acquisition under steady state conditions is expected to be c£4 million per annum, supporting Chesnara's progressive dividend strategy. Waard will become a material contributor to the group's dividends, with expected total annual cash generation of £8 million.

The Conservatrix transaction is expected to increase the group's EcV by c£21m on a pro-forma basis and provides further EcV accretion potential from future real world investment returns and the run-off of the risk margin.

In addition, we also completed two transactions during April 2022 that were originally announced in 2021: Robein Leven in the Netherlands (announced in November 2021) and CASLP in the UK (announced in September 2021). These acquisitions added £21.4m day 1 EcV and are expected to add c£6m of steady state cash generation.

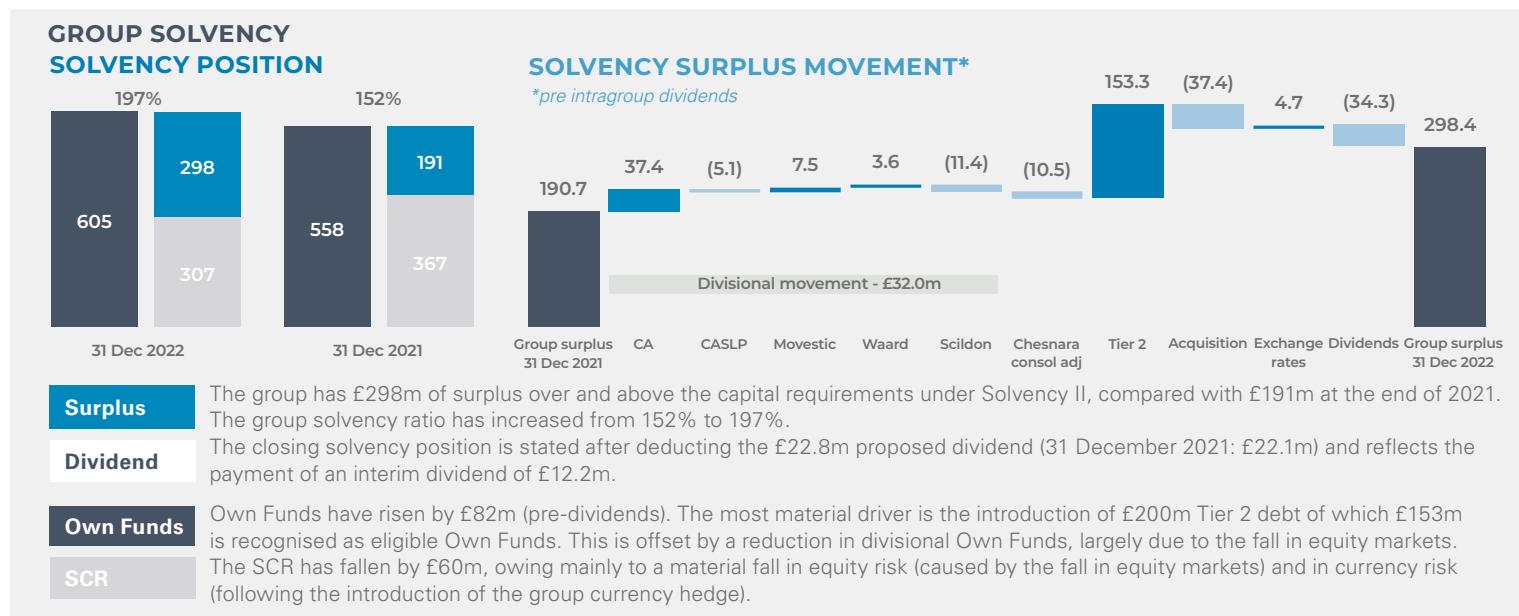
Total group capital deployed in the three acquisitions of CASLP, Robein Leven and Conservatrix totalled over £110m, of which £85m was funded from holding company cash reserves. Including Conservatrix, this is expected to add c£42m of EcV to the group and c£10m of steady state cash generation.

ACQUISITION OUTLOOK

- We continue to see a healthy flow of acquisition activity across European insurance including UK and the Netherlands.
- We recognise that the consolidation markets in these countries are mature but the key drivers for owners to divest portfolios continue to remain relevant and create a strong pipeline. These include better uses of capital (e.g. return to investors or supporting other business lines), operational challenges (e.g. end of life systems), management distraction, regulatory challenges, business change (e.g. IFRS 17) and wider business and strategic needs.
- Our expectation is that sales of portfolios will continue and our strong expertise and knowledge in the markets, good regulatory relationships and the flexibility of our operating model means that Chesnara is very well placed to manage the additional complexity associated with these portfolio transfers and provide beneficial outcomes for all stakeholders. These transactions may not be suitable for all potential consolidators, in particular those who do not have existing licences in these territories.
- Chesnara will continue its robust acquisition assessment model which takes into account; (a) the strategic fit; (b) the cash generation capability; (c) the medium term impact on EcV per share; and (d) the risks within the target. We will also continue to assess the long-term commercial value of acquisitions as part of our objective to maximise the value from in-force business.
- The £200m Tier 2 subordinated debt issue in February 2022 together with the existing £100m Revolving Credit Facility arrangement (with an additional £50m accordion option) provides funding capability on commercially attractive terms. Whilst we deployed c£85m of capital in support of M&A (£110m including capital from Waard), we continue to have immediately available acquisition firepower of over £100m. We will continue to explore how we can increase our funding capability further, including consideration of partnerships.
- Our strong network of contacts including the corporate finance advisor community, who understand the Chesnara acquisition model, supported by our engagement activity with potential targets, ensures that we are aware of viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue our successful acquisition track record in the future.

CAPITAL MANAGEMENT • SOLVENCY II

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



Solvency II background

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

WHAT ARE OWN FUNDS?

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

The Own Funds valuation, before considering the benefit of Tier 2 capital, is deemed to represent a commercially meaningful figure with the exception of:

Contract boundaries

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

Risk margin

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

Restricted with-profit surpluses

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

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

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

How do Own Funds change?

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

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

WHAT IS CAPITAL REQUIREMENT?

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

There are three levels of capital requirement:

Minimum dividend paying requirement/risk appetite requirement

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

Solvency Capital Requirement

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

Minimum Capital Requirement (MCR)

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

How does the SCR change?

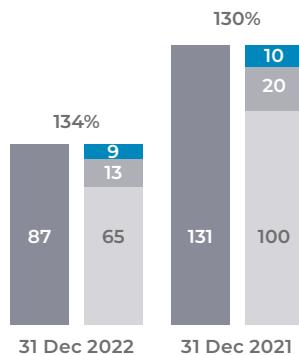
Given the largest component of Chesnara's SCR is market risk, changes in investment mix or changes in the overall value of our assets has the greatest impact on the SCR. For example, equity assets require more capital than low risk bonds. Also, positive investment growth in general creates an increase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

A review of the UK's application of Solvency II is currently underway, led by HM Treasury. In April 2022 the PRA published a statement indicating its agreement with the view that the risk margin and matching adjustment can be reformed so as to reduce overall capital levels for life insurers by around 10% to 15% in current economic conditions. In November 2022 the UK government announced plans to legislate the reforms to Solvency II. We continue to monitor this closely and future financial statements will report on the UK specific application of Solvency II as it diverges from the EU's regime. We see no specific reason to expect the PRA to use their enhanced freedoms to take a route that systemically makes it harder to do business in the UK.

CAPITAL MANAGEMENT • SOLVENCY II

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

UK – CA £m



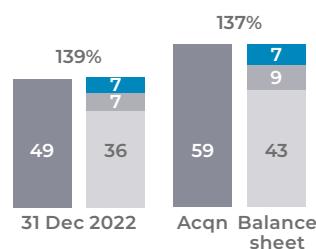
Surplus: £9m above board's Capital Management Policy.

Dividends: Solvency position stated after £46m foreseeable dividend (2021: £28m).

Own Funds: Risen by £2m (pre-dividend) due to an extraction of restricted with-profit capital, reduced expense assumptions, offset by the fall in equity markets.

SCR: Decreased by £35m due to sharp fall in equity risk and moderate fall in spread and expense risks.

UK – CASLP £m



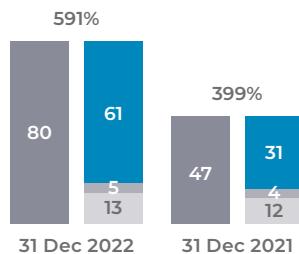
Surplus: £4m above board's Capital Management Policy.

Dividends: Solvency position stated after £10m foreseeable dividend.

Own Funds: Since acquisition, Own Funds fell by £10m, largely due to an increase in expense assumptions and fall in equity markets. Note, the acquisition balance sheet includes the benefit of a £25m capital injection from group on acquisition.

SCR: Fallen by £7m in the post-acquisition period, due to reductions in equity, spread, counterparty, longevity and lapse risks.

NETHERLANDS – WAARD £m



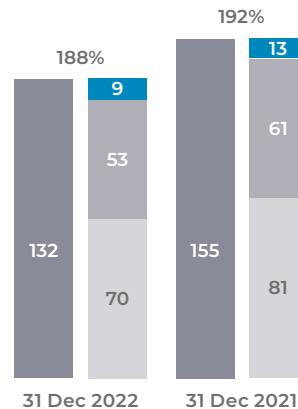
Surplus: £61m above board's Capital Management Policy.

Dividends: Solvency position stated after £5m foreseeable dividend (2021: £6m).

Own Funds: Increased by £33m, due to receipt of £22m from Chesnara and £5m from Scildon to support acquisition activity. There is also a gain on revaluation of Robein Leven.

SCR: Risen by £1m, mainly due to acquisition of Robein Leven, which has mostly impacted equity, expense and concentration risk.

NETHERLANDS – SCILDON £m



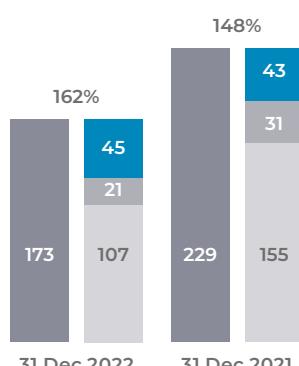
Surplus: £9m above board's Capital Management Policy.

Dividends: No foreseeable dividend is expected (2021: £5m).

Own Funds: Decreased by £23m due to the rise in interest rates and adverse mortality and lapse experience.

SCR: Decreased by £11m, largely due to falls in equity and lapse risk, due to the fall in equities and rising yields, respectively. Other insurance risks have fallen moderately.

SWEDEN £m



Surplus: £45m above board's Capital Management Policy.

Dividends: Solvency position stated after £12m foreseeable dividend (2021: £3m).

Own Funds: Decreased by £44m (pre-dividend) largely due to fall in equity markets, although slightly offset by the rise in yields.

SCR: Decreased by £48m due to sharp fall in equity risk and moderate falls in currency, lapse and expense risks, due to the market movements.

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 2021 figures have been restated using 31 December 2022 exchange rates in order to aid comparison at a divisional level.

KEY

- Own Funds (Post Div)
- SCR
- Buffer
- Surplus above Capital Management Policy

CAPITAL MANAGEMENT • SENSITIVITIES

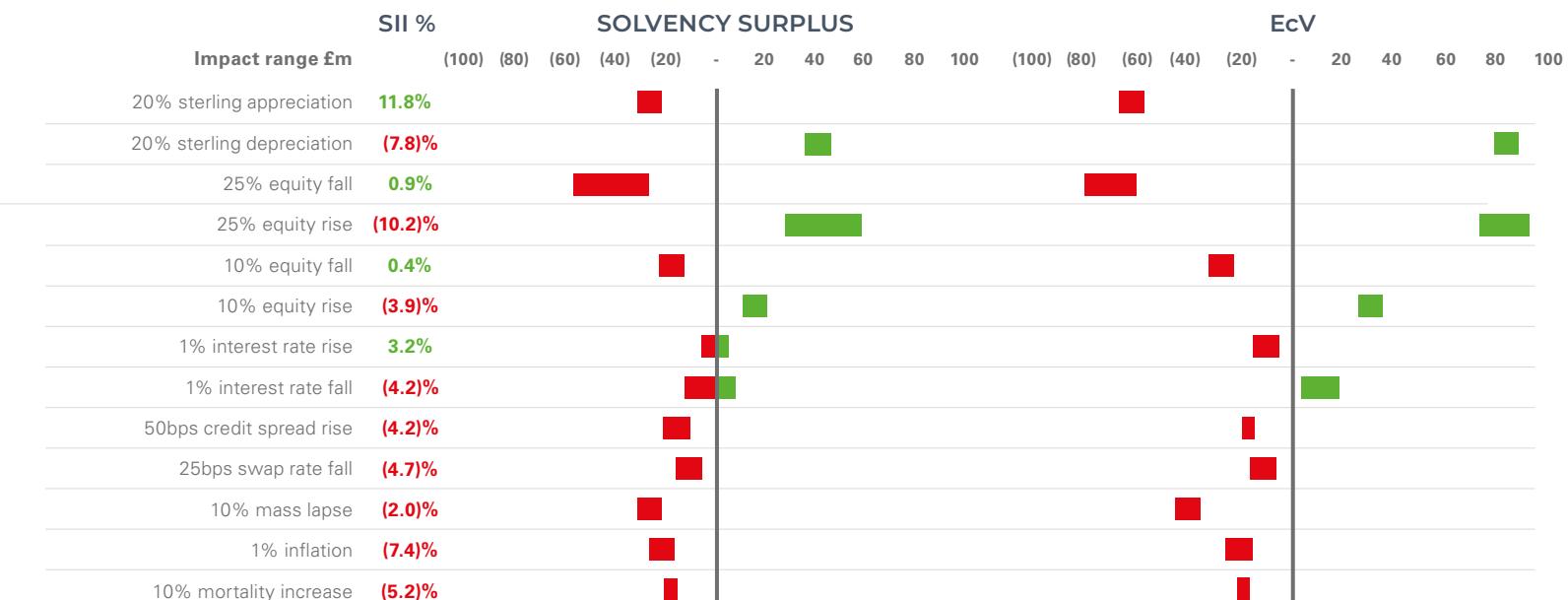
The group's solvency position remains strong and we proactively evaluate the main factors that can affect our solvency. The group's EcV^t, and cash generation^t, both of which are derived from the group's solvency calculations, are also sensitive to these factors.

The diagram below provides some insight into the immediate impact of certain sensitivities that the group is exposed to, covering solvency surplus and Economic Value^t. As can be seen, EcV tends to take the 'full force' of adverse conditions whereas solvency is often protected in the short term and, to a certain extent, the longer term due to compensating impacts on required capital.

The Tier 2 debt raise in February 2022 has had a material impact on the reported sensitivities because, as capital requirements move, the amount of the Tier 2 debt able to be recognised in the Own Funds also moves. For example, where FX movements reduce the SCR, we now also experience a corresponding reduction in base Own Funds and also Own Funds relating to Tier 2 capital. The total surplus is now more exposed to downside risks

but, importantly, the Tier 2 itself has created more than sufficient additional headroom to accommodate this. The group also implemented a currency hedge in December 2022 which materially reduces the impact of currency movements on surplus.

Whilst cash generation^t has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation. Each individual bar in the diagram illustrates the estimated impact range (£m) of the respective sensitivities and whether that impact is positive (green) or negative (red). For illustrative purposes, several sensitivities are reported solely showing the downside exposure. For all of these, there is a corresponding upside sensitivity.



INSIGHT*

Currency sensitivities: A sterling appreciation reduces the value of surplus in our overseas divisions and any overseas investments in our UK entities, however this is mitigated by the group currency hedge, so the overall impact on solvency surplus is small. The impact of a sterling depreciation is not symmetrical because the currency hedge only removes a limited amount of upside potential.

Equity sensitivities: The equity rise sensitivities cause both Own Funds and SCR to rise, as the value of the funds exposed to risk is higher. The increase in SCR can be larger than Own Funds, resulting in an immediate reduction in surplus, depending on the starting point of the symmetric adjustment. The converse applies to an equity fall sensitivity, although the impacts are not fully symmetrical due to management actions and tax. The Tier 2 debt value also changes materially in these sensitivities. The change in symmetric adjustment can have a significant impact (25% equity fall: -£12m 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, much of which is invested in equities.

Interest rate sensitivities: An interest rate rise currently has a more adverse effect on group Economic Value than an interest rate fall. This is a change in exposure following the rise in interest rates over 2022. However, group solvency is still less exposed to rising interest rates as a rise in rates causes capital requirements to fall, increasing solvency.

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

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

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

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

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

*BASIS OF PREPARATION ON REPORTING

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

FINANCIAL REVIEW

Our key performance indicators provide a good indication of how the business has performed in delivering its three strategic objectives. These two pages provide some insight into what is driving the results for 2022. Further analysis can be found on pages 50 to 54.

£82.7M 2021: £20.3m

CASH GENERATION[†]

excluding the impact of acquisitions

What is it?

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

Why is it important?

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

Risks

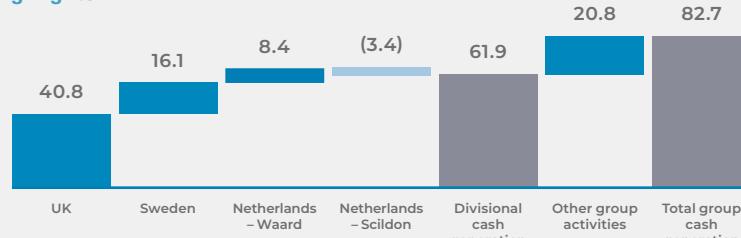
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 59 to 65. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar 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.

£61.9M 2021: £31.1m

DIVISIONAL CASH GENERATION[†]

Further detail p50

Highlights £m



– Strong total cash generation of £82.7m is the combined impact of good divisional performance and a positive contribution at the central plc level.

- The divisional result of £61.9m is dominated by the positive impact of investment market driven reductions in capital requirements including c£28m from the symmetric adjustment. The good surplus emergence at a divisional level has enabled total expected divisional dividends of £74m.
- The central contribution of £20.8m benefits from the impact of a FX currency hedge taken out toward the end of the year which reduced our currency capital requirement (including buffer) by £36m. The balancing central loss of c£15m relates to consolidation adjustments, central development expenditure and central recurring overheads.

£146.9M 2021: £28.8m profit

IFRS PRE-TAX LOSS

What is it?

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

Why is it important?

The IFRS results form the core of reporting and hence retain prominence as a key financial performance metric. There is however a general acceptance that the IFRS results in isolation do not recognise the wider financial performance of a typical life and pensions business, hence the use of supplementary Alternative Performance Measures (pages 238 to 239) to enhance understanding of financial performance.

Risks

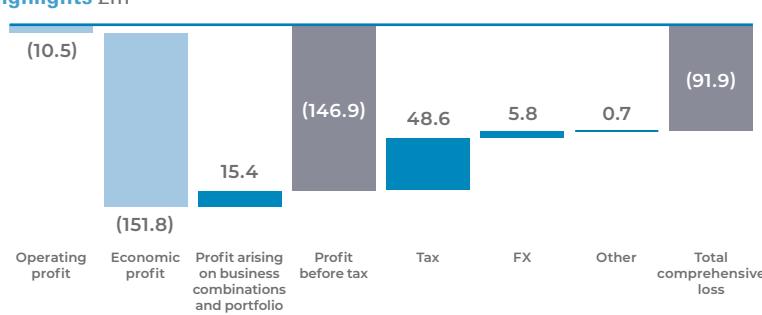
The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties as set out on pages 59 to 65. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), and foreign currency fluctuations can affect total comprehensive income. The IFRS results of Scildon can be relatively volatile from interest rate and spread changes, in part, due to the different approach used by the division for valuing assets and liabilities, as permitted under IFRS 4. The dynamics of our IFRS results will change once IFRS 17 comes in force, which will be effective from 1 January 2023.

£91.9M 2021: £3.8m profit

TOTAL COMPREHENSIVE LOSS

Further detail on p54

Highlights £m



– The loss in the year is dominated by the Scildon result, which reported a pre-tax loss of £103.7m. This has arisen as a result of an accounting mismatch between assets and liabilities, with yield increases in the year being the key factor causing this (see further information on page 54).

- The loss on economic activities was £151.8m for the year, with all adversely impacted by factors such as rising yields, coupled with falling equity markets.
- The result includes profit on acquisitions of £15.4m, comprising gains arising on the CASLP and Robein Leven deals in the UK and Netherlands.
- Total comprehensive income includes a positive movement in tax liability (owing to the operating losses) and a small foreign exchange gain on translation of the Dutch and Swedish divisional results.

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

£511.7M 2021: £624.2m

ECONOMIC VALUE (EcV)[†]

Further detail on p53

What is it?

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

Why is it important?

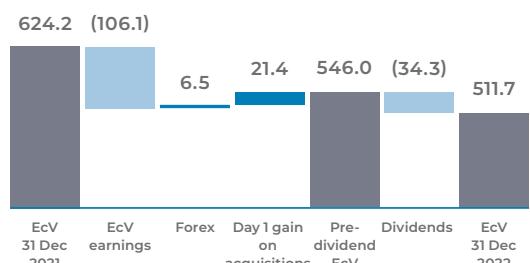
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value.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

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

Risks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example, a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group within a range of £59m–£69m, based on the composition of the group's EcV at 31 December 2022.

Highlights £m



- The 12.5% fall in Economic Value pre-dividend is broadly in line with expectations given the backdrop of widening credit spreads and sharp equity value reductions, particularly in Sweden where the primary OMX index fell by 25%. Equity impacts and spread impacts of c£65m and c£20m respectively account for the vast majority of the fall.
- Despite the overall reduction, new business profits and acquisitions did manage to cover 88% of the total dividend payment. This gives confidence that under more beneficial economic conditions the prospect of post dividend Economic Value growth is a realistic expectation.

[†] Alternative Performance Measure (APM) used to enhance understanding of financial performance.

Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

£(106.1)M 2021 £57.8m

EcV EARNINGS[†]

Further detail on p52

What is it?

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

The principal underlying components of the Economic Value earnings are:

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

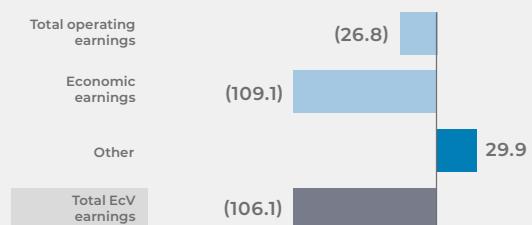
Why is it important?

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

Risks

The EcV earnings of the group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties and sensitivities analysis as set out on pages 59 to 65. 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



- The majority of the earnings loss is due to economic conditions. Equity market falls have materially impacted unit-linked policyholder funds and future fee related positive cash flows are rebased from the closing fund value. There have also been notable losses resulting from credit spreads widening and more modest yield related losses.
- Whilst operating losses are a real source of value deterioration they do include items more positive in nature. For example, overheads and one-off costs associated with the M&A strategy are within this total as are certain non-recurring costs associated with the Tier 2 raise and IFRS 17. The loss includes a much reduced impact from Movestic outward transfers which is a significant positive development with closing transfer levels being back in line with our long-term assumption. We have strengthened mortality and expense assumption in Scildon.
- The 'Other' category includes reduction in risk margin, positive tax impacts and the cost of the Tier 2 coupon payments.

FINANCIAL REVIEW · CASH GENERATION

With positive contributions in each territory the divisional cash generation exceeds £60m and, looking through the impact of acquisitions, total cash generation for 2022 was £82.7m. 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'.

£82.7M 2021: £20.3m

GROUP CASH GENERATION

excluding the impact of acquisitions

£61.9M 2021: £31.1m

DIVISIONAL CASH GENERATION

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

Implications of our cash definition:

Positives

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

Challenges and limitations

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

2022 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated/ (utilised)	2021 £m	Cash generated/ (utilised)
UK	(10.0)	50.8	–	40.8	27.4	
Sweden	(40.8)	57.9	(1.0)	16.1	(14.4)	
Netherlands – Waard Group	(2.0)	7.6	2.9	8.4	2.9	
Netherlands – Scildon	(21.4)	17.4	0.5	(3.4)	15.2	
Divisional cash generation/(utilisation)	(74.2)	133.7	2.4	61.9	31.1	
Other group activities	(15.0)	33.2	2.6	20.8	(10.8)	
Group cash generation/(utilisation)	(89.2)	166.9	5.0	82.7	20.3	

GROUP

- Other group activities include consolidation adjustments as well as central costs and central SCR movements.
- Central costs of approximately £15m include a large proportion of exceptional non-recurring expenditure and Tier 2 interest costs.
- Central SCR movements have minimal real cash flow implications, but they do have meaningful solvency impacts. The movement in the year largely relates to a £36.5m reduction as a result of a currency hedge taken out in the final quarter of 2022.

UK

- The UK again delivered strong cash generation, driven by capital requirement reductions (and symmetric adjustment impact) following a significant decline in equity values and increase in yields, which offset the negative impact of investment conditions on Own Funds. Economic conditions and their associated impact, primarily markets risks, drove the positive movement in capital requirements. Conversely, Own Funds suffered the effect of a corresponding reduction in asset values. Own Funds also include a £7.8m gain as a result of a capital transfer from the with-profit funds.

SWEDEN

- Movestic has reported a solid cash result for 2022, with a substantial reduction in capital requirements offsetting a large fall in the value of Own Funds. The division is particularly sensitive to investment market movements and economic conditions during the period underpin the cash result. Own Funds bear the impact of economic conditions and negative investment returns (particularly equity driven).

NETHERLANDS – WAARD

- Waard delivered improved cash generation, following a reduction in capital requirements that exceeded a fall in Own Funds. Economic losses, largely due to the negative effect of rising interest rates on yields and bond values and mortgage portfolio, were the main component of the value reduction. This also had a positive impact on capital requirements, driving a material decrease in market risks.

NETHERLANDS – SCILDON

- The Scildon result was dominated by economic factors that were key to the decline in both Own Funds and required capital. Rising interest rates, falling bond values and widening spreads had a negative impact on Own Funds, resulting in significant economic losses. Operational losses also contributed to the value reduction. The reduction in SCR was driven by economic factors, particularly market risks, as well as lapse risk with lower exposure to the cost of guarantees. Overall, Scildon posted a loss for 2022.

FINANCIAL REVIEW • CASH GENERATION – ENHANCED ANALYSIS

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

£46.6M 2021: £53.0m

COMMERCIAL CASH GENERATION

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	DIVISIONAL TOTAL	GROUP ADJ	TOTAL
Base cash generation	40.8	16.1	8.4	(3.4)	61.9	20.8	82.7
Symmetric adjustment	(10.9)	(17.2)	–	–	(28.2)	–	(28.2)
With-profits restriction look through	(7.8)	–	–	–	(7.8)	–	(7.8)
Commercial cash generation	22.0	(1.1)	8.4	(3.4)	25.9	20.8	46.6

The group's closed-book businesses (UK and Waard) continue to be the dominant source of commercial cash generation with a total commercial result of £30.4m which in itself represents 87% coverage of the full year dividend. The open to new business divisions (Movestic and Scildon) have reported modest commercial cash losses, resulting in a total divisional result of £25.9m. This result has been further enhanced by the implementation of an FX hedge to reduce the group balance sheets exposure to FX movements. This delivered £36.5m of commercial cash which in turn contributes to a total commercial cash generation of £46.6m, representing 133% coverage of the full year dividend. We have consistently reported the existence of potential management actions to enhance cash emergence. We deemed the time was right and the financial case was suitably compelling to implement one of these in the shape of an FX hedge.

UK

The UK result, which includes the post-acquisition results for CASLP, relates to a combination of operating and economic gains. The economic results includes the benefits from the increased yield environment in part offset by losses from equity falls and widening credit spreads.

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

SWEDEN

The Swedish result, which excludes the large benefits from the symmetric adjustment, is largely a direct consequence of the sharp decline in equity values and a widening of credit spreads during the period, which are partially offset by benefits from yield increases. The underlying operating result is broadly in line with expectation.

WAARD

The Waard commercial cash gain includes both operating and economic profits. The operating gains are largely due to post acquisition synergies from the Robein Leven acquisition which completed in Q2. Economic gains have arisen as a result of FX movements and rising yields.

SCILDON

The Scildon result includes modest benefits from the increasing interest rates during the period. Operating losses, largely due to strengthening operating assumptions, together with new business strains have more than offset any economic profits.

GROUP ADJ

The central group cash generation includes a £36.5m gain from a FX hedge taken out in the year. This is partially offset by central expenses and consolidation adjustments. The central expenses include coupon payments of the Tier 2 debt raised in the year, central overheads and centrally incurred business development investments e.g. M&A activity, IFRS 17, Tier 2 debt raise process.

FINANCIAL REVIEW • EcV EARNINGS

The EcV earnings of the group reflect the economic conditions over the course of the year, with negative equity returns, rising interest rates and falling bond values, delivering economic losses across the operating divisions.

£(106.1)M 2021: £57.8m
EcV EARNINGS

Analysis of the EcV result by earnings source:

£m	31 Dec 2022	31 Dec 2021
Expected movement in period	(1.3)	(1.7)
New business	8.0	2.4
Operating experience variances	(20.7)	(19.2)
Other operating assumption changes	(14.5)	(13.9)
Other operating variances	1.7	(26.4)
Total EcV operating earnings^t	(26.8)	(58.8)
Total EcV economic earnings^t	(109.1)	109.6
Other non-operating variances	(2.6)	4.5
Risk margin movement	20.4	10.8
Tax	12.0	(8.2)
EcV earnings	(106.1)	57.8

Analysis of the EcV result by business segment:

£m	31 Dec 2022	31 Dec 2021
UK	(24.6)	28.0
Sweden	(37.1)	26.1
Netherlands	(29.4)	8.3
Group and group adjustments	(15.0)	(4.6)
EcV earnings	(106.1)	57.8

Total economic earnings: The large economic loss of £109.1m dominates the EcV result in the year. The result is in line with our reported sensitivities and is driven by the following market movements.

Reduction in equity indices:

- CPI (UK consumer price index) increased by 5.1% to 10.5% (year ended 31 December 2021: increased by 4.7% to 5.4%);
- FTSE All Share index decreased by 3% (year ended 31 December 2021: increased by 15%);
- Swedish OMX all share index decreased by 25% (year ended 31 December 2021: increased by 35%); and
- The Netherlands AEX all share index decreased by 15% (year ended 31 December 2021: increased by 23%).

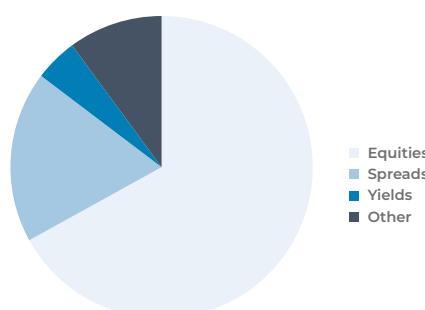
Widening credit spreads:

- UK AA corporate bond yields increased to 1.04% (31 December 2021: 0.69%).
- European AA credit spreads increased to 0.29% (31 December 2021: 0.16%).

Increased yields:

- 10-year UK gilt yields have increased from 0.98% to 3.78%.

The following chart illustrates the approximate relative impacts of these market factors on the EcV economic loss:



The EcV results over the past two years illustrate how sensitive the results are to economic factors. The fact that the loss in 2022 is the same as an equally large gain in 2021 demonstrates that, to an extent, there is a lack of permanence to such market driven value movements. Short-term volatility has limited commercial impact on the business and of more importance is the fact that steady state, over the longer term, we expect EcV growth in the form of real world investment returns.

Total operating earnings: Although we report an operating loss, it is encouraging to see the marked reduction compared to 2021. The result includes many different components including items that represent positive investment in the future and items that are non-recurring in nature. The most significant items in 2022 are:

- Recurring central development overheads including those associated with the M&A strategy. Whilst the cost of this development investment is recognised, EcV does not recognise the potential returns we expect from it.
- Non-recurring development expenditure such as IFRS 17.
- Operating losses in Movestic mainly relating to transfers. Over previous years aggressive pricing from a competitor resulted in a period of high transfer-out losses. The position has stabilised in 2022 and transfer rates have returned to our long term assumed level by the end of the year. The resultant transfer related operating loss is greatly reduced and not expected to be a feature in 2023 based on current transfer levels.
- We have strengthened mortality and expense assumptions in Scildon. An element of the expense related loss covers process enhancement work for which the expected cost reduction benefits are not yet recognised in the closing valuation.

Risk Margin: The risk margin has reduced as in-force books have run-off. Increasing interest rates have also been a key driver of risk margin reduction. Looking at the results by division:

UK: The UK division reported a small operating loss, primarily as a result of some expenses pressure. This was overshadowed by economic factors, with the division reporting a combined economic loss of £28.7m. The widening of bond spreads, alongside equity market falls, resulted in material economic losses being reported, although this was off-set somewhat by the net positive impact of the large yield rises that were witnessed during 2022.

Sweden: Movestic recorded a large loss, with the division being heavily impacted by external economic factors. Investment market conditions, particularly falling equity values (the Swedish OMX decreased 25% in 2022), resulted in negative economic returns (£43.0m). Operating earnings were suppressed by a reduction in fund rebate income and some adverse experience in transfers, although it is pleasing to report that the latter was to a much lesser extent than in the prior year. Modest new business profits (on an EcV basis) of £1.8m were reported (2021: £2.9m), reflecting difficult market conditions and margin pressures, with lower rebate income and equity falls having a negative impact.

Netherlands: The Dutch division has reported a combined loss of £29.4m in 2022, with economic losses of £34.3m dominating the result. In Scildon, economic losses of £29.7m were primarily the consequence of rising interest rates and widening bond spreads adversely impacting bond and property values. As outlined earlier, Scildon also reported an operational loss, which includes the impact of guarantee related costs and higher mortality driven outgoings than anticipated, alongside an element of one-off expense assumption strengthening. Waard has reported an EcV loss of £3.1m, with economic experience being the main component. The impact of rising yields has resulted in falls in the value of our bond and mortgage portfolio, outweighing the positive impact of discounting the division's liabilities at a higher rate.

Group: This component includes various group-related costs and includes: non-maintenance related costs (such as acquisition costs); the costs of the group's IFRS 17 programme; and some material economic-related items such as financing costs, primarily in relation to the Tier 2 debt interest costs, and negative investment returns.

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

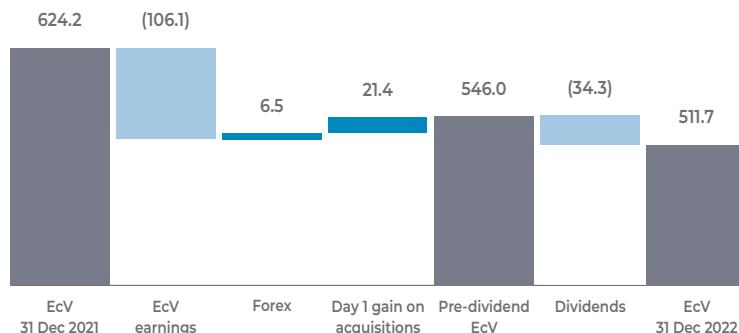
FINANCIAL REVIEW • EcV

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

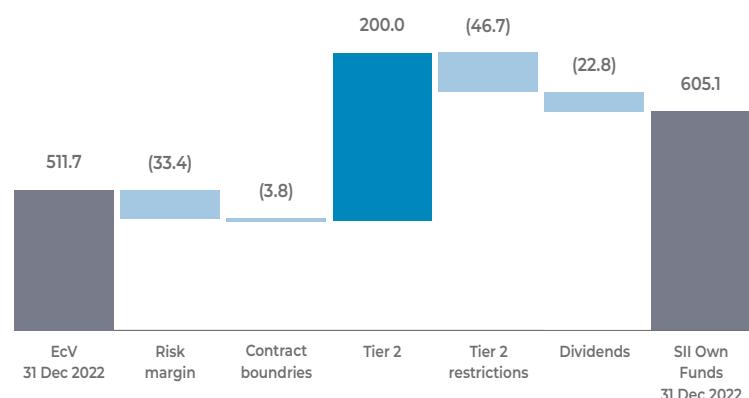
£511.7M 2021: £624.2m

ECONOMIC VALUE (EcV)

Value movement: 1 Jan 2022 to 31 Dec 2022 £m



EcV to Solvency II Own Funds £m

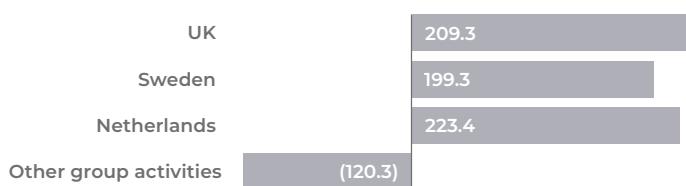


EcV earnings: A loss of £106.1m has been reported in 2022. Significant economic losses arising from the adverse economic investment market conditions witnessed in the first half of the year drove the result. Further detail can be found on page 52.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £34.3m were paid during the year, being the final dividend from 2021 and the 2022 interim dividend.

Foreign exchange: The closing EcV of the group reflects a foreign exchange gain in the period, a consequence of the sterling appreciation against Swedish krona being offset by depreciation versus the euro.

EcV by segment at 31 Dec 2022 £m



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

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

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

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

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

Dividends: The proposed final dividend of £22.8m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

Tier 2: The Tier 2 debt is treated as 'quasi equity' for Solvency II purposes. For EcV, consistent with IFRS, we continue to report this as debt.

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.

£146.9M 2021: £28.8m profit

IFRS PRE-TAX LOSS

Analysis of IFRS result by segment:

	2022 £m	2021 £m
UK	(11.7)	35.6
Movestic	2.3	12.1
Waard Group	(10.0)	0.1
Scildon	(103.7)	(0.5)
Chesnara	(27.3)	(12.6)
Consolidation adjustments	(11.9)	(5.8)
(Loss)/profit before tax and acquisitions	(162.3)	28.9
Profit/(loss) arising on business combinations and portfolio acquisitions	15.4	(0.1)
(Loss)/profit before tax	(146.9)	28.8
Tax	48.6	(1.5)
(Loss)/profit after tax	(98.3)	27.3
Foreign exchange	5.8	(23.9)
Other comprehensive income	0.6	0.4
Total comprehensive income	(91.9)	3.8

Analysis of IFRS result between operating and economic factors:

Operating (loss)/profit	(10.5)	40.7
Economic loss	(151.8)	(11.8)
(Loss)/profit before tax and acquisitions	(162.3)	28.9
Profit/(loss) arising on business combinations and portfolio acquisitions	15.4	(0.1)
(Loss)/profit before tax	(146.9)	28.8
Tax	48.6	(1.5)
(Loss)/profit after tax	(98.3)	27.3
Foreign exchange	5.8	(23.9)
Other comprehensive income	0.6	0.4
Total comprehensive income	(91.9)	3.8

The group has reported a large pre-tax IFRS loss for the year, which is dominated by the result reported by Scildon. Scildon's IFRS results are particularly sensitive to yield changes, which increased significantly over 2022, largely as a result of the accounting mismatch between its insurance contract liabilities and the assets that back them. Scildon's insurance contract liabilities are largely valued using the observed yield curve at the point of sale of the underlying contract. As yields move over time, the liability value does not change, but the fair values of the assets that back the liabilities do. Consequently, with significant rises in yields having been observed over the course of 2022, Scildon has seen large fair value falls in its fixed interest assets, which have not been offset by a decrease in the associated liabilities. This dynamic will be different under IFRS 17, where insurance contract liabilities will be valued more consistently across the group. Whilst other segments of the group also display a level of results exposure to yields, they are not of the same magnitude as for Scildon.

A divisional summary has been provided below, along with drawing out some other key features of the IFRS results.

UK: Reported a loss for the year driven by adverse economic returns; namely falling equity markets, rising interest rates and the impact of rising inflation, in contrast with the prior year which saw economic profits.

A positive operating result was reported in the year, driven by favourable operating assumption change impacts and experience gains. The UK segment result includes the post-acquisition results of CASLP.

£91.9M 2021: £3.8m profit

TOTAL COMPREHENSIVE LOSS

Movestic: The division has reported a small IFRS profit, although this is significantly down on the prior year. This is largely driven by economic factors, which has resulted in lower fund rebates arising from lower Funds Under Management[†] and adverse investment returns on shareholder assets.

Waard Group: The division's results reflect the impact of investment market movements in the year, particularly the adverse value impact on bond holdings as a result of interest rate rises in the year. The division's results include the post-acquisition performance of Robein Leven, which was acquired during the year. The division also completed the acquisition of another small policy portfolio in the year.

Scildon: Scildon's result is dominated by the impact of increases in yields over the year. In addition the division has reported some strain arising from higher than expected mortality over the year.

Chesnara: The result largely represents holding company expenses and debt financing costs. The current year loss is higher than last year, largely due to additional interest costs on the new Tier 2 debt which was issued in February 2022. The result also includes some investment losses as a consequence of adverse market movements on directly held investments.

Consolidation adjustments: These relate to items such as the amortisation and impairment of intangible assets. The increase in the year is predominantly due to the extra charge arising from the AVIF asset recognised in relation to the acquisition of CASLP.

Profit/(loss) arising on business combinations and portfolio acquisitions: The group completed the acquisitions of Sanlam Life & Pensions UK and Robein Leven during the year. Gains of £9.6m and £5.8m respectively were recognised, representing the difference between the purchase consideration and the net assets acquired.

Exchange gains: Movements in sterling against both the euro and Swedish krona in the period created a favourable exchange profit, compared with a large exchange rate loss incurred in the prior year.

Operating profits: The group reported an operating loss in the year. This includes the adverse impact of increased debt financing costs within Chesnara, arising from the Tier 2 debt issuance in the year and reduced operating profits within the UK division, where experience variances and policyholder tax impacts were lower than the prior year. The prior year result included the positive impact of releasing an additional reserve created in 2020 due to the liability adequacy test biting in Scildon, amounting to £10.0m.

Economic losses: This represents the components of the earnings that are directly driven by movements in economic variables. The economic losses reported in the year are dominated by Scildon's results.

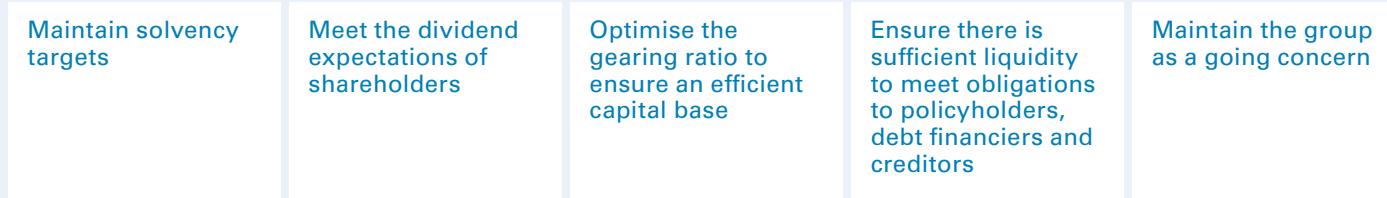
FINANCIAL MANAGEMENT

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:

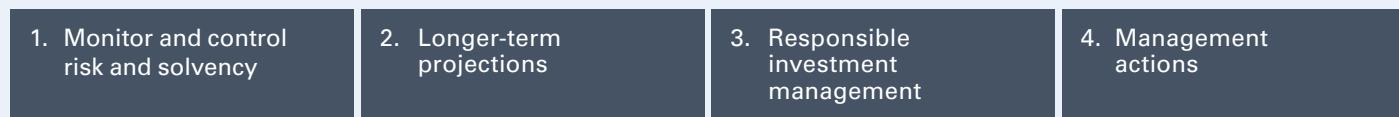
OBJECTIVES

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:



HOW WE DELIVER TO OUR OBJECTIVES

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



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: 197% (2021: 152%)	2020-2022 TSR 9.6% (2019-2021: 0.08%) 2022 dividend yield 8.1% (2021: 8.1%) Based on average 2022 share price and full year 2022 dividend of 23.28p.	Gearing [†] ratio of 37.6% (2021: 6.4%) This does not include the financial reinsurance within the Swedish business.	Policyholders' reasonable expectations maintained. Asset liability matching framework operated effectively in the year. Sufficient liquidity in the Chesnara holding company.	Group remains a going concern. (see page 56)

Further detail on capital structure

The group is funded by a combination of share capital, retained earnings and debt finance. The debt gearing (excluding financial reinsurance in Sweden) was 37.6% at 31 December 2022 (6.4% at 31 December 2021). The level of debt that the board is prepared to take on is driven by the group's Debt and Leverage Policy which incorporates the board's risk appetite in this area. Over time, the level of gearing within the group will change, and is a function of the funding requirements for future acquisitions and the repayment of existing debt. During the year, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes.

The net proceeds of the notes has been partially used for corporate purposes, including the funding of the CASLP acquisition in the year. The balance is held as investments.

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

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

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

1. Maintain the group as a going concern

After making appropriate enquiries, including consideration of the prevailing high-inflation environment and the ongoing potential impacts of the war in Ukraine on the group's operations, financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV^t and IFRS positions. In particular these projections assess the cash generation^t of the life insurance divisions and how these flow up into the Chesnara parent company balance sheet, with these cash flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company. Further insight into the immediate and longer-term impact of certain scenarios, covering solvency, cash generation and Economic Value, can be found on page 47 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of the prevailing high inflation environment and the war in Ukraine on the group, as Chesnara's most material ongoing exposure to both potential threats are any associated future investment market impacts. Underpinning the projections process outlined above are a number of assumptions. The key ones include:

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

The group's strong capital position and business model provides a degree of comfort that although the ongoing war in Ukraine and the prevailing high inflation environment both have the potential to cause further significant global economic disruption, the group and the company remain well capitalised and have sufficient liquidity. As such we can continue to remain confident that the group will continue to be in existence in the foreseeable future. The information set out on pages 45 to 46 indicates a strong Solvency II position as at 31 December 2022 as measured at both the individual regulated life company levels and at the group level. As well as being well-capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due and does not rely on the renewal or extension of bank facilities to continue trading. This position was further enhanced in early 2022, when the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes, the net proceeds of which have been used for corporate purposes, including investments and acquisitions. The group's subsidiaries rely on cash flows from the maturity or sale of fixed interest securities which match certain obligations to policyholders, which brings with it the risk of bond default. In order to manage this risk, we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low.

Whilst there was some short-term operational disruption and subsequent changes to working practices in light of COVID-19, our experience has shown that both our internal functions and those operated by our key outsourcers and suppliers have adapted well and do not cause any issues as to our going concern.

2. Assessment of viability

The board assesses that being financially viable includes continuing to pay an attractive and sustainable level of dividends to investors and meeting all other financial obligations, including debt repayments over the three-year business planning time horizon. The board's assessment of the viability of the group is performed in conjunction with its going concern assessment and considers both

the time horizons required for going concern, and the slightly longer term timelines for assessing viability. The assessment for viability also considers the same key financial metrics as for assessing going concern, being solvency, cash, EcV and IFRS, both on base case and stressed scenarios.

3. Viability statement

Based on the results of the analysis above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. Although we produce business plans and other financial projections over longer time horizons, the selection of three-year viability assessment recognises that the level of operating, regulatory and market certainty reduces towards the later years of the projection time frames. The three-year period also aligns with executive director LTIP performance time frames.

4. Assessment of prospects

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

The business plans include underlying operational deliverables, an assessment of the business model and the financial consequences of following those plans. As part of this process we also consider the principal risks and uncertainties that the group faces (see pages 59 to 65) and how these might affect our prospects.

An assessment of our prospects has been shown below, updated for our consideration of the impact of the war in Ukraine crisis and the prevailing high inflation environment. This has been structured around our three strategic objectives:

Value from in-force book: The group has c933k policies in force at 31 December 2022 (over one million on a pro-forma basis including Conservatrix). These are generally long-term policies, and the associated cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. Just as equity markets had recovered from the impact of COVID-19, the worsening situation in Ukraine caused equity prices to fall. Whilst this may turn out to be a temporary situation, sustained depressed market values do adversely impact fee income streams and therefore if markets fall further then profitability prospects reduce. Similarly, adverse movements in yields would adversely impact our prospects. Temporary market volatility is however a natural feature of investment markets and our financial model is well positioned to withstand difficult conditions without creating any permanent harm to the longer-term profitability prospects.

Acquisition strategy: The outlook and prospects of continuing to deliver against this strategic objective is covered on page 44. We see no reason to expect that the war in Ukraine or the high inflation environment will have a long-term impact on the availability of acquisition opportunities. Indeed, during the year we completed two acquisitions, one in the UK and one in the Netherlands. We also completed another Dutch acquisition on 1 January 2023. Waard continues to build a useful market position as a company which is able and willing to acquire books that are sub-scale for the vendors business model. Whilst we maintain our ambition to complete larger deals, the prospects from a steady flow of well-priced smaller acquisitions should not be underestimated. The financial position of the group continues to support financing deals through the use of our own resources or by raising debt, however in the short-term equity funding would likely be less attractive.

Value from new business: Chesnara is in a fortunate position in that its prospects do not fundamentally rely on the ability to sustain new business volumes. New business levels have contributed a small amount of extra value during the year, despite the ongoing challenges as a result of the war in Ukraine and the subsequent cost of living crisis, and we believe there remains realistic upside potential as we move into 2023.

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

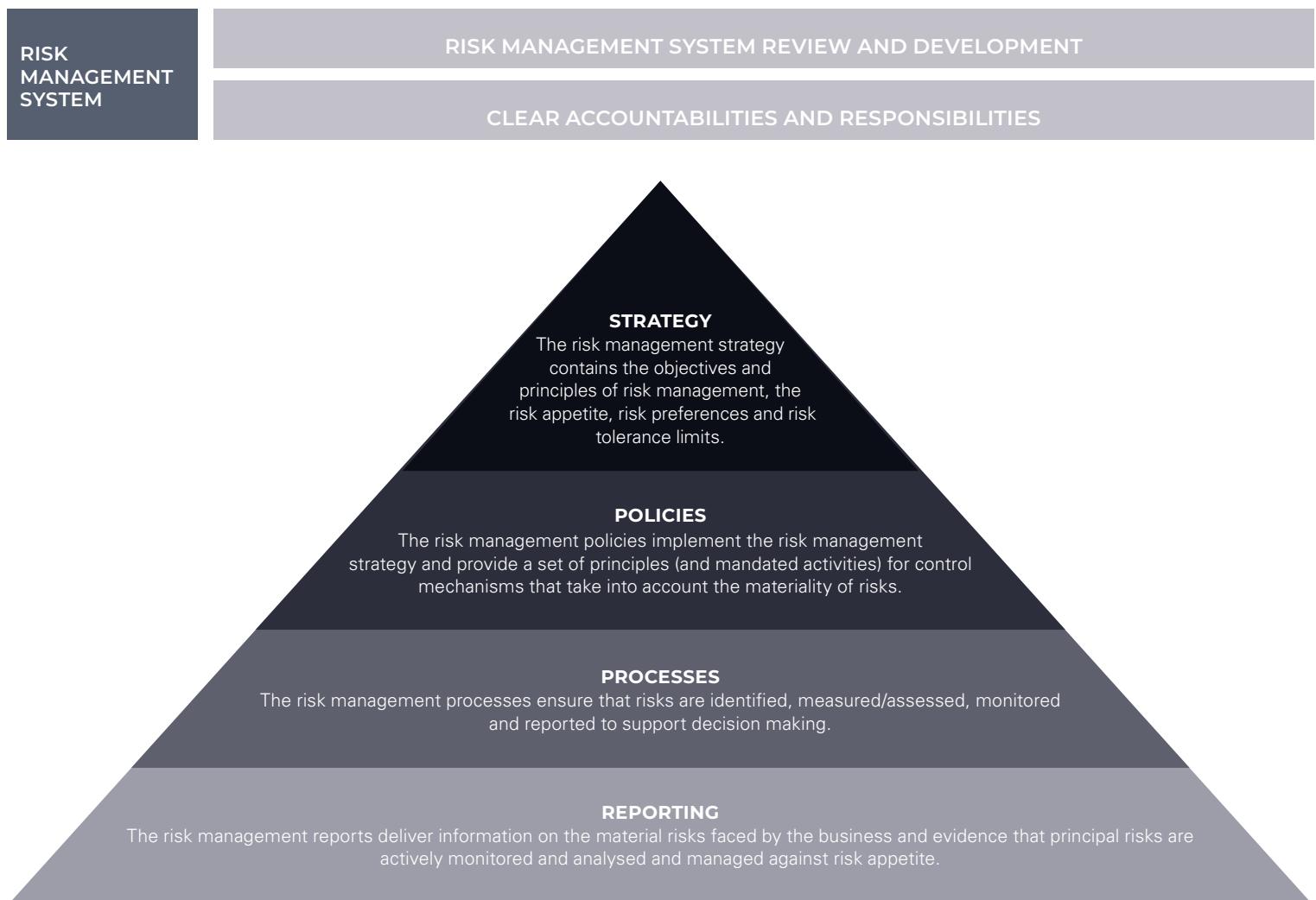
^t Alternative performance measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

RISK MANAGEMENT

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

HOW WE MANAGE RISK

The Risk Management System supports the identification, assessment, and reporting of risks to monitor and control the probability and/or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.



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

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

Group and divisional risk management processes are enhanced by stress and scenario testing, which 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 59 to 65). 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.

COVID-19

During 2022, the risks from the global pandemic have materially reduced, with nearly all restrictions being lifted globally, however there remains a risk of further outbreaks/variants. The Chesnara group has continued to remain operationally and financially stable throughout the COVID-19 pandemic, providing a high level of assurance regarding operational resilience processes and the suitability of the approach taken. COVID-19 is not documented here as a principal risk in its own right, as the impacts are already covered by other principal risks, for example, market risks morality risk and other risks associated with operational failure and business continuity.

CLIMATE CHANGE RISK WITHIN CHESNARA'S RISK FRAMEWORK

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

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

UKRAINE CONFLICT

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

MACRO-ECONOMIC VOLATILITY

Significant economic volatility globally and particularly in the UK is being driven by supply chain pressures and soaring energy prices. The UK narrowly staved off a recession at the end of 2022, though it is still possible that the UK will enter recession in 2023 albeit the BoE expects any recession to be shorter and less severe than previously thought. The information in the following pages has been updated to reflect Chesnara's latest views on the potential implications.

Strategy and risk appetite

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

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

Risk and Control Policies

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

Risk identification

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

Risk Management System effectiveness

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

The Chesnara board is responsible for monitoring the Risk Management System and its effectiveness across the group. The outcome of the annual review is reported to the group board which makes 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 47).

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

INVESTMENT AND LIQUIDITY RISK

PR1

DESCRIPTION	Exposure to financial losses or value reduction arising from adverse movements in currency, investment markets, counterparty defaults, or through inadequate asset liability matching.
RISK APPETITE	The group accepts this risk but has controls in place to prevent any increase or decrease in the risk exposure beyond set levels. These controls will result in early intervention if the amount of risk approaches those limits.
POTENTIAL IMPACT	Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders. 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. Worldwide developments in environmental, social, and governance (ESG) responsibilities and reporting have the potential to influence market risk in particular, for example the risks arising from transition to a carbon neutral industry, with corresponding changes in consumer preferences and behaviour.
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 regular consideration (and discussing appropriate strategies with fund managers) to longer term global changes that may affect investment markets, such as climate changes.	RECENT CHANGE/OUTLOOK With greater global emphasis being placed on environmental and social factors when selecting investment strategies, the group has an emerging exposure to 'transition risk' arising from changing preference and influence of, in particular, institutional investors. This has the potential to result in adverse investment returns on any assets that perform poorly as a result of 'ESG transition'. Chesnara has established a Sustainability Programme to embed Chesnara's sustainability strategy. The conflict in Ukraine/Russia brings additional economic uncertainty and volatility to financial markets, including the potential for higher inflationary pressures in the short term. The group has no direct exposure in terms of investments in Russian funds or companies via customer unit-linked funds, and we are working with customers that are exposed to help them. The cost of living and energy crisis is driving significant economic volatility globally and particularly in the UK and there is a risk of poor mid-term performance on shareholder and policyholder assets. An interim risk report was produced in October 2022 for the Audit & Risk Committee summarising some of the emerging risks from the current geo-political and domestic volatility, documenting known risks and mitigants providing assurance that the risks are being adequately managed.

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

REGULATORY CHANGE RISK		PR2
DESCRIPTION	The risk of adverse changes in industry practice/regulation, or inconsistent application of regulation across territories.	
RISK APPETITE	The group aims to minimise any exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.	
POTENTIAL IMPACT	<p>Chesnara currently operates in three main regulatory domains and is therefore exposed to potential for inconsistent application of regulatory standards across divisions, such as the imposition of higher capital buffers over and above regulatory minimum requirements. Potential consequences of this risk for Chesnara are the constraining of efficient and fluid use of capital within the group or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>Regulatory developments continue to drive a high level of change activity across the group, with items such as operational resilience, climate change and IFRS 17 being particularly high profile. Such regulatory initiatives carry the risk of expense overruns should it not be possible to adhere to them in a manner that is proportionate to the nature and scale of Chesnara's businesses. The group is therefore exposed to the risk of:</p> <ul style="list-style-type: none"> – incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards; – erosion in value arising from pressure or enforcement to reduce future policy charges; – erosion in value arising from pressure or enforcement to financially compensate for past practice; and – regulatory fines or censure in the event that it is considered to have breached standards or fails to deliver changes to the required regulatory standards on a timely basis. 	
KEY CONTROLS		RECENT CHANGES/OUTLOOK
<p>Chesnara seeks to limit any potential impacts of regulatory change on the business by:</p> <ul style="list-style-type: none"> – Having processes in place for monitoring changes, to enable timely actions to be taken, as appropriate; – Maintaining strong open relationships with all regulators, and proactively discussing their initiatives to encourage a proportional approach; – Being a member of the ABI and equivalent overseas organisations and utilising other means of joint industry representation; – Performing internal reviews of compliance with regulations; and – Utilising external specialist advice and assurance, when appropriate. <p>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.</p>		
		<p>The jurisdictions which Chesnara operates in are currently subject to significant change arising from political, regulatory and legal change. These may either be localised or may apply more widely, following from EU-based regulation and law, or the potential unwinding of this following the UK's departure from the EU.</p> <p>The UK Treasury and EIOPA are both undertaking a review of SII rules implementation. There is potential for divergence of regulatory approaches amongst European regulators with potential implications for Chesnara's capital, regulatory supervision and structure.</p> <p>The group has considered any restructuring which could be required to align to changes in the requirements of cross-border regulatory supervision. In extremis, Chesnara could consider the re-domiciling of subsidiaries or legal restructure of the business, should this result in a more commercially acceptable business model in a changed operating environment. In addition, there are a number of potential secondary impacts such as economic implications, and the effect of any regulatory divergence as the PRA progresses SII-equivalent regulation for the UK businesses. Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II Review, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.</p> <p>The group is subject to evolving regimes governing the recovery, resolution or restructuring of insurance companies. As part of the global regulatory response to the risk that systemically important financial institutions could fail, banks, and more recently insurance companies, have been the focus of new recovery and resolution planning requirements developed by regulators and policy makers nationally and internationally. It remains unclear to what extent any future recovery and resolution regime could apply to the group in the future and, consequently, what the implications of such a development would be for the group and its creditors.</p> <p>In July 2022, the FCA published final rules for a new Consumer Duty and response to feedback to CP21/36 - A New Consumer Duty. The Consumer Duty, with an implementation date of 31 July 2023, will set higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers. Operations in the UK are reviewing existing product governance frameworks in relation to delivering the new Consumer Duty requirements.</p>

ACQUISITION RISK

PR3

DESCRIPTION	The risk of failure to source acquisitions that meet Chesnara's criteria or the execution of acquisitions with subsequent unexpected financial losses or value reduction.
RISK APPETITE	Chesnara has a patient approach to acquisition and generally expects acquisitions to enhance EcV [†] and expected cash generation [†] in the medium term (net of external financing), though each opportunity will be assessed on its own merits.
POTENTIAL IMPACT	The acquisition element of Chesnara's growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of suitable acquisition opportunities within Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.
	Through the execution of acquisitions, Chesnara is also exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated as part of the transaction.

KEY CONTROLS

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

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

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

RECENT CHANGES/OUTLOOK

Chesnara completed acquisitions in the Netherlands and the UK during 2022 and has recently completed a further acquisition in the Netherlands in early 2023, whilst maintaining the established disciplines within the Acquisition Policy.

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

DEMOGRAPHIC EXPERIENCE RISK

PR4

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

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

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

DEMOGRAPHIC EXPERIENCE RISK (CONTINUED)	PR4
KEY CONTROLS	RECENT CHANGES/OUTLOOK
<p>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.</p> <p>Chesnara seeks to limit the impacts of adverse demographic experience by:</p> <ul style="list-style-type: none"> – 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' attitudes towards different insurers. 	<p>Legislation introduced at the start of 2020, and enhanced at the start of 2021, made it easier for customers to transfer insurance policies in Sweden. Even before the legislation passed, this resulted in higher transfer activity in the market, particularly driven by brokers. Following higher rates of transfers through 2021, transfers have trended downwards during 2022. However the market remains sensitive to any changes and so this risk continues to be actively monitored.</p> <p>COVID-19 increased the number of deaths arising in 2020, 2021 and to a lesser extent in 2022. The effect of this is expected to be more pronounced in older lives rather than in the typical ages of the assured lives in the Chesnara books. Chesnara does not expect the pandemic to have a material impact on mortality experience and costs in the long term.</p> <p>Cost of living pressures could give rise to higher surrenders and lapses should customers face personal finance pressures and not be able to afford premiums or need to access savings. Any downturn in the property market could reduce protection business sales, particularly in the Netherlands. Currently there has been no evidence of changes in behaviours. Chesnara continues to monitor closely and respond appropriately.</p>
EXPENSE RISK	PR5
DESCRIPTION	Risk of expense overruns and unsustainable unit cost growth.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>The group is exposed to expenses being higher than expected as a result of one-off increases in the underlying cost of performing key functions, or through higher inflation of variable expenses.</p> <p>A key underlying source of potential increases in regular expense is the additional regulatory expectations on the sector. For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.</p> <p>For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similarly, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.</p>
KEY CONTROLS	RECENT CHANGES/OUTLOOK
<p>For all subsidiaries, the group maintains a regime of budgetary control.</p> <ul style="list-style-type: none"> – 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. 	<p>Chesnara has an ongoing expense management programme and various strategic projects aimed at controlling expenses. Acquisitions also present opportunities for expense systems and unit cost reduction.</p> <p>Through its exposures to investments in real asset classes, both direct and indirect, Chesnara has an indirect hedge against the effects of inflation and will consider more direct inflation hedging options should circumstances determine that to be appropriate.</p> <p>The cost of living and energy crisis is driving increases in supplier costs, particularly in the UK with its outsourcing model. Wage inflation is generally lower than headline inflation but is currently much higher than the long-term valuation assumptions, with consideration needed regarding the balancing of employee remuneration versus turnover/retention/motivation risks/tight labour markets.</p>

OPERATIONAL RISK PR6

DESCRIPTION	Significant operational failure/business continuity event.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	The group and its subsidiaries are exposed to operational risks which arise through daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons. As a result, the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.
	Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.

KEY CONTROLS

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

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

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

RECENT CHANGES/OUTLOOK

Operational resilience remains a key focus for the business and high on the regulatory agenda following the regulatory changes published by the BoE, PRA and FCA. Chesnara continues to progress activity under the UK operational resilience project. In line with the regulatory deadlines, the first self-assessment was presented to the A&RC/board in March 2022. The next key regulatory deadline is 31 March 2025; the deadline by which all firms should have sound, effective, and comprehensive strategies, processes, and systems that enable them to address risks to their ability to remain within their impact tolerance for each important business service (IBS) in the event of a severe but plausible disruption. To support this the project is currently in the process of running a schedule of real life severe but plausible scenario testing. Each business unit continues to carry out assurance activities through local business continuity programmes to ensure robust plans are in place to limit business disruption in a range of severe but plausible events.

In response to the ongoing energy crisis, analysis has been carried out on operational continuity with the threat of planned blackouts. Based on the expected nature and/or probability of the risk crystallising there were no material concerns arising.

IT/DATA SECURITY & CYBER RISK PR7

DESCRIPTION	Risk of IT/data security failures or impacts of malicious cyber-crime (including ransomware) on continued operational stability.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	Cyber risk is a growing risk affecting all companies, particularly those who are custodians of customer data. The most pertinent risk exposure relates to information security (i.e. protecting business sensitive and personal data) and can arise from failure of internal processes and standards, but increasingly companies are becoming exposed to potential malicious cyber-attacks, organisation specific malware designed to exploit vulnerabilities, phishing and ransomware 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.

RISK MANAGEMENT • PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

IT/DATA SECURITY & CYBER RISK (CONTINUED)

PR7

KEY CONTROLS

Chesnara seeks to limit the exposure and potential impacts from IT/data security failures or cyber-crime by:

- Embedding the Information Security Policy in all key operations and development processes;
- Seeking ongoing specialist external advice, modifications to IT infrastructure and updates as appropriate;
- Delivering regular staff training and attestation to the Information Security Policy;
- Regular employee phishing tests and awareness sessions;
- Ensuring the board encompasses directors with information technology and security knowledge;
- Conducting penetration and vulnerability testing, including third party service providers;
- Executive Committee and board level responsibility for the risk, included dedicated IT security committees with executive membership;
- Having established Chesnara and supplier business continuity plans which are regularly monitored and tested;
- Ensuring Chesnara's outsourced IT service provider maintains relevant information security standard accreditation (ISO27001); and
- Monitoring network and system security including firewall protection, antivirus and software updates.

In addition, a designated Steering Group provides oversight of the IT estate and Information Security environment including:

- Changes and developments to the IT estate;
- Performance and security monitoring;
- Oversight of Information Security incident management;
- Information Security awareness and training;
- Development of Business Continuity plans and testing; and
- Overseeing compliance with the Information Security Policy.

RECENT CHANGES/OUTLOOK

Chesnara continues to invest in the incremental strengthening of its cyber risk resilience and response options.

No reports of material data breaches.

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

During 2022 the group has continued to test and seek assurance of the resilience to cyber risks, this has included:

- End-to-end simulated cyber attack;
- Regular phishing campaigns;
- Board training and awareness;
- Group-wide cyber risk reviews; and
- Ongoing penetration testing and vulnerability management.

Chesnara is also implementing a new group-wide cyber response framework which includes updated group policy regarding ransomware.

NEW BUSINESS RISK

PR8

DESCRIPTION

Adverse new business performance compared with projected value.

RISK APPETITE

Chesnara does not wish to write new business that does not generate positive new business value (on a commercial basis) over the business planning horizon.

POTENTIAL IMPACT

If new business performance is significantly lower than the projected value, this will typically lead to reduced value growth in the medium to long term. A sustained low level performance may lead to insufficient new business profits to justify remaining open to new business.

KEY CONTROLS

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

- Monitoring quarterly new business profit performance;
- Investing in brand and marketing;
- Maintaining good relationships with brokers;
- Offering attractive products that suit customer needs;
- Monitoring market position and competitor pricing, adjusting as appropriate;
- Maintaining appropriate customer service levels and experience; and
- Monitoring market and pricing movements.

RECENT CHANGES/OUTLOOK

The Swedish transfer market remains active following regulatory changes over the past two years. Further regulatory changes affecting transfers are expected in April 2023 that could also impact transfer experience. As a result of recent changes in competitor offerings, making them less attractive, 'transfers out' have begun to trend back down towards more normal levels.

REPUTATIONAL RISK	PR9
DESCRIPTION	Poor or inconsistent reputation with customers, regulators, investors, staff or other key stakeholders/counterparties.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>The group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information (including the loss or theft of customer data), IT failures or disruption, cyber security breaches and/or inadequate services, amongst others, whether true or not, could impact its brand or reputation. The group's brand and reputation could also be affected if products or services recommended by it (or any of its intermediaries) do not perform as expected (whether or not the expectations are realistic) or in line with the customers' expectations for the product range.</p> <p>Any damage to the group's brand or reputation could cause existing customers or partners to withdraw their business from the group, and potential customers or partners to elect not to do business with the group and could make it more difficult for the group to attract and retain qualified employees.</p>
KEY CONTROLS	<p>Chesnara seeks to limit any potential reputational damage by:</p> <ul style="list-style-type: none"> – Regulatory publication reviews and analysis – Timely response to regulatory requests – Open and honest communications – HR policies and procedures – Fit & Proper procedures – Operational and IT Data Security Frameworks – Product governance and remediation frameworks – Appropriate due diligence and oversight of outsourcers and third parties.
RECENT CHANGES/OUTLOOK	<p>Given the global focus on climate change as well as the significant momentum in the finance industry, the group is exposed to strategic and reputational risks arising from its action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter. Chesnara supports the UN Sustainable Development Goals (SDGs), including Climate Action. We have set our long-term net zero targets and, during 2023, we will produce our transition plan and the all-important shorter-term 2025 and 2030 targets.</p> <p>In relation to the Ukraine/Russia conflict, no material exposure has been identified in terms of the group's key counterparty connections. There are limited indirect connections through third parties who have a presence in Russia and Chesnara has confirmed that there are no obvious links with Russia through its shareholders or stockbrokers.</p>

CORPORATE & SOCIAL RESPONSIBILITY

Our goal is to be a sustainable group and manage our business for the long-term benefit of all stakeholders, including our customers, shareholders, employees, regulators, suppliers and partners, local communities, and the planet.

The Chesnara board has defined its sustainability vision and long-term net zero targets. This vision builds on the foundations laid in previous years and through our ingrained sense of stakeholder purpose. This vision will be further progressed during 2023 with the development of our net zero transition plans and interim decarbonisation targets.

TRANSITIONING TO A SUSTAINABLE GROUP

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

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

DO NO HARM. DO GOOD. ACT NOW FOR LATER.

Our Annual Sustainability Report provides detail on our sustainability vision and long-term targets. We are basing our plans on the principles of Do no harm. Do good. Act now for later. We want sustainability at the heart of decision making across the business and have committed to:

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

These commitments have been developed with the UN Sustainable Development Goals in mind. These 17 goals are an urgent call to action to promote peace and prosperity for people and the planet, now and into the future. We'll focus our activities on those goals where we feel we can have the greatest impact; however, we will support all of the goals wherever possible.



Find out more at globalgoals.org

As described on pages 58 and 93, a key part of this work includes the annual review of the effectiveness of our Risk Management System and the system of governance so as to ensure that we can achieve our business objectives and safeguard the interests of our stakeholders. The overall conclusion from the review conducted in 2022 was that Chesnara has a stable and well understood risk profile, controlled by an effective and embedded system of governance.

The sustainable management of our Funds Under Management is a critical component of our sustainability journey. In all three of our territories, we work with fund managers that are committed to the UN SDGs and the UN's Principles of Responsible Investment (UNPRI), with Movestic Livförsäkring also a signatory to the UNPRI. Movestic is a signatory of the UN Global Compact and it submits an annual Communication on Progress report setting out specific actions taken with regard to the four designated categories covering human rights, labour, environment and anti-corruption.

We believe that sustainability is not solely for our board and leadership teams, and we have taken and will continue to take steps to educate, involve and support our workforce and other stakeholders, including our suppliers, in the delivery of our sustainability strategy. Each of our businesses have also incorporated sustainability into their Investment Policy, Investment Committee Terms of Reference and investment decision making. We are expanding this to capture all policies across the business to ensure that sustainability is a key consideration.

Our TCFD report on page 70 describes our assessment of climate change risks and opportunities under four pillars – Governance; Strategy; Risk Management; and Metric and Targets. Further regulatory and disclosure requirements around sustainability are forthcoming and we will take measures to ensure that we give full and appropriate disclosure of our progress as these standards are issued.

UNDERSTANDING THE NEEDS OF OUR CUSTOMERS

Our products and services

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

Reuniting customers with their policies

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

Digitalisation

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

Regulatory compliance

We maintain an open and constructive relationship with the regulators in the jurisdictions we operate in. Understanding and implementing regulatory requirements is a key part of management responsibility, including the timely and accurate submission of information requested by the regulator. None of the business entities were subject to any regulatory intervention during 2022 and no penalties were imposed.

OUR COLLEAGUES

Health, safety and welfare at work

As would be the case of any responsible business, at Chesnara we place primary importance on the health, safety and welfare of our employees. The Chesnara board and our management teams took swift action during 2020 as lockdowns were imposed to ensure that our employees were safe and able to continue to work from home, taking into consideration individual circumstances where necessary so that appropriate support could be provided. Once restrictions were lifted, management sought the views of their teams on working from the office, and consequently implemented a hybrid model under which staff can continue to work from home for part of the time and this has been in place throughout 2022.

In the UK division, a Wellbeing Hub was launched last year to provide staff with access to health care information and to share resource material on mental health, coping with change, and support that is available.

Subsequently, the hub has been updated with information about health care benefits, including discounted gym membership, PMI and cash plans, and an assistance line. Training has been provided to staff who have come forward to become Wellness Champions so that they can discuss their experiences openly and confidently in a safe space. Also in the UK, we partnered with the Business Health Group to provide sessions for employees to discuss physical and mental health challenges that they face. Proactively discussing these challenges and providing potential tools to address them helps to support people through difficult times.

The management teams and employees in Sweden and Netherlands have also taken steps to guide and support colleagues under a new hybrid working arrangement.

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

Relevant policies and procedures are reviewed on a regular basis so as to ensure that they meet appropriate standards. Any hazards or material risks are removed or reduced to minimise or, where possible, exclude the possibility of accident or injury to employees or visitors.

Equal opportunities and diversity

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

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

Year end headcount	2022		2021	
	Male	Female	Male	Female
Directors of Chesnara plc	5	3	5	2
Senior management of the group	6	2	6	2
Heads of business units and group functions	24	15	19	9
Employees of the group	174	190	149	147
Total¹	209	210	179	160
Gender split %	49.9%	50.1%	52.8%	47.2%

Note 1. The number of staff reported in the table above is based on the number of employees employed at the year end. This differs to the employee note, which is calculated based on average FTEs during the course of the year. Staff numbers have increased in 2022 due to the acquisitions that took place during the year.

Gender diversity forms an important part of Chesnara's selection and appointment process at group level. The Hampton-Alexander report recommends a board diversity target of 33% for FTSE 350 companies. Our board diversity ratio for 2022 was 62% male and 38% female (71% male, 29% female in 2021). Our Group Audit & Risk Committee has a female Chair and Movestic is headed up by a female CEO.

Senior management includes employees other than group directors who have the responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the business, and for the most part, covers the local CEO and CFOs of our divisions. We have provided additional disclosures, including an analysis of diversity, which show 'Heads of business units and group functions' separately from the remainder of employees.

Employees with a disability

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

Staff training and development

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

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

Fair pay

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

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

At the start of 2022, the Remuneration Committee consulted with employees on the alignment of directors' pay with UK employees. Details of our staff pay and benefits, and in relation to executive pay, are set out in Section C as part of our Remuneration Report.

Employee engagement

Across our businesses, we provide high quality jobs with competitive remuneration along with requisite training and good working conditions. Regular contact with employees and keeping them updated on business strategy, priorities and achievements is a key part of management responsibility at Chesnara. Frequent employee engagement has become even more important over the last few years given the shift to more remote working. Each of our businesses has a multi-channel approach for effective employee communication such as regular updates from the CEO, monthly team and departmental meetings, company briefings, discussions via Employee Forums, and the use of employee surveys to highlight issues and drive any necessary change.

As the Workforce Engagement NED appointed by the Chesnara board, Carol Hagh's liaison with the CEOs, HR teams and Employee Forum representatives has been invaluable in terms of independent engagement with staff and also for the on-going assessment of our culture and embedding of our values across our UK, Swedish and Dutch divisions.

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

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

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

Whistleblowing

Each of the Chesnara businesses has a Whistleblowing Policy which complies with local regulatory requirements and is reviewed on an annual basis. In the UK the Audit & Risk Committee Chair is appointed as a Whistleblowing Champion, whose responsibilities are aligned to the prescribed requirements set out in the PRA's Senior Managers Certification Regime. The policy is shared with all new joiners and whenever it is updated it is provided to all existing employees. All staff are requested to read and confirm that they understand the contents, and the attestation response has been 100% during 2022. Similar arrangements are in place within our overseas divisions.

Within the UK there were no relevant regulatory changes, and the policy was reviewed in March 2022 and confirmed as fit for purpose. Confirmation was also received that each outsource service provider (OSP) has a Whistleblowing Policy in place which is provided to all employees.

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

No whistleblowing incidents have come to light across any of our divisions during 2022 and our overall conclusion is that the policies and related control systems have been operating effectively.

SUPPLIERS AND BUSINESS PARTNERS

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

We are conscious that through our outsourcing arrangements we indirectly utilise the services of a much larger workforce and we seek to ensure that our suppliers are similarly adopting appropriate arrangements for proper engagement with their own workforce.

HUMAN RIGHTS

Human Rights and the Modern Slavery Act 2015

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

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

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

The Modern Slavery Act (2015) requires a commercial organisation over a certain size to publish a slavery and human trafficking statement for each financial year.

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

In the UK, our Human Rights & Modern Anti-Slavery Policy is made available to our entire workforce and is also available via the Chesnara website.

There have not been any breaches of human rights or the Modern Slavery Act during the reporting period.

ANTI-BRIBERY AND CORRUPTION

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

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

TAXATION

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

OUR COMMUNITIES

Chesnara's management and staff support local community initiatives to the extent deemed appropriate given our financial responsibilities as a public limited company. During 2022, across the group, we donated £65k to various charitable causes (2021: £4k), the majority of which went towards supporting the people of Ukraine. In the Netherlands, Scildon has continued to support Sherpa, a local charity that helps people with physical and intellectual disabilities to function as independently as possible, as well as a number of other charitable donations.

'During 2022, across the group, we donated £65k to charitable causes, the majority of which went towards supporting the people of Ukraine.'

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES

(CONTINUED)

CONTEXT

Disclosure requirements on the impact of climate change were introduced by the Financial Conduct Authority (FCA) for premium listed companies with effect from 1 January 2021. This is our second progress report in support of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The TCFD maturity map sets out recommendations under four pillars – Governance; Strategy; Risk Management; and Metrics and Targets – through a pathway from the beginner stage to intermediate and full

disclosure. It is widely understood that the information and analysis have to be accurate and reliable, and that it will take some time for the recommendations to be fully implemented by firms. We have taken appropriate steps to determine the impact of material climate change risks upon our businesses and reflect the outcome of our analysis with the aim of providing intermediate or moderate level disclosures with respect to the TCFD recommendations shown within the TCFD maturity map.

COMPLIANCE STATEMENT

All disclosures required within 'TCFD Recommendations and Recommended Disclosures' are on pages 72 to 84 with additional information such as illustrations and case studies included in the Annual Sustainability Report which is cross-referenced where applicable throughout this section.

Chesnara plc has complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures except for the following matters:

AREA	REQUIREMENT	EXPLANATION
Strategy (c)	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios.	In the 2021 TCFD report, our UK business applied climate-related scenarios, including a 2°C or lower scenario, but as at the 2021 year end this work was outstanding for our European entities. During the course of 2022, this work has progressed to cover the outstanding business units, as committed. However, this is not yet embedded for all of the acquisitions completed during 2022, as the entities are going through the process of being integrated into the Chesnara group processes including the ORSA. We expect this to be completed during 2023.
Metrics (a)	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	In the 2021 disclosures, we used climate-related metrics to monitor and report carbon emissions, energy consumption and water usage within our operations. We currently report scope 1, 2 and non-financed 3 (together, 'operational emissions') and we identified that we would be working towards reporting financed emissions over the course of 2022. Progress has been made and further work to baseline our financed emissions is needed through 2023. Once complete, we will disclose this information.
Metrics (c)	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	In March 2023, our group-wide net zero targets for all emissions were approved by the board. During 2023, we will continue to baseline the data for financed emissions, as discussed above, to enable us to set interim targets. We will also conclude on how we will measure progress in terms of absolute or intensity-based metrics.

GROUP SUSTAINABILITY REPORT

Alongside the financial statements, the group has published its inaugural Annual Sustainability Report (see our corporate website, www.chesnara.co.uk) and provides further detail on a number of items noted in this report which are referenced as appropriate.

WHAT HAS HAPPENED DURING 2022?

The key activity during the year at Chesnara level has been to determine our vision for a sustainable group and the associated long-term net zero targets, incorporating climate-related risks and opportunities. Guiding and overseeing the implementation of this vision during 2023 and beyond will be led by our newly formed Group Sustainability Committee. This committee, chaired by our Senior Independent Director, Jane Dale, and consisting of executive management from across the group will direct our sustainability strategy and ensure that it is embedded within our group overall strategy and operations, as well as ensuring that sustainability is at the heart of our activities and the decisions that we make.

Our vision, A Sustainable Chesnara, is built on the work already done in our divisions and aligning to their strengths. Our businesses have different strengths and have identified different opportunities but the need for a business to focus on sustainability is universal and therefore, bringing together our strategy under the group vision, whilst acknowledging our individualism, is critical to our success in tackling climate-related risks.

Some of the activities that occurred during 2022 are as follows:

1 | March 2022

We delivered a group climate change risk assessment to the GA&RC that considered quantitative and qualitative risk assessments and also documented how we have embedded CCR (climate change risk) for the GA&RC to review and challenge.

3 | September 2022

Sustainability vision, including the group's net zero targets, was presented to the board. These targets were formally approved in March 2023.

2 | May 2022

A group board session which was primarily to facilitate discussion, considering: what our stakeholders expect and where we are compared to our peers; detail of where our programme is up to and asking ourselves what we want to achieve as an organisation; and consideration of our short-term objectives.

4 | Throughout 2022

Our 2022 ORSA included a group-wide climate change-related scenario analysis that encompassed both physical and transitional risks on 3 different scenarios for future climate outcomes (with the exception of CASLP).

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

GOVERNANCE

The Chesnara board sets the values and culture of how the business divisions operate and the group invests time and resources to ensure that the governance structures in place remain appropriate for the evolving business and regulatory landscape. Further information on the group's governance is provided in Section C (corporate governance) of the accounts.

a) Board oversight of climate-related risks and opportunities

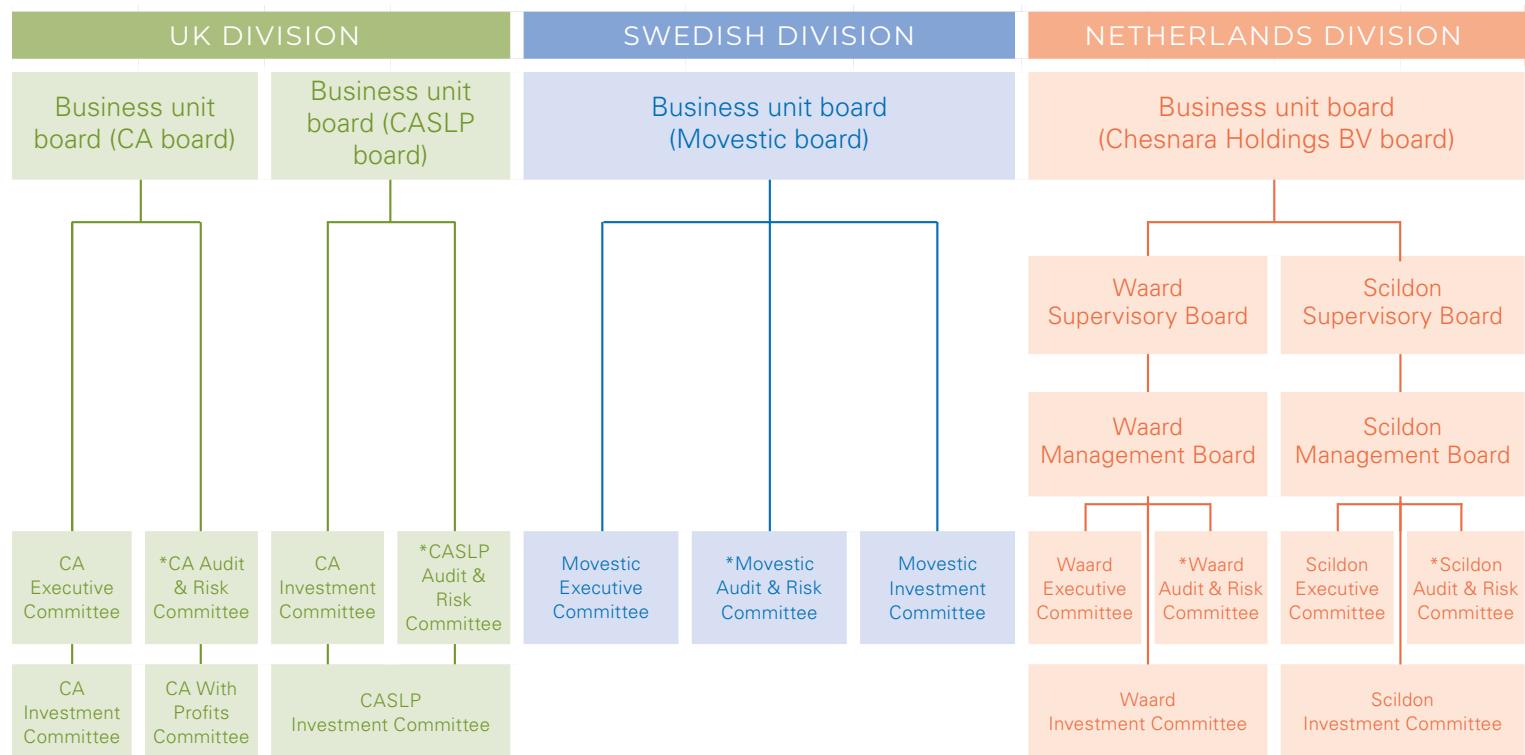
The chart below sets out the group reporting structure and, in particular for the group, sets out how the board has oversight of climate-related matters.



Board Board Committee Group Executive Committee

¹The GSC is not a board committee but operates across the group, interfacing with the board, and works with its board committees and Group Executive Committees.

The business units feed into the group governance structure via quarterly divisional MI packs and risk reporting and annual local business plans. The business units have the following local governance structures:



*Business unit Audit & Risk Committees also have a dotted reporting line to the Group Audit & Risk Committee.

b) Management's role in assessing and managing climate-related risks and opportunities

Who is assigned responsibility – Management responsibility for matters related to climate change are assigned to the Group Chief Executive at group level and the respective CEOs at business unit level. All divisions and business units are responsible to the relevant Divisional Chief Executive who has dual reporting lines to the divisional board and the Group Chief Executive. Sustainability forms part of the executive management short-term incentive bonus scheme, and the ratio allocated to sustainability will continue to be assessed on an ongoing basis.

How are management informed of and monitor climate-related issues

Chesnara's approach to climate-related risks is manifested in the following ways:

- **Group board** – The board has sustainability, including climate change, as a regular agenda topic for discussion. During 2022, this has specifically considered the group climate change risk assessment (through the GA&RC), the overall vision and approach of the group in regards to sustainability and group-wide climate change-related scenario analysis in the ORSA.
- **Group Sustainability Committee** – This has been established since the end of 2022 and will be chaired by Jane Dale, the group's Senior Independent Non-Executive Director. Its membership consists of the executive management across the group and its divisions. As noted in the diagram above, this committee is the key focal point for discussions on climate-related risks and opportunities and links in with the other group governance committees. The GSC annual agenda planner determines which topics are covered at each meeting and those meetings, together with the GIC and GEC, will determine the items to be escalated to the board. The interactions of the GSC with the different committees and the board are detailed on the previous page.

• **Group Executive Committee** – The Group Executive Committee regularly discuss climate-related issues and how they factor into business planning, strategy and risk management.

• **Group Investment Committee** – Working with the GSC, the Group Investment Committee (GIC) will focus on the just transition of the group's asset portfolio in line with its net zero targets. The GIC and GSC will also work together to identify potential areas of impact investing.

• **Sustainability working group** – Established alongside the GSC, this group consists of the key sustainability leaders across all divisions in the business, for both investments and operations and reports directly into the GSC to update on progress on the sustainability strategy and agenda across the group.

• **Acquisitions** – As part of the due diligence process for potential acquisitions, we assess the target company's approach to climate-related risks and consider the emissions of their operations and underlying assets.

Board and management competence and training – Over the previous 18 months, specific sessions of note include the board being provided with both training on ESG matters from Schroders and TCFD specific teaching as part of Corporate Governance training. As part of the development of our sustainability vision during 2022, we have engaged with external experts to support our understanding, particularly of the transition to net zero and establishing financed emissions baseline data and targets. Training is a key responsibility of the GSC and needs across the business will be assessed throughout the year.

To enhance the skillset and understanding, as well as utilising external experts and expanding our in-house team, members of the GSC have completed the Cambridge Institute for Sustainability Leadership's Business Sustainability Management course as well as working towards the Chartered Insurance Institute's Certificate in Climate Risk.

Specific training will be provided across the group to increase the carbon literacy of all employees during 2023.

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

STRATEGY

Sustainability, including the group's approach to climate risk and decarbonisation, is a fundamental part of our future strategy. Changes in the environment and the effect of global warming can potentially affect how we achieve our strategic objectives either through the way we operate our businesses or through the returns to our customers and shareholders. We are committed to applying sustainability-informed investment and operational decision making across the group.

Chesnara supports the UN Sustainable Development Goals (UNSDGs), including Climate Action. We have set our long-term net zero targets and during 2023, we will produce our transition plan and the all-important shorter-term 2025 and 2030 targets.

As transition plans are being developed and baseline data is further understood, the targets may be refined at a later date to better reflect the position of the group.

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

What do we consider to be the relevant time horizons to monitor climate-related risks



In the 2021 financial statements, the risks were considered over the short term only. Over the course of 2022, work has progressed to expand the scenario testing to cover the short, medium and long term. During the setting of the time horizon profile, we considered the useful life of the group's assets and believe our definitions of short, medium and long-term appropriately take this into account. The average duration of the wider group's assets is between 5-10 years, but the group is acquisitive and writing new business so the risk assessment needs to consider a longer time horizon also. The short-term period of 12 months aligns with the risk basis that underpins SII, and the medium term is aligned to our business planning period.

What do we consider to be our materiality level in assessing climate change related risks

The materiality levels of the group are approved by the board annually as part of the Principal Risk Definition (the board approved materiality criteria to be applied in the risk scoring and in the determination of what is considered to be a principal risk) report and considers a number of factors that are broader than purely financial indicators. The range of materiality is defined below.



Materiality covers a number of qualitative and quantitative factors, which are all considered in the assessment of risks when determining the potential impact on the group. This materiality range applies to all risks including those related to climate change.

Within the risk definition report, there are five categories of materiality (very low, low, medium, high and very high). Whilst each risk impact is considered individually, generally, if the impact falls into the low or very low category, it would not be drawn out as a disclosure within the TCFD report, noting that this would indicate an EcV impact of £10m or less and a cash

generation/cash flow impact of £1m or less (the materiality level also considers reputational, regulatory and customer impacts alongside financial). This is deemed to be an appropriate limit and is predicated on the group risk assessment thresholds that are discussed and approved by the board annually. As per these thresholds, impacts that are classified as low (or below) would be those that represent a threat to the efficiency or effectiveness of some aspects of the group's business, but at a level that can be dealt with internally. We believe this is a reasonable disclosure level and would enable a user to appropriately assess our exposure to climate-related issues.

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

What are the different types of climate-related risk?

PHYSICAL RISKS	TRANSITION RISKS
Arise due to the direct impact of events such as heatwaves, flood, wildfire, storms, increased weather variability, and rising mean temperatures and sea levels.	Emerge from the process of change towards a low carbon economy such as: climate-related developments in policy and regulation; technological change (e.g., electric vehicles); a shift in consumer sentiment and social attitudes; and climate-related litigation against firms that fail to mitigate, adapt or disclose climate-related financial risks.

As some risks are more material than others, the 'bubble chart' overleaf demonstrates the relative materiality of each risk, what kind of risk it is (physical or transition), what part of the business it affects (by geography) and over what time horizon we believe the risk to manifest. We have then provided more context on the material risks and how these feed into the financial planning process and strategy decisions of the group.

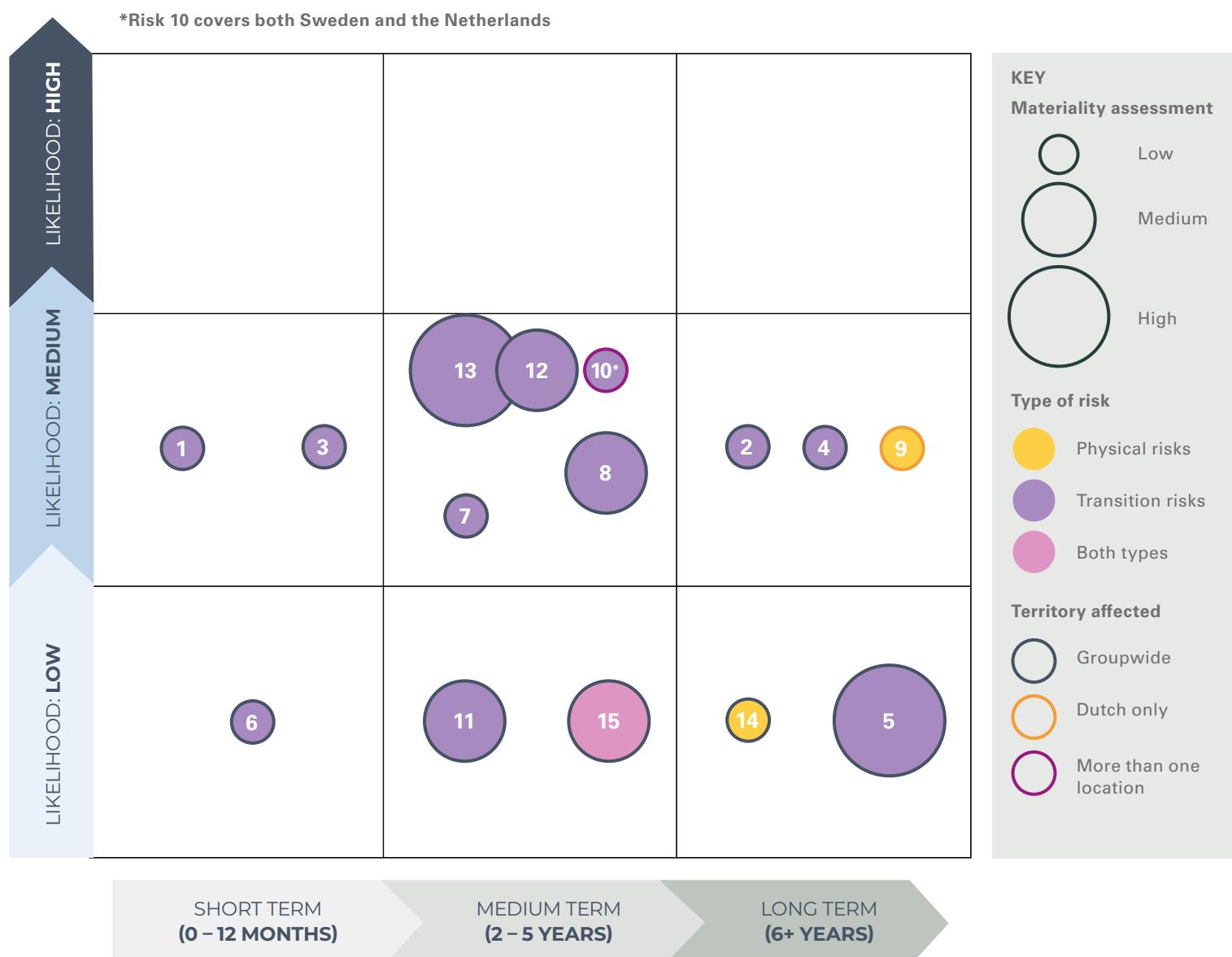
Climate-related issues for each time horizon

The key climate-related risks of the group are documented below, and the impacts are shown pictorially in the following bubble chart.

1	Financial losses from short-term shocks to assets exposed to carbon intensive industries. A reduction in the value of shareholder direct asset holdings would have a direct impact on the value of the business and could also reduce the solvency position depending on whether the reduction was offset by a corresponding reduction in liabilities. A reduction in the value of unit-linked assets would reduce the present value of expected future charges applied to those funds as well as reducing the current investment returns achieved by policyholders.
2	Financial losses from longer term asset under-performance arising from transition risk/stranded asset risk. This could arise if the companies that Chesnara invests in do not evolve or deliver on ESG related matters and assets decline in value and become un-saleable resulting in stranded assets. A reduction in the value of shareholder direct asset holdings would have a direct impact on the value of the business and could also reduce the solvency position depending on whether the reduction was offset by a corresponding reduction in liabilities. A reduction in the value of unit-linked assets would reduce the present value of expected future charges applied to those funds as well as reducing the current investment returns achieved by policyholders.
3	Customer return impacts from short-term shocks to assets exposed to carbon intensive industries arising from reduction in customer asset values caused by underperformance of assets more exposed to transition risk. This would mainly arise through unit-linked business.
4	Customer return impacts from longer term asset under performance arising from transition risk/stranded asset risk arising from reduction in customer asset values caused by underperformance of assets more exposed to transition/stranded asset risk. This would mainly arise through unit-linked business.
5	Energy price driven inflationary impacts from global climate policy failure. This could impact on future profits through an increase in the expense base but could also adversely affect the economic operating conditions of the business resulting in poor investment performance, causing a reduction in the value of the business and anticipated future profits.
6	Failure to meet regulations/disclosure requirements with reputational impacts or sanctions. Increased disclosure and reporting requirements will make it much easier to hold companies and their boards accountable. Reputational impacts could lead to a decline in persistency or new business volumes or could result in third parties preferring not to contract with Chesnara, adversely affecting the business model.
7	Data limitations hinder ability to properly understand asset exposures to transition risks. This might arise primarily for unit-linked business where look-through data is more challenging and subject to change. There is a risk that Chesnara is unable to fully understand its exposure through lack of access to a comprehensive view of data leading to stranded assets, potential greenwashing, and deviation from its adopted ESG strategy.
8	Costs of keeping up with climate change goals materially exceed budget, resulting in higher one-off and ongoing expenses resulting in a reduction in value and a reduction in annual profits/cash generation.
9	Operational disruption from longer term physical impacts, such as the need to relocate offices etc. The Netherlands would be expected to be the most exposed to this risk.
10	Reputation – New business dips from climate-related reputational impacts. This could arise if potential new customers or IFAs considered Chesnara or its businesses to be doing too little to positively impact the effects of climate change, or offering too few choices for customers such as the availability of green funds for unit-linked business.
11	Reputation – Persistency of existing business declines from climate-related reputational impacts. This could arise if customers considered Chesnara or its businesses to be doing too little to positively impact the effects of climate change, or offering too few choices for customers such as the availability of green funds for unit-linked business.
12	Reputation – Supplier/outsourcer refusal to continue to partner with the group or its businesses. This might arise if either Chesnara's chosen stance or execution of its climate-related policies do not align with those of its existing or potential future third party partners. Such a risk materialising could cause operational or strategic disruption or result in costs arising from lower availability of providers or from the need to switch to new providers.
13	Reputation – Inability to raise finance to support acquisition strategy. This could arise if the climate-related requirements of debt and equity investors are not adequately met by Chesnara. The impact could be that the cost of finance causes a reduction in future profitability of acquisition opportunities, or results in the group becoming unable to finance larger acquisitions, thus more materially affecting the business model.
14	Impacts on morbidity or mortality experience resulting from physical effects of climate change on living conditions. This could arise if the longer term physical effects of climate change impacted on quality of life for Chesnara's insured populations.
15	Third party supplier defaults arising from either physical or transitional effects of climate change. Supplier and third parties costs impacted by increased costs of raw materials/supply chain changes or disruption/changing customer behaviour/cost of monitoring of ESG compliance. Such a risk materialising could cause operational or strategic disruption or result in costs arising from lower availability of providers or from the need to switch to new providers.

CORPORATE AND SOCIAL RESPONSIBILITY • CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

The chart below considers the climate-related risks the group faces, and assesses them covering a number of factors such as materiality (as defined earlier in the report), likelihood etc.



b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

How do the risks impact business strategy and financial planning – in respect of those risks that have a 'high' materiality assessment, as referred to in the previous chart.

Risk	Potential impact (linking to financial statements)	How is the risk being managed, mitigated and addressed?	How does the risk impact strategy?	How does the risk input into financial planning?
<p>5) Energy price driven inflationary impacts from global climate policy failure</p> <p>This is a principal risk captured under expense risk</p> <p>Time horizon: longer term 6+ years</p>	<p>Primarily financial impacts of inflation of the expense base but also potentially operational risks arising from high inflationary environment or from energy shortages in transition.</p> <p>A 1% increase (based on HY 22 results) in inflation is estimated to reduce SII absolute surplus by £29m/ EcV^t by £27m. On an IFRS basis, we would expect this scenario to increase administrative expenses and insurance reserves.</p>	<p>Active consideration of inflation sensitivities and hedging options.</p>	<p>Affects all pillars of the strategy – i.e. impact on existing business value but also on pricing capability on new business and acquisition.</p>	<p>Best estimate of short and long-term inflation assumptions included in the financial projections, with suitable sensitivities considered. Strategically, inflationary impacts are considered as part of deal assessments and project business cases.</p>
<p>13) Reputation risk through inability to raise finance to support acquisition strategy*</p> <p>This is a principal risk captured under reputational risk</p> <p>Time horizon: medium term 2-5 years</p>	<p>Potentially a fundamental hit to the business model plus reputational impacts. It is difficult to quantify a financial impact as this is completely subject to the deal opportunities. Generally, acquisitions will impact the IFRS financial statements by increasing net assets.</p>	<p>Proactive consideration of ESG branding, governance agency scoring and disclosures plus being very open and transparent with key investors.</p>	<p>Direct consequences for execution of the acquisition strategy.</p>	<p>Risk is monitored, managed and will be addressed as it arises. For any acquisitions, financing solutions are considered and the risks of those are factored into the relevant decisions.</p>

* Chesnara is an acquisitive group, with M&A being one of its three strategic pillars, and therefore continually considers opportunities as they become available. Deal financing would be completely dependent on the size and nature of the transaction but may include the necessity to raise additional external financing either through debt or equity. A failure to appropriately address climate change risks may impact on our ability to raise this finance and in turn adversely affect the growth of the group.

Opportunities

As a provider of long-term financial solutions, there are opportunities for the group to address the growing desire of customers to have sustainable financial products. Addressing this need involves making sustainable fund choices available for customers to access so that they can invest their money in sustainable ways. Movestic, our business unit in Sweden, and the fund managers that assist with our investment activities across our business are all signatories to the UN Principles for Responsible Investment (PRI) to help shape this approach. Some of the examples of the way in which we have sought to address these needs are:

Opportunity	Time horizon	Part of the business affected	Potential impact on strategy and financial planning
Alternative fund choices offered to customers including a solar fund and a biodiversity fund. We will continue to expand our fund offering in line with customer demands.	Ongoing	Sweden (Movestic)	Factored into financial planning and strategy by assessment of the potential market for the funds and the associated costs.
Customers are able to select our Easy B product, an investment-based life insurance policy, which provides a sustainable return.	Ongoing	Netherlands (Scildon)	Factored into financial planning and strategy by assessment of the potential market for the product and the associated costs.

Further information on these is detailed in the Annual Sustainability Report. Furthermore, whilst it has not yet been finalised, there are potential opportunities arising from the recently announced government plans to reform the UK's financial regulations, including giving insurance firms more freedom to invest in long-term assets such as housing and wind farms, together with the forthcoming updated Green Finance Strategy. We will monitor these developments to identify potential opportunities and act accordingly.

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

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios

Resilience of the organisation

As part of our 2022 ORSA process, we have considered and modelled three scenarios in respect of climate change risk, covering a 2° and 4° stress. This considered: a) sudden transition, b) long-term orderly transition and c) policy failure. The first two achieve a temperature rise below 2 degrees and the latter a rise in excess of 4 degrees by 2100. To model the impact, we have taken each of the asset classes and applied suitable stresses to the equity values dependent on how the change in temperature is expected to affect the portfolio. Please refer to the earlier table with regards to how material climate-related risks affect strategy and business planning.

Chesnara's 2022 ORSA scenarios are based on the PRA's 2019 UK Insurance stress test scenarios. Whilst these contain a number of approximations and limitations, they are more prescriptive in nature and easier to apply than some of the more complex climate change risk models, and they also benefit from being more transparent and easier to understand. Full details of the derivation of those scenarios, and their limitations, is set out in the PRA's specification guide available publicly on the Bank of England's website (Life Insurance Stress Test 2019: Scenario Specification, Guidelines and Instructions (bankofengland.co.uk)). The shocks are calibrated by the PRA to represent the 1-in-100 Value-at-Risk under the three climatic scenarios and are expressed as instantaneous impacts on the portfolios. Further detail of the scenarios is included in the table below:

Ref	Scenario	Key assumptions
a	2°, sudden transition	The impact materialises over the medium-term business planning horizon that results in achieving a maximum temperature increase of 2°C (relative to pre-industrial levels) by 2100 but only following a disorderly transition. In this scenario, transition risk is maximised.
b	2°, long orderly transition	The scenario is broadly in line with the Paris Agreement. This involves a maximum temperature increase of 2°C by 2100 (relative to pre-industrial levels) with the economy transitioning to be greenhouse gas-neutral in the next three decades by 2050.
c	4°, policy failure	A scenario with failed future improvements in climate policy, reaching a temperature increase in excess of 4°C (relative to pre-industrial levels) by 2100 assuming no transition and a continuation of current policy trends. Physical climate change is high under this scenario, with climate impacts for these emissions reflecting the riskier (high) end of current estimates.

Time horizon: While the tests are calibrated to longer horizon climate scenarios, we have applied all of the tests as though the transition effects are immediate, with instantaneous stress test impacts and also projected over 5 years. We expect the longer term (post 5 years) effects to be immaterial.

Results: the climate change test results show a **low impact on all business units and at group level**, with the group solvency ratio impacted by no more than 5% at any point over the short to medium term. A key factor leading to this result is a relatively low exposure to carbon intensive industries. While the results of this assessment of the financial risks arising from climate change are clearly comforting, Chesnara is not complacent about the wider risks arising from climate change and the broader sustainability agenda, including strategic, reputational and operational risks. It is for this reason Chesnara has established a group-wide sustainability programme with board level representation on the steering group. The programme has a detailed risk assessment of the broader risks arising from climate change and will continue to update and refine this as the programme progresses.

From a strategy and financial planning perspective, whilst the risk is not material, it is still considered as part of key decision making processes and we, as a group, have made commitments to transition to net zero to influence and affect the factors that we can change and we are taking responsibility for this. This commitment feeds into the financial plans largely through the associated costs, and strategic decisions are made considering this commitment also.

At a group level the 2022 assessment results support the following conclusions:

- a) Chesnara has a stable and well understood risk profile, controlled by an effective system of governance that is well embedded across the business units.
- b) Chesnara is a resilient group in terms of its current solvency level and can comfortably withstand all the stress and scenario tests that were applied in 2022.
- c) The three year group projections evidence long-term viability, a well-diversified business, stable solvency ratios, and a steady source of emerging surplus.

RISK MANAGEMENT

Risk and solvency management are at the heart of Chesnara's robust governance framework, and the group is well capitalised.

a) Describe the organisation's processes for identifying and assessing climate-related risks and b) Describe the organisation's processes for managing climate-related risks

PROCESSES FOR IDENTIFYING, ASSESSING AND MANAGING CLIMATE-RELATED RISKS

Below is a high level summary of Chesnara's Risk Management Framework:

Chesnara's Risk Management Policy which sets out the framework of principles and practices, policies and strategies for the group's Risk Management System.	The Risk Management System supports the identification, assessment and reporting of risks.	The Group Risk Management Framework is designed to embed effective risk control systems with a holistic and transparent approach to risk identification, assessment, management, monitoring and reporting. The definition and scope of each principal risk category is based on a set strategic and operating principles/tolerance limits.	The Group's Risk Appetite reflects the Chesnara board's view on the amount of risk the group is willing to take and sets boundaries to determine when there is too much or too little risk.
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In addition, Chesnara's Investment Policy contains investment criteria which are monitored by the Investment Committee.

The Group Chief Risk Officer is responsible for maintaining the overall Risk Management Framework. The CEOs for each business unit are required to ensure that the framework is fully integrated into the business model and decision making processes. Each of our divisions are required to apply the Risk Management Policy and operate within the limits set by the risk appetite. Each business unit is responsible for identifying risks which might create, enhance, accelerate, prevent, hinder, degrade or delay the achievement of the group's objectives, together with the sources of risks, areas of impact, events, and their causes and potential consequence. These risks are recorded in the risk register and evaluated based on the likelihood of occurrence and severity of impact. Depending upon the nature and impact of the risk, the risk is either accepted, avoided, managed or transferred. Climate-related risks and opportunities are identified and evaluated according to this framework by the respective management teams in our business units.

Management teams keep up to date through the monitoring and assessment of emerging risks, reviewed by the executive teams on a quarterly basis.

Given that we consider climate change to be a cross-cutting risk, that manifests through other existing risk types, climate-related risks and opportunities are identified, assessed and managed in a similar manner to other known and emerging risks. Primarily for Chesnara, climate change risk will arise through other financial risks e.g. equity risk, credit risk etc (PR1 - Investment and liquidity risk) and also regulatory risk given the level of ongoing change. With regards to the sector specific guidance, we believe the impact of: physical risks from changing frequencies and intensities of weather-related perils; transition risks resulting from a reduction in insurable interest due to a decline in value; transition risks of changing energy costs; and liability

risks that could intensify due to a possible increase in litigation, we consider the impact would currently fall into low materiality and therefore not disclosed within the TCFD report. Chesnara has developed an Environmental, Social and Governance (ESG) Policy Statement for the group, in which it recognises the importance of understanding climate change risk in its operations and its investments and continued monitoring of associated risks.

Chesnara believes its businesses that hold investments (insurance companies and investment companies) should consider sustainability and implications for climate change in their investment policies. It expects each company to consider the implications of these for its business and investments, and document its position. Chesnara's businesses have adopted, either directly or via their respective fund managers, the six UN Principles of Responsible Investment with the aim to continue to invest responsibly with ESG considerations in mind and to provide a choice of sustainable funds to customers, e.g. green investments which aim to solve climate issues or which primarily focus on companies that invest in improving health. The group is also exposed to strategic and reputational risks (PR9 – Reputational risk) arising from its action or inaction in response to climate change.

The 2022 Group ORSA process (and previous ORSAs) assessed on both a qualitative and quantitative basis, climate change risks. This included a group-wide consistent climate change scenario that assessed the impact of the 2019 PRA Climate Change Stress Test. The 2019 PRA Climate Stress Test includes three scenarios: sudden transition, long-term orderly transition and climate policy failure, and considers both the transitional and physical risks within these. The results and insights from the ORSA are taken account of by the board for the purposes of capital management and business planning, noting that, as a life insurance company, Chesnara is not generally exposed to physical risks, so proportionality has been applied.

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

INTEGRATION OF PROCESSES FOR IDENTIFYING, ASSESSING AND MANAGING CLIMATE-RELATED RISKS

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

Each business unit provides quarterly to its own Audit & Risk Committee and the Chesnara Audit & Risk Committee, and on a monthly basis to the Group Executive Committee, a forward looking perspective on risks that are emerging. A summary of principal risks and emerging risks is also provided quarterly to the Chesnara board. From a climate change perspective this involves considering the content of relevant publications and guidance, in relation to the Chesnara risk landscape, such as the reports published by the Intergovernmental Panel on Climate Change (IPCC) on the physical climate change risks to the environment. Similarly, our management teams evaluate the possible effects of transition risk by keeping abreast of relevant policy and legal developments, technological advancements, changes in market risk due to demand shifts and any legal and reputational risk exposure. Amongst other matters, business performance and risk management are discussed at the Group Executive Committee on a monthly basis.

Chesnara's approach to assessing financial risk is to identify and assess factors that could potentially threaten the continued successful delivery of the anticipated stakeholder outcomes over a 3-year time horizon, including risks to the business model and strategy. The Chesnara board requires the management teams to ensure a good understanding of the solvency position at any point in time. In Q2 2022 a series of stress and scenario tests were selected for the ORSA with the requirement to follow the testing principles set out in the Group Risk Management System Policy. As well as current known risks, the stresses and scenarios took account of forward looking and emerging risks.

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

More detail on Chesnara's Risk Management Framework is set out in this Section B of the Annual Report and Accounts.

METRICS AND TARGETS

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

In March 2023, our board signed off the group's long-term sustainability targets:

1. Net zero financed scope 3 emissions by 2050, with the interim targets and transition plan to be determined during 2023 in line with the IIGCC's Net Zero Investment Framework (Financed emissions).
2. Net zero scope 1, 2 and 3 (other/non financed) by 2028 (Operational emissions) where we are in control of emissions.

Setting these long-term targets is arguably the easy part and now the hard work really starts; determining short-term actions needed to deliver them and working to implement those actions. This work will continue during 2023.

To support the understanding of above, the difference between carbon neutral and net zero is explained below.

NET ZERO	CARBON NEUTRAL
When a company first reduces all its GHG emissions as much as possible, and only then offsets the remaining residual emissions with removals.	When a company's CO ₂ emissions are fully balanced by a combination of CO ₂ reductions and/or offset by removals without necessarily reducing any of its GHG emissions.

More detail on our targets is noted below and further progress will be made on baselining and developing our transition plans over the coming year. The table below sets out how we intend to report on our targets; however, some of the entries are still 'work in progress' as we continue on with the sustainability work during 2023.

	COMMITMENT	IMPACT	PERFORMANCE
1	Net zero scope 3 financed emissions (absolute value) by 2050. <i>Interim targets and baseline year to be defined during 2023.</i>	Our net zero transition plan will detail how we intend to achieve our net zero targets, including what the risks around this are and the associated costs. To be defined during 2023.	Performance data not yet available as we expect scope 3 financed emissions to be available for 2023 reporting.
2	Net zero (absolute value) operational emissions by 2028. <i>Interim targets and baseline year to be defined during 2023.</i>	Our net zero transition plan will detail how we intend to achieve our net zero targets, including what the risks around this are and the associated costs. To be defined during 2023.	Performance data not yet available as we have not yet defined our baseline year and interim targets; however, the movement on prior year is shown below. We expect this to be available for 2023 reporting.

Performance against these targets will be reported annually to the board through the GSC and each year in our Annual Sustainability Report. The control framework for the preparation of these results will be developed alongside the transition plans, however, for the collection of the operational emissions data, there is a control mechanism in place which involves a number of layers of internal review. The basis of preparation has been explained in some detail below the emissions table within this report on page 83.

As well as the above targets and commitments, we commit to assessing and investing in sustainability solutions, by intentionally directing capital into activities that deliver (or enable) the achievement of the UN Sustainable Development Goals. Actions against this will be reported each year, starting in 2023, detailing the level of investments, the source and the division responsible. These activities will be monitored by the GSC and reported annually to the board.

Carbon offsetting

We know that carbon offsetting is not the answer to making our business sustainable and the first step is to remove as many emissions from our activities and investments as possible. We also however recognise that it is unlikely that we will be able to fully mitigate our carbon emissions through normal activities, so to ensure that we minimise our impact on the environment, the group has, as consistent with previous years, decided to be 'carbon neutral' for its operational emissions by fully offsetting our remaining emissions. The goal of our transition plan will be to reduce these required offsets to as close to zero as possible. Adopting the same approach for 2022 as we did last year, the group has decided to offset 200% of the total remaining emissions (575 tonnes) through planting 1,150 trees in the UK and providing financial support to a number of alternative energy production projects (wind power and solar power) and also clean drinking water. These are high quality carbon reduction projects that comply with international verification standards and are amongst the Carbon Footprint Limited's offset projections portfolio, details of which can be found at www.carbonfootprint.com.

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Chesnara's greenhouse gas emissions, energy consumption and water usage data are provided below.

Energy usage

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

Energy consumption in the group is reported on an actual basis where the records are kept in the business (scope 2 – office use and scope 3 – business travel) and converted to emission measures using standard conversion factors from the UK government website. For commuting and home working, where detailed records are not kept, estimates have been agreed for each division as appropriate. These estimates have then had the standard conversion factors applied. Our energy consumption over the last two years is shown in the following table.

	UK & Offshore	Global (exc UK & Offshore)	Total
2022: Energy consumption (KwH '000)	837	1,824	2,661
2021: Energy consumption (KwH '000)*	583	2,404	2,987

*2021 energy consumption has been restated (2021 actual was 4,641) in line with a more appropriate home working percentage for the Netherlands, as documented in more detail below.

Water usage**	UK & Offshore	Global (exc UK & Offshore)	Total
2022: cubic meters (m³)	762	1,609	2,371
2021: cubic meters (m³)	145	1,310	1,455

**Excludes Waard since water usage is incorporated in the office service charge. Usage has increased compared to 2021 due to the acquisitions in the year and the new offices acquired.

Chesnara's Environmental Policy encourages all employees to take reasonable steps to reduce waste, and to re-use and recycle office materials, and the document reiterates our commitment to carbon neutrality. In addition to this, we use a mixture of renewable energy across the business, including the use of solar panels in Scildon. The Chesnara office in the UK also moved to a 100% renewable energy contract at the end of 2021.

With regard to the sector specific guidance requiring insurance companies to provide aggregated risk exposure to weather-related catastrophes of their property business by relevant jurisdiction; the extent to which their insurance underwriting activities are aligned with a well below 2°C scenario; and also indicate which insurance underwriting activities are included – this has been considered and the impact is either immaterial or not applicable to the business, and therefore, no disclosure has been made.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

The table below has been prepared based on the requirements within the Streamlined Energy & Carbon Reporting (SECR) framework.

All our employees mainly operate from offices or from home under a hybrid working model, which came into place following the offices being closed during the height of the COVID-19 pandemic. To increase energy efficiency, management in each of our business units take practicable steps to minimise the effect of our operations on the environment and our workforce is encouraged to conserve energy, use video conferencing, and minimise waste.

Furthermore, we use environmentally friendly certified paper, unwanted equipment is recycled or donated, and staff refreshments are purchased from sustainable sources. Scildon's offices within our Netherlands division were redesigned to limit carbon emissions and active management of energy usage has reduced the emissions this year. Scildon also uses solar power for some of its energy consumption, and all Scildon's company cars are electric. Whilst a number of these actions are a continuation from the previous year, there have also been new steps taken this year.

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

	Tonnes of CO ₂					
	2022			2021 (restated**)		
	UK & Offshore	Global (exc UK & Offshore)	Total	UK & Offshore	Global (exc UK & Offshore)	Total
Scope 1 Combustion of fuel and operation of facilities	–	–	–			
Scope 2 Electricity, heat, steam and cooling purchased for own use	30.3	112.4	142.7	10.8	120.1	130.9
Scope 3 Business travel	30.3	34.9	65.2	4.9	27.7	32.7
Scope 3 Remote working	59.1	124.3	183.4	63.6	180.3	243.9
Scope 3 Commuting	51.4	91.2	142.6	30.4	159.5	189.8
Total operational emissions (upstream)	171.1	362.8	533.9	109.6	487.7	597.3
Carbon offset*	(171.1)	(362.8)	(533.9)	(109.6)	(487.7)	(597.3)
Total net emissions	–	–	–	–	–	–
<i>Company's chosen intensity measurement:</i>						
Tonnes of CO ₂ e per employee on upstream activities	0.863	0.958	0.926	0.942	1.363	1.260

*In both 2021 and 2022, the group offset more than the gross emissions figure, as explained earlier in the report, but only 100% of emissions offset is shown here.

**During the preparation of the 2022 disclosures, we have refined our calculations and the underlying assumptions used to calculate emissions and, therefore, have restated the 2021 comparatives to be on the same basis.

Scope 3 financed emissions (downstream) not yet available but will be provided in the 2023 TCFD report.

There are 6 (2021: 8) company-leased vehicles in total across the group which are used primarily for commuting and not business-related activities, this is in addition to 13 company-owned vehicles.

Basis of preparation – the table below details the key assumptions and methods of calculation by scope:

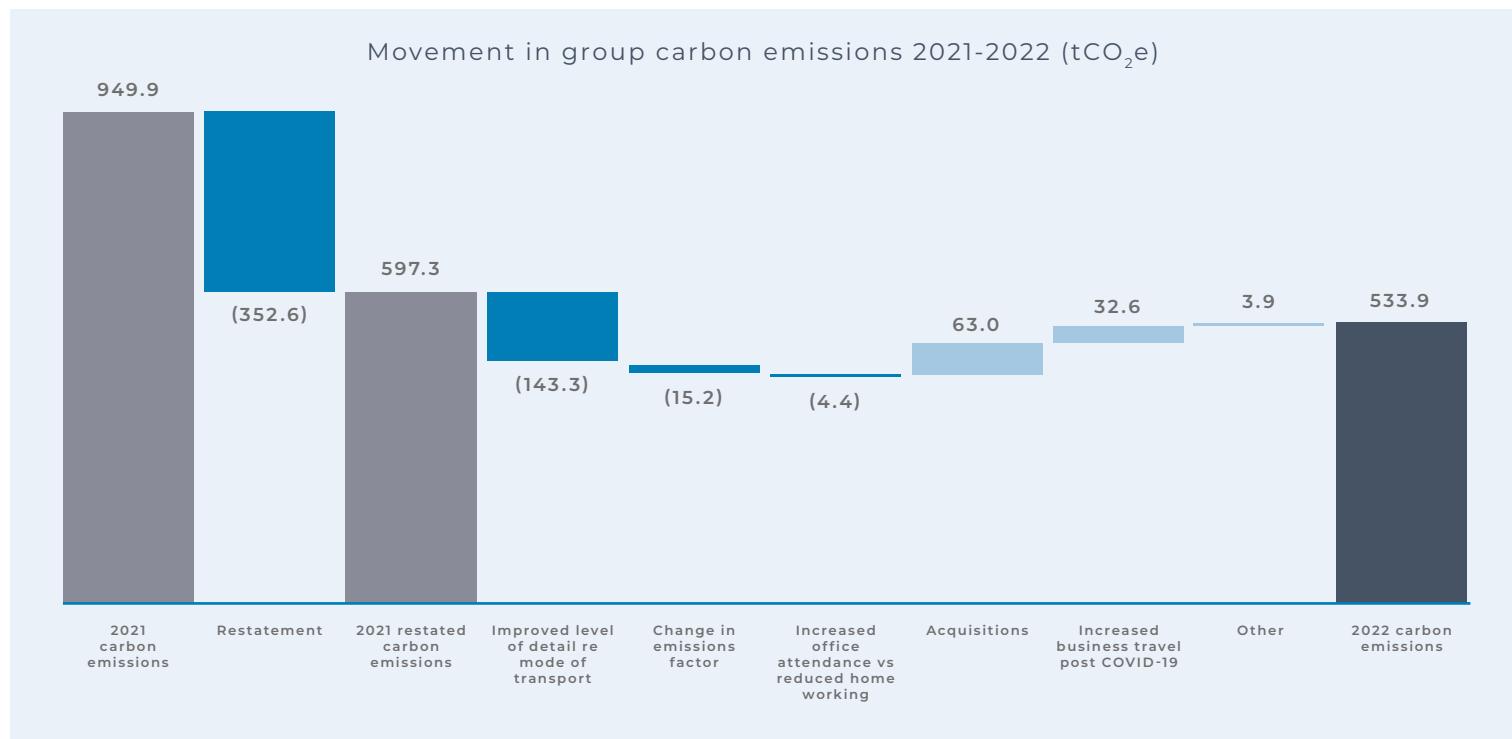
Scope 1	There are no emissions that fall under the category of scope 1 for the group, which is activities controlled by the organisation that release emissions into the atmosphere such as from combustion on owned controlled boilers and furnaces.
Scope 2	The emissions that fall within this category are related to the energy usage for the group's offices. This excludes the usage of the outsourcers as they do not work exclusively for the group and, therefore, we have not been able to estimate the impact. The government-set conversion factors are used to calculate the carbon emissions based on the kWh of gas and electricity used during the course of the year. We believe this is a prudent approach in estimating the emissions for the European divisions.
Scope 3	<p>The 15 disclosure categories published under the GHG Protocol for scope 3 emissions have been considered, and the main emissions from our operations fall within categories 6 (business travel) and 7 (employee commuting). We understand there may be a very low level of emissions under category 5 (waste generated in operations); however, we believe this to be minimal. The figures in the table also comprise emissions incurred by our staff and our outsourcers as a result of remote working. A summary of the calculation process is noted below:</p> <ul style="list-style-type: none"> – Office emissions – energy usage for the year is converted into carbon emissions using the government-set conversion factors. – Business travel – distance travelled is converted into carbon emissions based on the mode of transport where available and the government-set conversion factors (car, rail, air). – Remote working – the appropriate working from home % is used to calculate total home working hours for all FTEs across the group. The government-set conversion factors are then used to calculate the carbon emissions based on the number of hours. – Commuting – the appropriate office attendance is multiplied against the number of staff and the average commute distance to give a total commuting distance (this is split by mode of transport where available). The government-set conversion factors are then used to calculate the emissions. <p>As part of the work for 2023, we will be calculating and reporting our financed emissions as well as working on refining the calculation for the operational emissions, where possible. More detail of which will be provided in next year's TCFD report.</p>

CORPORATE AND SOCIAL RESPONSIBILITY •

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

Inherent within the calculations are a number of assumptions that we believe provide a comfortable level of prudence, particularly in the commuting estimates and the fact that we use a blended average of energy usage for office emissions when we actually have 100% renewable energy sources in some of the group's offices. However, this is partly offset by other minor areas such as being unable to estimate the mileage impact from employees using taxis in the course of business travel, and emissions associated with waste management from our offices. Over the course of 2022, we have refined our data collection across the group to make the

calculations more accurate, and as such, this has resulted in variances from the prior year that are not driven by underlying operational change. Over the course of 2023, we will continue to challenge and assess the judgements and assumptions that underpin the results to ensure that they are reflective of actual practice. A waterfall chart has been presented below that captures the movement between 2021 and 2022 emissions which identifies the different categories of change, as a number of the items have resulted in a material change.



A brief explanation of the blocks has been provided below:

- Acquisitions** – reflects the impact of the acquisitions during 2022 of CASLP and Robein Leven, which increased the number of group offices and the number of staff.
- Improved level of detail** – as explained above we refined our calculations through the collection of a deeper level of detail. This has resulted in a reduction, indicating that our estimates in the previous years have been prudent, as we have flagged in our supporting narrative.
- Increased office attendance vs home working** – in 2022, the group moved to a hybrid working arrangement, which saw the level of office attendance increase from that in 2021. As a result, whilst home working emissions are lower, the impact of increased commuting in place of this has resulted in a higher overall carbon output. Whilst this shows as a rise in emissions, it needs to be taken in the context that 2021 was still an anomaly year, affected by the COVID-19 pandemic.
- Business travel** – has increased during 2022 as restrictions were lifted following COVID-19, albeit at a much reduced level to 2019 pre-pandemic.

Intensity measurement: In previous accounts, we presented an intensity measurement that was based on office space. As part of our work on sustainability and climate change during 2022, we believe a more appropriate measure would be to consider operational emissions against staff, given a large proportion of our emissions are driven from commuting and home working (classified as upstream activities). We will look to determine an appropriate intensity measure for financed emissions (downstream) over 2023 as the detail of the targets is determined. With regard to the sector specific guidance requiring insurance companies to disclose weighted average carbon intensity or GHG emissions associated with commercial property and speciality lines of business, this has been considered and the impacts expected to be immaterial and not wholly applicable to Chesnara, therefore, it has not been disclosed.

The Strategic Report was approved by the board on 29 March 2023 and signed on its behalf by:

Luke Savage
Chair

Steve Murray
Chief Executive Officer

Non-Financial Information Statement

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

Reporting requirement

Anti-corruption and anti-bribery
Business model
Employees
Environmental matters
Non-financial key performance indicators
Principal risks
Respect for human rights
Social matters

Section(s) and page(s)

Corporate & Social Responsibility (p69)
Overview of our Strategy, Business Model, Culture & Values (p24-25)
Corporate & Social Responsibility (p67-68), S172 (p35-36)
Corporate & Social Responsibility (p70-84), S172 Statement (p34)
S172 Key Stakeholders (p32-34), Business Reviews (p38-43)
Risk Management – Principal Risks and Uncertainties (p59-65)
Corporate & Social Responsibility (p68)
Corporate & Social Responsibility (p68)

SECTION C: CORPORATE GOVERNANCE

Montelbaanstoren, Amsterdam





- 88** Board profile and board of directors
- 90** Governance overview from the Chair
- 92** Corporate Governance Report
- 96** Nomination & Governance Committee Report
- 98** Directors' Remuneration Report
- 119** Audit & Risk Committee Report
- 126** Directors' Report
- 129** Directors' Responsibilities Statement

BOARD PROFILE AND BOARD OF DIRECTORS

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

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

The biographies below show the specific areas of specialism each board member provides, with each letter correlating to the competency matrix on the right. Where a board member has a competency in blue, this indicates a primary specialism. A light grey colour indicates that this competency is a secondary specialism for that board member.

THE BOARD

LUKE SAVAGE CHAIR

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

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

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

Current directorships/business interests:

- Numis Corporation plc, Chair
- DWF Group plc, NED
- Chesnara Holdings BV

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

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

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

Committee membership: Audit & Risk and Nomination & Governance.

Current directorships/business interests:

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

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

STEVE MURRAY GROUP CHIEF EXECUTIVE

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

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

Current directorships/business interests:

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

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

DAVID RIMMINGTON GROUP FINANCE DIRECTOR

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

Career, skills and experience:

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

Current directorships/business interests:

- CA Services Ltd
- Movestic Livförsäkring AB

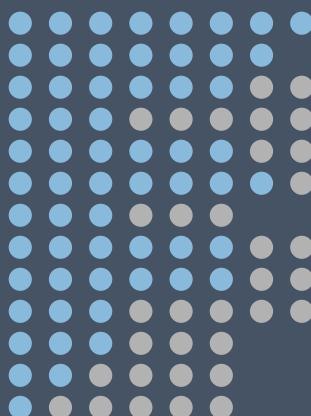
Skills and experience: A B C D E F G H I J L M

BOARD KNOWLEDGE, SKILLS AND EXPERIENCE SUMMARY

KEY KNOWLEDGE/SKILL/EXPERIENCE

- A** Chesnara company knowledge
- B** Industry knowledge – UK
- C** Industry knowledge – Sweden/Netherlands
- D** Governance – actuarial
- E** Governance – financial
- F** Audit and risk management
- G** Investment management
- H** M&A and business development
- I** Commercial management
- J** Operational change management
- K** Customer operational/management
- L** Information technology
- M** Environmental, social and governance (ESG)

SUMMARY



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

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

CAROL HAGH NON-EXECUTIVE DIRECTOR AND DESIGNATED WORKFORCE NED

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

Committee membership: Nomination & Governance Committee and Remuneration Committee.

Current directorships/business interests:

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

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

KARIN BERGSTEIN NON-EXECUTIVE DIRECTOR

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

Committee membership: Nomination & Governance and Audit & Risk.

Current directorships/business interests:

- Movestic Livförsäkring AB, NED
- Chesnara Holdings BV
- Van Lanschot Kempen N.V., NED
- Bank Nederlandse Gemeenten N.V., NED
- University Medical Center Groningen, NED
- Bergstein Advies B.V., General Manager
- Foundation for Continuity of NN Group, NED

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

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

Appointment to the board: Appointed to the Chesnara plc board in July 2020 and as Chair of the Remuneration Committee in January 2022.

Committee membership: Audit & Risk and Remuneration.

Current directorships/business interests:

- Movestic Livförsäkring AB, NED and Chair of the Audit & Risk Committee (from 10 June 2022)
- Movestic Fonder AB, Chair
- AJ Bell, NED
- Randall & Quilter Investment Holdings Ltd (Bermuda), NED

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

MARK HESKETH NON-EXECUTIVE DIRECTOR

Appointment to the board: Appointed to the Chesnara plc board in December 2018 and as Chair of the Nomination & Governance Committee in January 2022.

Committee membership: Nomination & Governance and Audit & Risk.

Current directorships/business interests:

- Countrywide Assured plc, NED
- CASLP Ltd, NED
- Chesnara Holdings BV, NED
- Stonebridge International Insurance Limited, Chair
- Bethany Christian Trust, Treasurer and NED
- Bethany Enterprises Ltd, NED

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

GOVERNANCE OVERVIEW BY THE CHAIR

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



Dear Shareholder,

On behalf of the Chesnara board, I am pleased to present our Corporate Governance Report for the year ended 31 December 2022.

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

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

In December 2020, the FCA introduced a rule for UK premium listed firms requiring disclosure, on a comply or explain basis, against the recommendations of the TCFD. Our TCFD report can be found on pages 70 to 84. We have also published our first annual sustainability report which can be found on our website: www.chesnara.co.uk.

This section of the Annual Report and Accounts sets out our governance policies and practices, and includes details of how the company has materially, during 2022, applied the UK Corporate Governance Code 2018 (the 'Code').

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

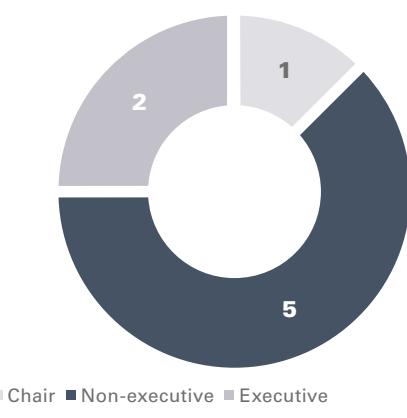
No NED chairs the board and a board committee nor does a NED chair more than one Chesnara plc board committee. The principles and policies that support the governance framework outlined in the Group Corporate Governance & Responsibilities Map are designed to encourage high standards of ethical and business conduct and consideration of matters such as diversity. Each of the businesses within the group has continued to make further progress in ensuring that the governance arrangements remain effective, whilst also integrating environmental and social factors within their risk assessment system.

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



Luke Savage
Chair
29 March 2023

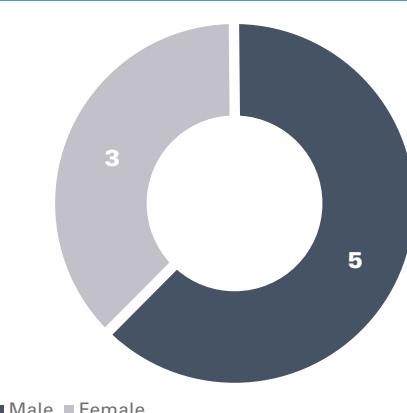
Current balance of executive and non-executive directors



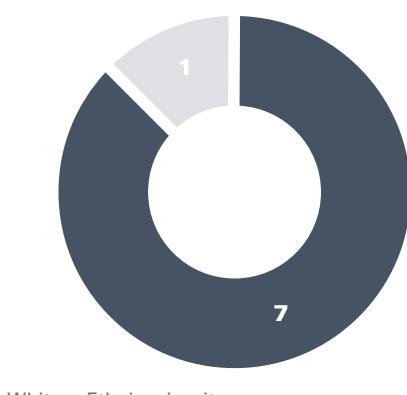
Board tenure



Current gender diversity of the board



Current ethnic diversity of the board



CORPORATE GOVERNANCE REPORT

The group's governance framework has continued to operate effectively in 2022 and we have taken further steps to improve our approach.

Compliance with the Code

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

The board

At 31 December 2022, the board comprised of a non-executive Chair, five other non-executive directors and two executive directors.

Biographical details of current directors are given on pages 88 and 89 and a board profile, which assesses the core competencies required to meet the group's strategic objectives, is provided on page 89. The board, which plans to meet at least eight times during the year, has a schedule that it reviews annually on matters reserved for its consideration and approval. These matters include:

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

In addition:

- (i) three directors of the company were during the year also directors of Countrywide Assured plc and of CASLP Ltd from the date of its acquisition, those being Miss Dale, Miss Hagh and Mr Hesketh. Further segregation of the boards was introduced by Messrs Flanagan, Murray and Rimmington resigning their Countrywide Assured directorships from 14 February 2022;
- (ii) four directors of the company, being Miss Bergstein (from 01 May 2022) and Messrs Hesketh, Savage and Murray, are also directors of Chesnara Holdings BV, which is in the process of being liquidated;
- (iii) two directors of the company, being Messrs Flanagan and Rimmington, were also directors of Movestic Livförsäkring AB throughout the year and were joined during 2022 by Miss Bergstein and Mr Murray; and
- (iv) Mr Murray was also a director of the Scildon, Waard and Robein Leven Supervisory Boards throughout the year.

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

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

The roles of the Chair and Group Chief Executive

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

Senior Independent Director

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

Directors and directors' independence

During 2022 a review was conducted to assess the independence of the board as a whole when set against a matrix of key measures set out in the Code. The table below shows the results of that review under the Code Provisions 11, 12 and 17 and Principle G.

Code consideration	Questions
Provisions 11 & 12	<p>1. Are at least half the board, excluding the chair, NEDs whom the board considers to be independent? Y</p> <p>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</p>
Principle G	<p>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</p> <p>4. Is there a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business? Y</p>
Provision 17	<p>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</p> <p>6. Are a majority of members of the Nomination Committee independent NEDs? Y</p> <p>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</p>

The following statement, together with the Directors' Remuneration Report on pages 100 to 111, the Nomination & Governance Committee Report on pages 96 to 97, and the Audit & Risk Committee Report on pages 119 to 125 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 2022.

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

The table below shows the results of that review:

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

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

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

Other than their fees, and reimbursement of taxable expenses, which are disclosed on page 102, the non-executive directors received no remuneration from the company during the year. The directors are given access to independent professional advice, at the company's expense, when the directors deem it necessary, in order for them to carry out their responsibilities. Independent professional advice of this nature was drawn upon with regard to remuneration matters. This has been disclosed on page 99 and page 101 in the Remuneration Report.

The board is satisfied that its overall balance 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, their views carry significant weight in the company's decision making and bring diverse cultural and territory insight and skills.

Professional development

The directors were advised, on their appointment, of their legal and other duties and obligations as directors of a listed company. This has been supplemented by the adoption and circulation to each director, their responsibilities and duties as contained within the group's Corporate Governance & Responsibilities Map, which covers all aspects of the specific operation of corporate governance standards and of policies and procedures within the group. Throughout their period in office, the directors have, through the conduct of business at scheduled board meetings and training, been updated on the group's business and on the competitive and regulatory environment in which it operates. During the year, specific specialist areas of training have also been provided to the board including IFRS 17, climate change, corporate reporting, BEIS corporate reform, directors' duties and cyber risk. Members of the CA plc and CASLP Ltd boards, who served during the period under review, have considerable knowledge and experience of the UK-based businesses of the group. Similarly, Miss Bergstein and Messrs Savage, Flanagan, Hesketh, Murray and Rimmington, through their membership of the overseas 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, covering all of the key areas relevant to the direction and operation of those subsidiary entities, including business development, key projects, financial performance and position, actuarial assumptions setting and results analysis, compliance, investments, information technology and security, operations, customer care and communication, internal audit, all aspects of the Risk function and own risk and solvency assessment.

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

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board effectiveness and performance evaluation

As part of the annual performance, an external effectiveness evaluation of the board and each of its committees was undertaken. The 2022 board effectiveness reviews were facilitated by an external third party, Nasdaq Governance Solutions. This was through an anonymous questionnaire and individual meetings with each director and regular attendee to obtain their views on what was working well and what could be improved.

The questionnaire contained wide-ranging matters, covering how well the board operates, the process of decision making, the balance between the focus on risk, fair customer outcomes and running the business, the culture and dynamics of the board ensuring its composition and that of its committees are aligned. In addition, using similar methods to those described above, the non-executive directors, led by Jane Dale as Senior Independent Director under a separate process, contributed to a formal performance evaluation of the Chair.

The outcome of the reviews of the board and its committees indicated that they continue to be effective and that each of the directors demonstrates commitment to his or her role, along with sufficient time required to discharge their responsibilities to the company. The evaluation findings were presented back to each committee and formally approved on that basis before each committee then confirmed to the board that it continued to operate effectively.

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 material conflicts of interest were noted in 2022.

Whenever a director takes on additional external responsibilities, the Chair considers any potential conflicts that may arise and whether or not the director continues to have sufficient time to fulfil his or her duties taking into account Chesnara's policy on executive directors' external appointments. There were considered to be no such concerns in 2022.

Customer/third party conflicts of interest

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

No material conflicts of interest were noted in 2022.

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

	Scheduled board ¹	Nomination & Governance Committee	Remuneration Committee	Audit & Risk Committee
Luke Savage – Non-executive Chair	14 (14)	4 (4)	7 (7)	n/a
Veronica Oak ² – Non-executive Director (resigned 14 January 2022)	0 (0)	0 (0)	0 (0)	0 (0)
Steve Murray – Executive Director (appointed 19 October 2021)	14 (14)	n/a	n/a	n/a
David Rimmington – Executive Director	14 (14)	n/a	n/a	n/a
Jane Dale – Non-executive Director	14 (14)	4 (4)	n/a	8 (8)
Mark Hesketh – Non-executive Director	14 (14)	4 (4)	n/a	8 (8)
Eamonn Flanagan – Non-executive Director	14 (14)	n/a	7 (7)	8 (8)
Karin Bergstein ³ – Non-executive Director	12 (12)	4 (4)	n/a	6 (6)
Carol Hagh ⁴ – Non-executive Director	12 (12)	4 (4)	6 (6)	n/a

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

Employee engagement

With COVID-19 still a feature of the external environment, we continued with our policy to ensure that our employees remained safe, whilst also maintaining the necessary service standards for our customers. Hybrid working arrangements are in place across the group to the extent appropriate to each territory and business unit to allow staff to continue to work from home to some extent.

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

A full description of our employee engagement and well-being is provided in our corporate and social responsibility section on pages 67 to 68.

Customer/supplier engagement

The board remains vigilant to ensure the importance of customer and supplier engagement remains high on the group's agendas.

TCFD

In accordance with Listing Rules, we have compiled our second report covering the broad range of climate-related information to be disclosed under the four overarching pillars (Governance, Strategy, Risk Management and Metrics & Targets) of the TCFD, of which the full report is contained on pages 70 to 84.

Company Secretary

Amanda Wright became Group General Counsel & Company Secretary from 3 October 2022 when Al Lonie stood down as Group Company Secretary. Amanda is responsible for advising the board, through the Chair, on all governance matters. The directors had access to the advice and services of a Company Secretary throughout the year.

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided on page 101.

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided on pages 119 to 125.

Nomination & Governance Committee

Full details of the composition and work of the Nomination & Governance Committee are provided on pages 96 and 97.

Notes.

1. The number of scheduled board meetings includes 6 meetings that were called at short notice to discuss ad hoc/subject specific matters.

2. Veronica Oak stepped down from the board effective 14 January 2022.

3. Karin Bergstein was appointed to the board effective 14 February 2022.

4. Carol Hagh was appointed to the board effective 14 February 2022.

Relations with shareholders

The Group Chief Executive and the Group Finance Director meet with institutional shareholders and are available for additional meetings when required. Should they consider it appropriate, institutional shareholders are able to meet with the Chair, the Senior Independent Director and any other director. The Chair is responsible for ensuring that appropriate channels of communication are established between the Group Chief Executive and the Group Finance Director with shareholders and, with support from the Senior Independent Director as appropriate, is responsible for ensuring that the views of shareholders are known to the board. This includes twice yearly feedback prepared by the company's brokers on meetings the executive directors have held with institutional shareholders. The company has a programme of meetings with its larger shareholders, which provides an opportunity to discuss, on the basis of publicly available information, the progress of the business. This programme continued during 2022 with enhanced use made of audio and video facilities. Following the issuance of a Tier 2 bond in 2022, the company also meets with existing and prospective debt investors. These include specific meetings for the debt investor community as well as ad hoc meetings arranged either directly or through investor conferences. A significant proportion of the company's shareholders are retail investors. In order to ensure that these retail investors have access to relevant information, the company maintains a detailed website for investors which includes access to equity research. Management also undertake webinars on the company's prospects that are publicly available to private investors.

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 17 May 2022 all resolutions were passed, with votes for ranging from 99.99% to 96.50% (votes against ranging from 0.01% to 3.50%).

Our next AGM is to be held on 16 May 2023 and details of the resolutions to be proposed can be found in the Notice of the Meeting on pages 227 to 233. It is intended that the meeting be held in person at the time of writing, with the Chairs of the board committees available to answer such questions as appropriate. Shareholders are nonetheless encouraged to submit in advance any questions that they may have in order that the Chairs of the board committees can answer them on the day.

Internal control

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

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

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

The group also maintains a principal risk register, which ensures identification, assessment and control of the significant risks subsisting within the company, CA, CASLP, Waard Group, Movestic and Scildon. The principal risks and uncertainties of the group can be found on pages 59 to 65.

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

- the boards and Group Chief Executive have responsibility for ensuring that the organisation and management of the operation are characterised by sound internal control, which is responsive to internal and external risks and to changes in them;

- the boards have responsibility for the satisfactory management and control of risks through the specification of internal procedures;
- there is an explicit Risk function, which is supported by compliance; and
- the Internal Audit functions provide independent assurance that the risk management, governance and internal control processes are operating effectively.

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

With regards to Countrywide Assured plc, CASLP, Waard Group, Robein Leven, Scildon and Movestic, the group ensures that effective oversight is maintained, by way of the membership of Chesnara directors on their local boards and 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 2022, and that it has considered material developments between that date and the date of approval of the Annual Report and Accounts. The board confirms that these reviews took account of the findings by the Internal Audit and Compliance functions on the operation of controls, internal financial controls, as well as management assurance on the maintenance of controls, and reports from the external auditor on matters identified in the course of statutory audit work. Conclusions of the Audit & Risk Committee's annual review of effectiveness of the group's risk management and internal control systems is reported in more detail in the Audit & Risk Committee Report as set out on pages 119 to 125. The board is not aware of any significant deficiencies in the effectiveness of the group's systems of internal control and risk management for the year under review, however it does acknowledge the need to enhance certain aspects of its general IT controls across the group, which will be considered as part of the IFRS 17 implementation. There has been no change of status to this up to the date of approval of this report.

Financial reporting

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

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

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

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

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

Going Concern and Viability Statement

The Statement on Going Concern is included in the Directors' Report on page 128 and the Long-Term Viability Statement is set out on page 56.

Financial crime and whistleblowing

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

NOMINATION & GOVERNANCE COMMITTEE REPORT

The main focus of the Nomination & Governance Committee 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.



NOMINATION & GOVERNANCE COMMITTEE

During the period under review, the committee comprised Mark Hesketh, who also served as Chair of the committee, Jane Dale, Luke Savage, Karin Bergstein and Carol Hagh, with Karin and Carol having joined from their 14 February appointment. No individual participated in discussion or decision making when the matter under consideration related to themselves.

The committee Chair reports material findings and recommendations from each meeting at the next board meeting.

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

The role of the Nomination & Governance Committee is to:

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

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

During the period, the committee met four times and attendance at those meetings is shown on page 94. This reflected the committee reverting to its more typical number of meetings following an uplift in 2021 when it oversaw the recruitment of Steve Murray as Group Chief Executive and Karin and Carol as our two newest non-executive directors. By invitation, the Group CEO attends the Nomination & Governance Committee, but was not present when matters relating to his own performance were discussed.

The composition of the board

The committee has continued to focus on succession planning, with a view to maintaining an appropriate composition for the board and its committees to support the continued development of the group. 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 vital and an area of focus for the board. The company continues to both build an internal leadership pipeline for senior roles and ensure that the necessary skills and experience exist within the business to deal with challenges and to achieve set objectives. A notable example of this is the appointment in October of Amanda Wright to the new role of Group General Counsel and incorporating the Group Company Secretary role within that.

Board appointment process

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

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

The board engaged the services of Flint Hyde as independent external recruitment consultants in anticipation of Veronica Oak retiring from her role as a non-executive director in January 2022. With their support as independent external recruitment consultants for this exercise, Karin Bergstein and Carol Hagh were appointed on 14 February 2022 and both have contributed strongly to the board since joining.

Diversity

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

The board recognises the benefits of having diversity across all areas of the group – please see the equal opportunities section on page 67 for further detail. When considering the make-up of the board, the benefits of diversity are reviewed and balanced where possible and appropriate, along with the breadth of skills, sector experience, gender, race, disability, age, nationality and other contributions that individuals may make. In identifying suitable candidates, the committee seeks candidates from a range of backgrounds, with the final decision being based on merit against the role criteria set. Through its Board Diversity Policy, the board maintains its practice of embracing diversity and has to date operated a measurable gender-based target of having at least 33% female representation. The directors have more recently set themselves the measurable target of having at least 40% representation of both male and female membership on the board by 31 December 2025 in recognition of the recommendations of the FTSE Women Leaders Review. In addition, the company will target having a female appointee to at least one of the key senior roles of Chair; Senior Independent Non-executive Director; Group CEO or Group CFO by that date. Actual levels of gender diversity will be monitored and be reported upon in the Annual Report and Accounts. The board currently comprises five men and three women (37.5%), with the role of Senior Independent Non-executive Director held by Jane Dale.

Further, Chesnara has determined that it will ensure that it continues to meet the measurable target of having at least one director from an ethnic minority on the board in line with the Parker guidance. In consideration of the longer term, the board has discussed increasing its range of knowledge and experience from outside financial services and also a broader geographical experience base but is satisfied with its current composition. The business operates to principles for other roles and is mindful that it has a small workforce and therefore considers that it needs to take associated staff turnover expectations into account.

Review of effectiveness

The board and its committees undertook annual effectiveness reviews and the respective Chairs discussed the findings in each forum. Other standard processes were also undertaken, including Fit & Proper assessments, Board Diversity Policy review, NED succession planning and the review of the effectiveness of the Chair. The evaluations did not identify any additional changes needed to board composition over and above those that had been initiated.

Any areas where increased focus and/or action was considered to be of potential value has either been addressed in 2022 or will be taken into account as appropriate during 2023. The 2022 board effectiveness reviews were facilitated by an external third party, Nasdaq Governance Solutions.

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 and senior executives across the group.

Mindful of the need for effectiveness and engagement, the committee through its annual review of board and committee memberships was determined to make a number of changes in 2022. Carol Hagh and Karin Bergstein were appointed as non-executive directors from 14 February. Eamonn Flanagan became Chair of Movestic Livförsäkring AB Audit and Risk Committee in June 2022. Karin joined the Movestic Livförsäkring AB and Chesnara Holdings BV board and Carol the Countrywide Assured and CASLP boards with Jane Dale and Mark Hesketh joining her as NEDs of CASLP Ltd.

Non-executive director engagement

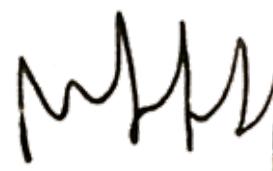
It is important to the board that non-executive directors are provided with training and development both within the business and at a group level. The board believes that ongoing training is essential to maintaining an effective and knowledgeable board. The Company Secretary supports the Chair in ensuring that all new directors receive a tailored and comprehensive induction programme on joining the board. Continuing education and development opportunities are made available to all board members throughout the year. In 2022, 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 as well as our own internal IFRS 17 project team ahead of this far reaching accounting change taking effect in 2023.

Directors standing for re-election

In accordance with the Code, all directors will offer themselves for re-election at the company's AGM on 16 May 2023. Following the annual board effectiveness reviews of individual directors, as applicable and subject to re-election/election, the Chair considers that each director:

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

The board, on the advice of the Nomination & Governance Committee, recommends the re-election of each director so proposed at the 2023 AGM. The full 2023 AGM Notice can be found on page 227.



Mark Hesketh
Chair of the Nomination & Governance Committee
29 March 2023

DIRECTORS' REMUNERATION REPORT

'I look forward to engaging with you on the activities of the Committee and the decisions we have taken.'



REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT

Dear Investor,

On behalf of the board and its Remuneration Committee ('Committee'), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2022, for which we seek shareholder support at our forthcoming Annual General Meeting. It is three years since shareholders last approved the Remuneration Policy and we have therefore also reviewed our Directors' Remuneration Policy over the last year. Our revised Remuneration Policy will be put to shareholders for a binding vote at our AGM on 16 May 2023 and, if approved, will be effective from that date.

Summary of the year

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

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

These three strategic objectives are underpinned by the culture, values and risk appetite of the group, which looks to deliver positive investment returns and value for money for our customers. From a remuneration perspective we seek to achieve strong alignment between the interests of stakeholders and executive directors and continue to operate two executive incentive schemes: the Short-Term Incentive Scheme (STI) and Long-Term Incentive Scheme (LTIP).

As covered in the financial report, we have seen good delivery on our key performance metrics in 2022:

1. Strong solvency ratio of 197% well above our usual operating range.
2. Acquisition strategy saw the completion of two transactions in 2022 (Sanlam Life & Pensions UK and Robein Leven), with a third, the insurance portfolio of Conservatrix, announced in July and completed on 1 January 2023.
3. £9.5m of new business profits were generated on a commercial basis.
4. Cash generation^t of £82.7m contributed to the funding requirements of the dividend.
5. Given the material reduction in asset values across global markets, we saw EcV^t decline by £78.2m before the impact of dividend distributions of £34.3m.
6. An increase in dividend of 3% retaining our track record of growing the dividend every year for the last 18 years.

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

Workforce

It is our normal practice to award all employees an annual salary increase which takes into account factors such as inflation.

In 2023, UK employees below executive level received a general salary increase from a pot of 6.0%, with the exception of individual awards being made as a result of staff progression. Senior executives were awarded up to 5%, other than the Group CEO as covered later.

In addition, we supported staff through the current cost of living challenges with two one-off non-contractual net payments of £1,000 for non-higher rate tax payers.

Executive performance in 2022

Executive director remuneration outcomes for 2022

In light of the performance of the executive team in 2022 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.

Details on STI can be found on page 103 and under the 2020 LTIP awards on page 105. The targets and performance outcome can be found in the table on pages 103 and 105.

The impact of acquisitions is excluded from the cash generation[†] and EcV[†] results for STI award purposes given their funding can have a distorting impact on short-term results. To recognise the importance of potential M&A growth, the Committee uses its discretion to assess whether activity and results during a year warrants an award. Any awards made are subject to the overall STI cap of 100% of basic salary.

During 2022, the acquisition strategy has been reinvigorated with a substantial proportion of the Tier 2 debt successfully deployed to create over £20m of incremental Economic Value[†] during the year. The Committee has assessed that the STI should recognise delivery of the acquisition component of the group strategy. An award of 30% of on-target was deemed appropriate for executive directors which was also applied to a broader population of group and other staff for their support on acquisition activity not otherwise recognised. This recognises the fact that all management and staff either directly or indirectly contribute to delivering successful acquisitions and the work is onerous and often incremental to core responsibilities.

The Committee has reviewed the position of the 2020 LTIP ahead of the vesting to understand whether any windfall gain has arisen in respect of the award which was granted at a price of 320.0p.

Taking into account the Chesnara share price as at 8 March 2023 (294.0p), the Committee is satisfied that no windfall gains have occurred and that no adjustment is required on vesting.

Review of the Directors' Remuneration Policy (the 'Policy')

This year the Committee has conducted a review of the current Policy, which received a vote in favour of 94.49% at the 2020 AGM. As part of the review, the Committee considered market best practices; the alignment of our existing structures with strategy; and a comparison of both structure and quantum to comparator companies. Our objective is to ensure that the company continues to have a remuneration package for executive directors which motivates and retains, whilst aligning with both the company's strategy and the shareholder experience. We were supported throughout our work by PwC as Committee advisor following their appointment in October 2022.

Based on the review, the Committee believes that the remuneration structures within the current Policy remain fit for purpose and aligned to business strategy. The core structure will therefore retain the market-standard elements of base salary, benefits, pension aligned to that of the wider workforce, Short-Term Incentive Scheme ('STI' ie annual bonus) and Long-Term Incentive Plan (LTIP). The Policy continues to meet the UK's high governance standards with features such as 35% deferral of STI outcomes into shares for 3 years; 2 year post-vesting holding periods for LTIP awards of executive directors joining from May 2021; malus and clawback; and minimum shareholding requirements. For this reason, the Committee is not intending to make any significant changes to the company's remuneration structure, other than for the 200% shareholding requirement, including for 2 years post-employment, being extended to include those who joined prior to May 2021 and commencing with the LTIP grants of 2023.

LTIP performance measures

Following the changes proposed to the weighting of the annual bonus measures in FY 2022, the Committee was satisfied that these measures remain appropriately balanced and aligned to strategy. The Committee therefore focused its review of the LTIP performance measures which are currently 50% relative Total Shareholder Return ('TSR') (against the FTSE Higher Yield index) and 50% Economic Value[†] ('EcV').

Following the review, the Committee is proposing the following three amendments:

Calibration of the relative TSR component

- With the support of its advisors, the Committee conducted a detailed review of the relative TSR comparator group and considered a number of alternatives with reference to TSR correlation and volatility analysis. The analysis indicated that the current peer group has higher TSR correlation than the other general sector peer groups considered (e.g. FTSE All Share, FTSE Financial Services) and was therefore considered the most appropriate general sector group. Whilst a group of European Life Insurance companies was the most correlated and most similar in terms of volatility, the resulting peer group was considered too small to be robust for a relative TSR performance measure at this time.
- The Committee therefore intends to retain the current peer group but with a change to the calibration of the maximum pay-out to reflect the relative performance of life insurance peers.
- The measure currently vests at maximum for performance in line with the upper quartile of the comparator group. It is now proposed to vest at maximum for TSR performance 6% per annum higher than the median company in the comparator group over the performance period. Based on historical TSR performance analysis, this calibration aims to ensure that a maximum pay-out is achieved for performance comparable to the upper quartile of life insurance peer companies.
- The calibration of threshold is unchanged such that Chesnara must perform as a minimum at the median of the comparator group for any payout to be achieved.

Addition of a third metric, namely commercial cash generation[†]

- A third metric, commercial cash generation[†], is proposed to be included in the LTIP.
- This ensures that a further portion of the LTIP pay-out is contingent on the delivery of results against one of the group's key cash KPIs that has been drawn out in our external messaging for some time.
- We define cash generation[†] as the movement in the group's surplus Own Funds above the group's internally required capital whilst our commercial cash generation[†] metric looks through the impact of technical components like the symmetric adjustment, modelling changes and corporate acquisition activity to show the group's view of the surplus being generated. It is used as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. The Committee is satisfied that this reduces overlap in the measurement of cash generation[†] between the STI and LTIP.

Reweighting of metrics

- All three metrics will be equally weighted as one third of the assessment. This reflects the importance of the EcV[†] and commercial cash metrics in measuring the delivery of the group's strategy, whilst continuing to ensure that a meaningful portion of the outcome is based on an assessment of performance relative to peers in line with market norms.

The Directors' Remuneration Policy has been amended to reflect this change of approach as well as to enable some flexibility in the choice of LTIP metrics over the next Policy cycle so that LTIP measures may be updated to ensure they continue to reflect business priorities.

I am grateful for the valuable input of our shareholders provided as part of the consultation exercise that we conducted in Q1 2023.

In addition, enhanced malus and clawback provisions have been included in both the new STI and LTI schemes.

[†] Alternative Performance Measure (APM) used to enhance understanding of financial performance.

Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

DIRECTORS' REMUNERATION REPORT • REMUNERATION COMMITTEE CHAIR'S ANNUAL STATEMENT (CONTINUED)

Implementation of pay in 2023

Last year, I confirmed that we had appointed our new Group CEO, Steve Murray, on a lower salary compared with his predecessor. I also noted that the Committee would return in future years to ask for shareholders' support in rewarding success with future pay rises for Steve, predicated on company performance and his development in role. The Committee has been very impressed with the new Group CEO's performance in his first full financial year in charge of the group. Under his leadership, the group has:

- Reported a strong set of financial results in a challenging macro-economic environment, including positive commercial cash generation^t of £46.6 million.
- Retained a resilient balance sheet with a strong solvency ratio of 197%, above the usual 140–160% operating range.
- Completed our inaugural Tier 2 debt raise, raising £200m with a 10.5-year term at a competitive 4.75% coupon to strengthen funding capacity from an M&A perspective.
- Maintained momentum in acquisitions through the completion of the Sanlam Life & Pensions UK and Robein Leven transactions and the completion of Conservatrix's insurance portfolio in the Netherlands on 1 January 2023. The team, under the new Group CEO's tutelage, has executed three acquisitions, including the recent Conservatrix deal, deploying c£84 million of capital and adding an estimated £40 million of EcV^t and £10 million of annual, steady state cash generation^t to the group. We remain very positive on the outlook for further M&A.
- Made a number of excellent hires to leadership positions including Head of Strategy & Investor Relations and Group General Counsel & Company Secretary.
- Increased the interim dividend 3% year-on-year, extending the company's excellent and long-term track record of increasing its dividend to shareholders.
- Supported staff through the current cost of living challenge with two non-contractual net £1,000 payments (excluding higher rate taxpayers).
- Delivered shareholder returns towards the upper quartile of our comparator group since the Group CEO's appointment.

I hope my annual statement, together with our Remuneration Report, provides a clear account of the operation of the Remuneration Committee during 2022 and how we have put our Remuneration Policy into practice. As the new Chair of the Remuneration Committee, I look forward to engaging with you on the activities of the Committee and the decisions we have taken.

The Committee has therefore decided to increase the Group CEO's salary by 5% as part of the annual review process, in line with that of his executive team but that level being below the 6.0% increase awarded to UK employees, and to deliver an additional 4% to reflect his development in role and there having not been an award made in 2022 which was 4% for all staff and other executives. The Committee believes that his revised salary of £457,800 is an appropriate positioning for FY 2023 given Steve's development in role since appointment whilst taking into account movements in market pay since John Deane's retirement. The Committee intends to review the Group CEO's salary next year as he further develops in role, mindful of his performance and reward positioning compared to other such roles in peer organisations and within the parameters of the proposed Policy.

The Committee also proposes to increase the maximum LTIP that may be granted to the Group CEO under the Policy from 100% to 125% of salary and to implement this for Steve in 2023. In combination, while the salary and LTIP proposals result in an increase to the Group CEO's total compensation level, this remains below the level of comparable sized companies in the FTSE Small Market Cap peer group.

The Group FD's salary increase will be 5%, below the level of the wider UK workforce. No change is proposed for the Group FD's LTIP award.

The Committee believes that these proposals will ensure that the remuneration structure in operation for the executive directors with effect from 1 January 2023 is motivating and creates a strong incentive to deliver sustainable growth and value to shareholders. The executive directors' remuneration for 2023 can be found on page 118.

Non-executive director fees

The board took into account individual NEDs' updated responsibilities including changes made post the appointment of Carol Hagh and Karin Bergstein to the group board and wider benchmarks for NED pay when determining increases to their fees. The Chair's fee was raised by 5.9%, broadly in line with the general uplift to UK staff salaries. Directors' fees are set-out on page 110.

Employee engagement

The management teams in each of the businesses are responsible for ensuring that employees are kept informed and their views are considered on key subject matters.

The Committee engaged with staff on the development of the Group's Remuneration Principles and the alignment of directors' pay with UK employees through a meeting held between myself as Remuneration Committee Chair and the Group CEO with representatives from across the UK team.

The Committee believes that these proposals in respect of our new Policy and its implementation in 2023 will ensure that the remuneration structure in operation for the executive directors and senior leadership roles is motivating and creates a strong incentive to deliver sustainable growth and value to shareholders. We hope that they meet our shareholders' clear expectations for an appropriate remuneration approach and will be voted for favourably in the resolutions proposed at the 2023 AGM.



Eamonn Flanagan
Chair of the Remuneration Committee
29 March 2023

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

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT

This section sets out how the Remuneration Committee has implemented its Remuneration Policy for executive directors during 2022. Other than the single total figure of remuneration for each director tables on page 102, statement of directors' shareholding and share interests on page 106, the information contained within this report has not been subject to audit.

Composition and activities of the Remuneration Committee

In accordance with its Terms of Reference, which can be viewed on the company's website, the Remuneration Committee considered matters relating to directors' remuneration and that of other senior managers at each of its meetings in 2022. Members of the Remuneration Committee during the course of the year were:

Committee members ¹	Role on the committee	Committee member since	Attendance in 2022	Maximum possible meetings in 2022
Luke Savage	Committee member	February 2020	7	7
Eamonn Flanagan ²	Committee Chair	July 2020	7	7
Carol Hagh ³	Committee member	February 2022	6	6

Notes.

1. By invitation, the Group CEO attends the Remuneration Committee but was not present when matters relating to his own remuneration were discussed.
2. Eamonn Flanagan joined the committee in July 2020, and was appointed Chair on 15 January 2022.
3. Carol Hagh joined the committee on 14 February 2022.

The Committee appointed PricewaterhouseCoopers LLP ('PwC') as its independent advisor from 10 October 2022 following a competitive tender process. During 2022 the Committee incurred external advisor fees totalling £24,665 excluding VAT. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct and the Committee is therefore satisfied that the advice PwC provided was objective and independent.

Highlights 2022

In 2022, the Committee met seven 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 2021 under the STI Scheme and in 2020 and 2021 under the LTIP Scheme having given due consideration to the risk report provided by the Audit & Risk Committee. The Committee also approved the outcomes of the buyout awards made to Steve Murray as Group CEO on appointment. Approved the targets and the grant of awards to executives in 2022 under the 2014 STI Scheme and the 2014 LTIP Scheme and undertook a half-year evaluation. Also considered whether the share price at the time of making the LTIP award was likely to give rise to a 'windfall' for directors. Although the share price was higher compared to that used for awards the previous year, the price was close to the share price average for the year and so no adjustment was deemed appropriate.
All employee and executive remuneration	Reviewed the UK employee general salary increase of 6%. Supported staff through the current cost of living challenge with two non-contractual net £1,000 payments (excluding higher rate taxpayers), and took these into account when considering executive pay decisions. Reviewed participation in the LTIP and determined to expand the LTIP participation to a targeted group of senior leaders and key talent who are able to materially influence the delivery of group strategy, ensuring that, for the first time, a critical group of executives in the business are aligned to the same long-term goals.
Terms of Reference	The Committee's Terms of Reference were reviewed. A number of minor modifications were made in consultations with our advisors, PwC, to improve the structure of the document. No material revisions were made to the scope of Committee duties as they were felt to continue to be appropriate for the activities of the Committee and provide adequate scope to cater for the expectations set by the Code.
Review of the Remuneration Policy	A revised Remuneration Policy will be presented to shareholders at the AGM in May 2023. Details are set out on pages 112 to 118.
Committee evaluation	An evaluation of the committee's performance by way of an externally facilitated questionnaire suggested that the Committee continued to operate well.
Annual salary review	The Committee reviewed the salaries of the executive directors and senior management and made changes in line with its Remuneration Policy and with due reference to staff salaries and economic conditions generally.
Directors' remuneration reporting	The Committee reviewed the draft Directors' Remuneration Report for the 2022 Report and Accounts and recommended its approval by the Chesnara board.
Performance against strategic objectives	The Committee reviewed the executive directors' performance against objectives set.
Shareholder engagement	The Committee Chair responded to questions/queries raised by shareholders and conducted a consultation exercise in February 2023 following the review of the Directors' Remuneration Policy.
Employee engagement	The Committee engaged with staff on the alignment of directors' pay with UK employees through a meeting held between the Committee Chair, the Group CEO and a cross-section of the UK workforce.
Chair's fees	The Committee reviewed the level of fees payable to the Chair.
Remuneration principles	The Committee reviewed the Group Remuneration Principles, which guide the remuneration policies throughout the group.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

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

The remuneration of the executive directors for the years ended 31 December 2022 and 31 December 2021 is made up as follows:

Executive directors' remuneration as a single figure – year ended 31 December 2022

Name of director	Salary and fees £000	All taxable benefits £000	Non-taxable benefits £000	STI £000	LTIP ² £000	Pension ³ £000	Total for 2022 £000	Fixed £000	Variable £000
Steve Murray ⁴	420	21	2	321	294	36	1,094	479	615
David Rimmington	300	15	7	226	76	29	653	351	302
Total	720	36	9	547	370	65	1,747	830	917

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

Name of director	Salary and fees £000	All taxable benefits ¹ £000	Non-taxable benefits £000	STI £000	LTIP £000	Pension ³ £000	Total for 2021 £000	Fixed £000	Variable £000
Steve Murray ⁴	175	8	–	240	283	15	721	198	523
David Rimmington	289	60	7	255	12	27	650	383	267
Total	464	68	7	495	295	42	1,371	581	790

Notes.

- Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme.
- Includes amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 LTIP Scheme.
- The pension component in the single figure table represents employer contributions. No directors were members of a defined benefit scheme.
- Steve Murray joined Chesnara on 2 August 2021 and was appointed as a director and the Group CEO on 19 October 2021.
- No portion of the award is attributable to share price growth.
- This vesting outcome has been applied to the average share price between 1 October 2022 and 31 December 2022 (276.6p) to produce the estimated LTIP figures shown for 2022 above. There will be a true-up based on the actual share price on the day of vesting which will be shown in the 2023 Annual Report and Accounts.

The remuneration of the non-executive directors for the years ended 31 December 2022 and 31 December 2021 is made up as follows, with the fee element being fixed and the benefits being variable in nature:

Non-executive directors' remuneration as a single figure – year ended 31 December 2022 and 2021

Name of director	2022			2021		
	Fees £000	Benefits £000	Total £000	Fees £000	Benefits £000	Total £000
Luke Savage	128	–	128	123	–	123
Eamonn Flanagan	66	–	66	61	–	61
Jane Dale	71	–	71	66	–	66
Mark Hesketh	66	–	66	61	–	61
Carol Hagh ⁷	55	–	55	–	–	–
Karin Bergstein ⁷	55	–	55	–	–	–
Total	441	–	441	311	–	311

Note.

- Carol Hagh and Karin Bergstein were appointed as non-executive directors on 14 February 2022.

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.

UK employee share ownership is encouraged and facilitated through participation in the SAYE Scheme (subject to minimum service requirement).

The Committee engaged directly with employees on the alignment of directors' pay with UK employees, including with regard to the proposed 2023 salary increase.

Taxable benefits

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

Short-Term Incentives

The amounts reported as STI in 2022 derive from awards made under the 2014 STI scheme. The amounts awarded to the executive directors under this scheme are based on performance against three core measures; cash generation¹, total EcV earnings² and group strategic objectives. The table below shows the outcome of each measure, the target set and the resulting award.

	Upper threshold for minimum performance	Percentage award for min performance	On target performance	Percentage award for on target performance	Minimum threshold for maximum performance	Percentage award for maximum performance	Actual result	Actual percentage total award	Actual percentage award, as percentage of salary	Total award (£)
Steve Murray										
Cash generation ¹	£20.95m	0%	£26.19m ¹	25.0%	£34.04m	35.0%	£57.96m ¹	35.0%	35.0%	147,000
Total EcV earnings ²	£10.55m	0%	£15.08m	25.0%	£22.62m	35.0%	£(98.64)m	–	–	–
Group strategic objectives	75%	0%	100%	15.0%	125%	30.0%	88.0% of max	26.4%	26.4%	110,766
Mergers & Acquisitions ³	n/a	n/a	n/a	n/a	n/a	n/a	£20.90m	15.0%	15.0%	63,000
Total				65.0%		100.0%		76.4%	76.4%	320,766
John Deane										
Cash generation ¹	£20.95m	0%	£26.19m ¹	25.0%	£34.04m	35.0%	£57.96m ¹	35.0%	35.0%	105,107
Total EcV earnings ²	£10.55m	0%	£15.08m	25.0%	£22.62m	35.0%	£(98.64)m	–	–	–
Group strategic objectives	75%	0%	100%	15.0%	125%	30.0%	84.0% of max	25.2%	25.2%	75,568
Mergers & Acquisitions ³	n/a	n/a	n/a	n/a	n/a	n/a	£20.90m	15.0%	15.0%	45,046
Total				65.0%		100.0%		75.2%	75.2%	225,721

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

Notes.

1. This is stated after certain adjustments, such as consolidation adjustments. The actual results are also adjusted in the same manner.
2. The total EcV earnings before exceptional items on page 52 has been adjusted in line with the basis of the target.
3. A component to recognise delivery of the acquisition strategy which is not captured by the cash generation¹ or EcV components of the STI metrics. The Remuneration Committee assesses delivery of the acquisition strategy and applies discretion as to whether an award is appropriate. This component exists because acquisition impacts are excluded from the cash generation¹ and EcV metrics of the STI scorecard and the Committee consider many factors relating to the acquisition strategy. The judgement was largely influenced by the completion of value adding deals in the year where acquisitions created £21.4m of incremental value and the total executive STI award of £0.1m represents 0.5% of this value gain.

¹ Alternative Performance Measure (APM) used to enhance understanding of financial performance.
Further information on APMs can be found in the additional information section of this Annual Report and Accounts.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

The following table details the requirements for delivery of the strategic objectives for 2022 and actual outcomes:

Objectives area	Objectives and performance	Outcome
Steve Murray		
Operational delivery (20%)	Completion of the next phases of key operational programmes with associated delivery of benefits.	Gained detailed understanding of key operational programmes across the group, UK and Netherlands and enhanced group oversight and quality of check and challenge.
Communication and culture (15%)	Improve external and internal communications with key stakeholders.	Strong feedback from investors and external parties about the improvement in the investor story and significant level of engagement with major investors, analysts and wealth managers. Increased internal communications on strategy and results. Improved board materials on the M&A pipeline and timeliness of wider strategic discussion.
M&A (40%)	Proactively identify and execute value enhancing M&A.	Active development of the pipeline of prospects both in terms of targets as well as potential partnering options. Supported the announcement of three transactions and completion of two deals with the value cases on track for delivery.
People (10%)	Development of direct reports and improve wider talent pool.	Participated in group and subsidiary board meetings and ancillary committees, and initiated various reforms to streamline elements of governance going forward including more effective planning and tracking of actions. Provided strong support to the Chair and SID in the recruitment of our two new NEDs. Strengthened the executive team with new hires and role changes.
ESG (15%)	Continued development of appropriate environmental/climate, people and sustainability policies and practices, for the benefit of our stakeholders.	Group-wide programme and Steering Committee in place and with more proactive engagement with external parties improving the understanding and assessment of Chesnara's position. ESG is a core component of acquisition due diligence and we have a clear roadmap looking forward. Initial targets ready for communication with external parties.
David Rimmington		
Enhance investor relations (15%)	Improve investor relations materials and coverage and look to broaden shareholders including in the Wealth Management area.	Positively restructured investor presentation and held a significant number of investor, broker, wealth manager, analyst meetings together with Group CEO and Head of Investor Relations. Supported the updating of analyst notes from Investec, Panmure Gordon, Peel Hunt and Hardman.
IFRS 17 (25%)	Planning and delivery of IFRS 17 across group and divisions.	Delivery broadly in line with challenging plan with the major milestone of the first dry run met and a provisional, unaudited opening balance sheet produced ready to be communicated externally alongside the 2022 full year results. Due to the provisional status of the opening balance sheet figures these were not deemed appropriate for inclusion in the Report and Accounts IAS 8 disclosure. Good progress has been made on the consolidation software implementation project.
Balance sheet (30%)	Proactive management of the group's balance sheet, including in support of M&A.	Tier 2 debt issuance completed. De-risking of group balance sheet via an FX hedge implemented in December. Active assessment of deal benefit cases and oversight of financial due diligence on opportunities.
People (10%)	Enhance the finance function talent pool.	Significant focus on attracting quality resource to drive the IFRS 17 programme and agreed plan to migrate some of the team into BAU during 2023. Succession planning is a clear part of the work undertaken. Additional talent brought into the Finance function including Head of Tax.
ESG (20%)	Continued development of appropriate environmental/climate, people and sustainability policies and practices, for the benefit of our customers, shareholders, staff, suppliers and other stakeholders, which respond to regulatory and non-regulatory guidance and industry practice.	Programme has delivered the vision of a sustainable Chesnara and informed our strategy in this area including the group's long-term net zero targets and a clear set of objectives and actions for the team to progress including with asset managers and the launch of a biodiversity fund, a solar fund and engaged in a partnership to re-green land in Tanzania.

In converting performance against the measures assessed for 2022 set out in the previous tables, the directors' STI awards are specified below:

Name of director	Salary on which award is based £	Maximum potential award as % of salary	Actual award as % of salary	Total value of award £
Steve Murray David Rimmington	420,000 300,306	100.00% 100.00%	76.37% 75.16%	320,766 225,721
Total				546,487

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 2023 under the 2014 LTIP, for which performance conditions were satisfied during the year.

For the Group CEO, Award 1 is a buy-out award granted under the 2014 LTIP in lieu of a cash bonus based with performance conditions related to personal performance and no holding period, although it is subject to the minimum shareholding requirement.

Award 2 is a buy-out award granted under the 2014 LTIP in lieu of an LTIP grant from Steve's ex-employer Royal London, with performance conditions aligned to the Chesnara 2020 LTIP award (50% EcV[†] and 50% relative TSR). For the relative TSR component, the Committee exercised its discretion to measure performance from the date that the Group CEO was appointed in role on 19 October 2021 as this was considered to be a fair and motivating approach to the performance condition on the basis that it was from this point that the Group CEO was able to affect the company's TSR performance.

Individual	Measure	Weight	Ranges and targets				Actual outcome			
			Minimum achievement (as % of target)	Target achievement	Max achievement	Opening EcV	Closing EcV	Performance achieved	% of award vesting	Value of award £
Steve Murray	Award 1 Personal ¹ Performance	100%	n/a	n/a	n/a	n/a	n/a	n/a	100.0%	143,043
	Award 2 – TSR	50%	=Median	(14.3)%	15.9%	n/a	n/a	6.8%	43.7%	143,799
	Award 2 – EcV	50%	=94.3%	£733.0m	£755.0m	£670.0m	£511.3m	67.7%	0.0%	nil
David Rimmington	TSR EcV	50%	=Median	(7.8)%	19.4%	£755.0m	£670.0m	9.6%	34.0%	76,383
		50%	=94.3%	£733.0m	£755.0m	£511.3m	£511.3m	67.7%	0.0%	nil

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

Name of executive director	Name of scheme	Date award was granted	Amount of options awarded ¹	Face value on the date of grant ²	% of award vesting for minimum performance	Length of vesting period – 3 years	
						Date of vesting	
Steve Murray	2014 LTIP	28 April 2022	147,627	£420,000 based on share price (284.50p)	10.0%	28 April 2025 ³	
	2014 LTIP	26 November 2021	119,089	£340,000 based on share price (285.50p)	10.0%	28 April 2023	
	2014 LTIP	26 November 2021	140,105	£400,000 based on share price (285.50p)	10.0%	28 April 2024 ³	
David Rimmington	2014 LTIP	28 April 2022	105,556	£300,306 based on share price (284.50p)	10.0%	28 April 2025 ³	
	2014 LTIP	28 April 2021	94,502	£259,882 based on share price (275.00p)	10.0%	28 April 2024 ³	
	2014 LTIP	28 April 2020	81,213	£259,882 based on share price (320.00p)	10.0%	28 April 2023	
	2014 LTIP	28 April 2019	71,070	£254,785 based on share price (358.50p)	10.0%	28 April 2022 ³	
	2014 LTIP	28 April 2018	60,805	£249,300 based on share price (410.00p)	10.0%	28 April 2021	
	2014 LTIP	28 April 2017	61,996	£237,600 based on share price (383.25p)	12.5%	28 April 2020	
	2014 LTIP	28 April 2016	71,259	£222,328 based on share price (312.00p)	12.5%	28 April 2019	

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. LTIP awards from 2019 onwards are subject to a two-year holding period in addition to the three-year performance period.

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

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

Basis of awards and summary of performance measures and targets

2014 LTIP

Share options awarded are based on the share price at close of business on date of award and a percentage of basic salary, that being Steve Murray 100% and David Rimmington 75% in 2014 and 2015, 90% in 2016 to 2021, and 100% in 2022. Options have a nil exercise price.

Total Shareholder Return

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

EcV^t growth target

For awards granted in 2018 onwards, 50% of the award will vest subject to the EcV outcome being within a certain range of its target.

Payments for loss of office (audited information)

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

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

The Remuneration Policy requires executive directors to build up a shareholding through the retention of shares. For executives who joined Chesnara before 1 May 2021 (i.e. David Rimmington), their minimum is 100% of basic salary and for executives joining from 1 May 2021 (e.g. Steve Murray) the minimum is 200% of salary. As at 31 December 2022 this criterion has been met for David Rimmington. Steve Murray who joined on 2 August 2021 has not unsurprisingly met this requirement as yet. When the minimum holding level has not been achieved, directors may only dispose of shares where funds are required to discharge any income tax and National Insurance liabilities arising from awards received from a Chesnara incentive plan. The Chair and non-executive directors are encouraged to hold shares in the company but are not subject to a formal shareholding guideline.

The following table 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 2022 or the date of resignation.

No changes took place in the interests of the directors between 31 December 2022 and 29 March 2023.

Name of director	Shares held: 1 January 2022	Shares held: 31 December 2022	Options: With performance measures	Options: Without performance measures ¹	Options: Vested but unexercised	Options: Exercised during the year	Percentage of shareholding target held ²
Steve Murray	–	69,671	461,168	29,525	50,456	99,044	101.2%
David Rimmington	108,282	108,282	281,271	85,737	7,760	–	190.4%
Luke Savage	20,000	20,000	–	–	–	–	–
Jane Dale	3,333	3,333	–	–	–	–	–
Eamonn Flanagan	30,000	30,000	–	–	–	–	–
Mark Hesketh	5,362	15,362	–	–	–	–	–
Carol Hagh ³	–	–	–	–	–	–	–
Karin Bergstein ³	–	–	–	–	–	–	–
Total	166,977	246,648	742,439	115,262	58,216	99,044	–

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 2022 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 2023 Annual Report and Accounts.

2. Calculated using the share price of 284.00p at 31 December 2022.

3. Karin Bergstein and Carol Hagh were appointed as directors on 14 February 2022.

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

Outstanding share options and share awards

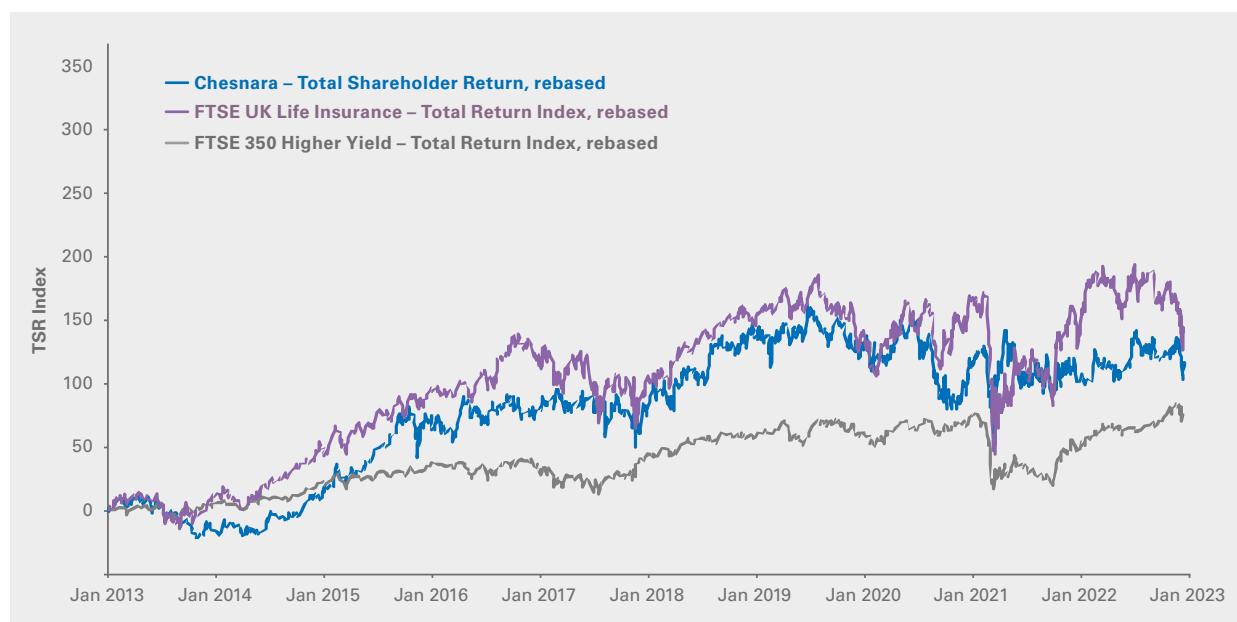
Below are details of outstanding share options and awards for current executive directors.

Name of executive director	Number of shares under option at 1 January 2022	Number granted during year	Number exercised during year	Number waived/ lapsed during year	Number of shares under option and unexercised at 31 December 2022	End of performance period	Vesting date	Performance period	Date of expiry of option			
STEVE MURRAY	2014 LTIP (2022 award)	28/04/22	Nil	–	147,627	–	–	147,627	31/12/23	28/04/25	3 Years	28/04/32
	2014 LTIP (2021 award)	26/11/21	Nil	50,456	–	(50,456)	–	–	31/12/21	31/12/21	5 Months	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	119,089	–	(48,588)	(70,501)	–	31/12/21	30/06/22	3 Years	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	50,456	–	–	–	50,456	31/12/22	31/12/22	1 Year	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	119,089	–	–	–	119,089	31/12/22	28/04/23	3 Years	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	20,722	–	–	–	20,722	30/06/23	30/06/23	2 Years	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	140,105	–	–	–	140,105	31/12/23	28/04/24	3 Years	26/11/31
	2014 LTIP (2021 award)	26/11/21	Nil	33,625	–	–	–	33,625	31/12/23	30/06/24	3 Years	26/11/31
	2014 STI (2022 award)	28/04/22	Nil	–	29,525	–	–	29,525	n/a	28/04/24	3 Years	28/04/31
533,542												
DAVID RIMMINGTON	2014 LTIP (2022 award)	28/04/22	Nil	–	105,556	–	–	105,556	31/12/24	28/04/25	3 Years	28/04/32
	2014 LTIP (2021 award)	28/04/21	Nil	94,502	–	–	–	94,502	31/12/23	28/04/24	3 Years	28/04/31
	2014 LTIP (2020 award)	28/04/20	Nil	81,213	–	–	–	81,213	31/12/22	28/04/23	3 Years	28/04/30
	2014 LTIP (2019 award)	28/04/19	Nil	71,070	–	–	(71,070)	–	31/12/21	28/04/22	3 Years	28/04/29
	2014 STI (2022 award)	28/04/22	Nil	–	31,327	–	–	31,327	n/a	28/04/25	n/a	28/04/32
	2014 STI (2021 award)	28/04/21	Nil	18,803	–	–	–	18,803	n/a	28/04/24	n/a	28/04/31
	2014 STI (2020 award)	28/04/20	Nil	27,418	–	–	–	27,418	n/a	28/04/23	n/a	28/04/30
	2014 STI (2019 award)	28/04/19	Nil	7,760	–	–	–	7,760	n/a	28/04/22	n/a	28/04/29
	Share save	30/10/20	219.80	8,189	–	–	–	8,189	n/a	01/12/23	n/a	01/06/24
308,955												
136,883												
– (71,070)												
374,768												

There has been no change made to share options granted or offered and the main conditions for the exercise of these rights compared to the previous year.

Performance graph and CEO remuneration table

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



DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

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

Year	Individual performing Group CEO role	Group CEO single figure of total remuneration £000	STI pay-out against maximum	Long-term incentive vesting rates against maximum opportunity	Note
2022	Steve Murray	1,094	76.37%	60.42%	1 & 5
2021	Steve Murray	721	57.00%	58.42%	1
2021	John Deane	978	95.57%	—	2
2020	John Deane	782	53.38%	—	2
2019	John Deane	1,111	98.79%	19.93%	2
2018	John Deane	965	31.08%	67.99%	2
2017	John Deane	1,142	86.96%	80.95%	2
2016	John Deane	902	98.33%	—	2
2015	John Deane	596	81.96%	—	2
2014	Graham Kettleborough	712	91.30%	34.52%	3
2013	Graham Kettleborough	702	100.00%	n/a	4

Notes.

1. Steve Murray joined Chesnara on 2 August 2021 and was appointed Group CEO on 19 October 2021.
2. John Deane was appointed Group CEO on 1 January 2015 and stood down on 18 October 2021.
3. During 2014 an LTIP that was granted to the CEO in 2012 vested. The LTIP included a condition such that the sum of the LTIPs and STIs awarded in that year could not exceed 100% of the CEO's salary. The STI in 2012 amounted to 65.48% of salary. When the performance measurements for the 2012 LTIP were assessed, the award was required to be restricted due to the operation of the 100% combined cap, such that the 2012 LTIP paid out 34.52% of the salary at the time of award. During 2014 the STI that was awarded represented 68.5% of the CEO's salary. The maximum payable was up to 75% of the CEO's salary, resulting in a 91.3% pay-out with reference to the maximum potential award.
4. During 2013 no LTIP value was earned because the STI in isolation accounted for the full 100% combined bonus cap.
5. During 2022, Steve Murray had two LTIP awards that vested, with one vesting at 100% and the other vesting at 43.65%. The figure reported above is a combined percentage, based upon the total number of shares vesting under both schemes.

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

The table below shows the percentage change in remuneration for the executive and non-executive directors and the company's employees as a whole between the years 2022 and 2021. In future years, this analysis will be repeated until a rolling 5 year comparison is ultimately reported.

Percentage change in remuneration in 2022 compared with 2021	Group CEO %	Group Finance Director %	Luke Savage %	Jane Dale %	Eamonn Flanagan ² %	Mark Hesketh ² %	Carol Hagh %	Karin Bergstein %	Group employees %
Salary and fees	—	4.0	3.7	6.8	7.4	7.4	n/a	n/a	4.0
All taxable benefits	162.5 ¹	(75.0)	—	—	—	—	n/a	n/a	6.6
STIs	33.7	(11.4)	n/a	n/a	n/a	n/a	n/a	n/a	(22.8)
Percentage change in remuneration in 2021 compared with 2020	Group CEO %	Group Finance Director %	Luke Savage %	Jane Dale %	Eamonn Flanagan %	Mark Hesketh %	Carol Hagh %	Karin Bergstein %	Group employees %
Salary and fees	—	—	—	—	—	—	n/a	n/a	—
All taxable benefits	—	300.00 ¹	—	—	—	—	n/a	n/a	(1.1)
STIs	80.0	72.4	n/a	n/a	n/a	n/a	n/a	n/a	2.9
Percentage change in remuneration in 2020 compared with 2019	Group Chief Executive %	Group Finance Director %	Luke Savage %	Jane Dale %	Eamonn Flanagan %	Mark Hesketh %	Carol Hagh %	Karin Bergstein %	Group employees %
Salary and fees	2.0	2.0	n/a	—	n/a	—	n/a	n/a	2.0
All taxable benefits	(39.1) ¹	20.3 ¹	n/a	n/a	n/a	n/a	n/a	n/a	13.3
STIs	(44.9)	(41.0)	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes

1. All taxable benefits include amounts paid in lieu of accrued dividends and interest arising upon the exercise of share options under the 2014 STI Scheme for the Group CEO. For the Non-Executive Directors, these relate to expenses grossed up for income tax, which is settled by the company for travel to Chesnara's head office in Preston, which, for tax purposes, is deemed to be the non-executive director's normal place of work.
2. The increases for Eamonn Flanagan and Mark Hesketh reflect the additional responsibilities they took on with regard to chairing Remuneration and Nominations Committees respectively as well as chairing Movestic Fonder AB and joining the CA With-Profits Committee respectively.

Comparison of total remuneration for the Group CEO and UK employees

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

- determining the total FTE remuneration of all UK employees for the 2022 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 Group CEO's 2022 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	Group CEO	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)	
		£	£	Ratio	£	Ratio	£
2022	1,094,000	75,497	14.5 : 1	105,120	10.4 : 1	170,794	6.4 : 1
2021			13.7 : 1		9.7 : 1		5.4 : 1
2020			11.3 : 1		8.2 : 1		4.8 : 1
2019			15.7 : 1		11.8 : 1		6.6 : 1

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

Base salaries of all employees, including our executive directors, are set with reference to a range of factors including market practice, experience and performance in role.

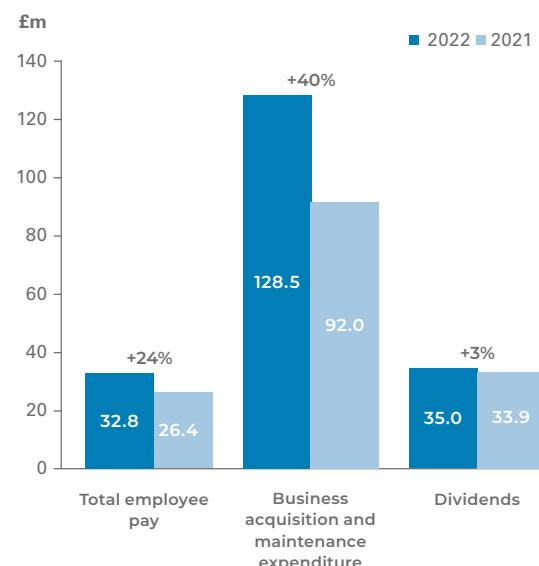
The 2022 ratios are broadly consistent with the prior year. Over the longer term, the CEO pay ratios have moved broadly in line with the CEO's single figure of remuneration. The Committee notes that the pay ratios for 2022 reflect the nature of the CEO's package being more heavily weighted towards variable pay compared to more junior colleagues (consistent with our reward policies), and this means the ratio is likely to fluctuate depending on the performance of the business and associated outcomes of incentive plans in each year.

Furthermore, the Committee is satisfied that our pay and broader people policies drive the right behaviours and reinforce the group's values which in turn drive our culture. For these reasons, the Committee believes that the ratios are consistent with these policies.

Relative importance of spend on pay

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



Statement of Implementation of Remuneration Policy in the following financial year

The following states how remuneration will be implemented for the executive and non-executive directors in 2023. In respect of the LTIP awards to be granted to the executive directors, the proposals are subject to the approval by shareholders of the proposed new Directors' Remuneration Policy at the 2023 AGM.

Salaries and fees

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

Executive directors

Steve Murray (Group CEO) received a 9% uplift in recognition of the general 5% for executives and a step toward recognising that he received no uplift in 2022, pending assessment in his performance following a longer period in his role. David Rimmington (Group FD) received a 5% uplift in line with other executives but below the 6% pot for all other UK staff.

DIRECTORS' REMUNERATION REPORT • ANNUAL REMUNERATION REPORT (CONTINUED)

Non-executive directors

The Chair's fee has been increased by 5.9%, broadly in line with the pay award for UK staff and taking into account its position at the low end of the benchmark group. The fee level for other non-executive directors has been increased by different levels in parallel with a review of individual responsibilities, particularly with regard to chairing board committees compared to the benchmarks. Jane Dale's fee has been increased by 5.7% in recognition of her responsibilities as the chair of the Audit & Risk Committee as well as the increased complexity of the UK subsidiary Countrywide Assured plc, plus now CASLP Ltd. Eamonn Flanagan's fee was increased by 6.1% in recognition of his responsibilities as the chair of the Remuneration Committee as well as his appointment to chair the Movestic Livförsäkring AB Audit & Risk Committee in mid 2022. Mark Hesketh's fee was increased by 6.1% in recognition of his responsibilities as the chair of the Nomination & Governance Committee as well as the increased complexity of the UK subsidiary Countrywide Assured plc, plus now CASLP Ltd. Carol Hagh's fee has been increased by 4.9% for the increased complexity of the UK operation with CASLP Ltd now added and also for her role as Workforce NED. Karin Bergstein's fee has been increased by 4.9% in light of her contribution across the full reach of our territories and the requirements this places upon her.

The table below sets out the anticipated payments to non-executive directors for 2023:

	Fees £000	Benefits ¹ £000	Total £000
Luke Savage	135.0	1	136.0
Eamonn Flanagan	69.5	1	70.5
Jane Dale	74.5	1	75.5
Mark Hesketh	69.5	1	70.5
Carol Hagh	64.5	1	65.5
Karin Bergstein	64.5	7	71.5
Total	477.5	12	489.5

Note

1. Benefits shown here mainly 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. The figure for Karin Bergstein represents amounts payable to the Dutch tax authorities by the company, under Dutch social security legislation.

2023 award under the 2023 Short-Term Incentive Scheme

The Remuneration Committee proposes to grant awards to the executive directors under the 2023 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 2023 together with the performance outcome relative to these targets.

Individual	Measures	Weighting	Ranges and targets			Potential outcomes in terms of % of basic salary		
			Minimum achievement (as % of target)	Target achievement (as % of target)	Maximum achievement (as % of target)	Minimum achievement	Target achievement	Maximum achievement
Steve Murray	Cash generation	35.0%	70.0%	100.0%	130.0%	nil	25.0%	35.0%
	EcV earnings	35.0%	70.0%	100.0%	150.0%	nil	25.0%	35.0%
	Group strategic objectives	30.0%	75.0%	100.0%	125.0%	nil	15.0%	30.0%
David Rimmington	Cash generation	35.0%	70.0%	100.0%	130.0%	nil	25.0%	35.0%
	EcV earnings	35.0%	70.0%	100.0%	150.0%	nil	25.0%	35.0%
	Group strategic objectives	30.0%	75.0%	100.0%	125.0%	nil	15.0%	30.0%

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

Measures

Following review by the Remuneration Committee, changes were approved for 2019 onwards to remove the IFRS component used in prior years and base performance assessment on cash generation[†] and EcV[†] earnings metrics both with appropriate adjustments and group strategic objectives. The two financial measures are deemed to be complementary when operated together, to encourage sensible executive behaviour and better reflect an overall assessment of company financial performance. For 2023, group strategic objectives remain weighted 30% of the total to ensure that a sufficient proportion of the bonus potential is attributed to good outcomes in relation to ESG and acquisitions. Our assessment measures continue to ensure there is a balance between aligning executive director remuneration to shareholder returns whilst also recognising measures over which the directors can exercise more immediate and direct influence. The financial measures are recognised outputs from the audited year end Financial Statements, although it should be noted that the Remuneration Committee is, in accordance with the Policy, able to make discretionary adjustments if deemed necessary. As agreed in advance by the Remuneration Committee, the financial results for the year are adjusted to look through any impact of the symmetric adjustment and WP transfers/restrictions, be they negative or positive. The results for STI purposes exclude the impact of any acquisition activity in the year other than through the exercise of committee discretion. Successful acquisitions are rewarded primarily through the LTIP 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.

Targets

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

Malus and clawback

The 2023 Scheme includes malus and clawback provisions covering a material misstatement of the company's results, regulatory breach, gross misconduct on the part of the participant, reputational damage to the company, a material failure of risk management, insolvency or corporate failure if this arises within two years of an award vesting and it is a precondition that the executive accepts such provisions at the time of the award.

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

2023 award made under the 2023 LTIP

In 2023 the Remuneration Committee proposes to grant awards to the executive directors under the Chesnara 2023 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 and commercial cash generation targets are commercially sensitive and will not be disclosed until 2025 together with the actual performance against those targets.

Individual	Share award	Measures	Weighting	Ranges and targets			Vesting rates in terms of % of basic salary		
				% of basic salary	Minimum achievement (as % of target)	Target achievement	Maximum achievement (as % of target)	Minimum achievement	Target achievement
Steve Murray	125%	TSR EcV Commercial cash generation	33.3% 33.3% 33.3%	<Median	Median	+6% p.a. above the median	nil	10.4%	41.7%
David Rimmington	100%	TSR EcV Commercial cash generation	33.3% 33.3% 33.3%	<Median	Median	+6% p.a. above the median	nil	8.3%	33.3%

The 2 awards under the 2023 LTIP will be implemented and operated by the Remuneration Committee as set out within the Policy.

Measures

The three performance measures for the 2023 LTIP 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 3 months prior to the start and end of the performance period.

A new commercial cash generation measure is proposed as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. It excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of the commercial cash generated by the business. This ensures that a further portion of the LTIP pay-out is contingent on the delivery of results against one of the group's key cash KPIs that has been drawn out in our external messaging for some time.

The other internal measure assesses Economic Value growth. Both the EcV and commercial cash generation targets are set with due regard to the board approved business plan. All measures seek to ensure an alignment between executive director reward and shareholder value, with one assessing relative performance to other investment opportunities and the others assessing absolute performance.

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

Weightings

For the 2023 award the three measures have been assigned equal weighting.

Holding period

A two-year holding period was introduced to the LTIP Scheme for awards made from 2019, 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. The calibration of pay-out for maximum performance has been amended. Details are set out on page 99.

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 expectations for new business value from Movestic and Scildon.

Commercial cash generation: the target is an output from the Chesnara business plan process. The figure is therefore subject to group board challenge and approval.

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

The 2023 scheme includes malus and clawback provisions covering a material misstatement of the company's results, regulatory breach, gross misconduct on the part of the participant, reputational damage to the company, a material failure of risk management, insolvency or corporate failure if this arises within two years of an award vesting and it is a precondition that the executive accepts such provisions at the time of the award.

The following table sets out the voting in respect of the Directors' Remuneration Report at the 2022 AGM:

Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration report	93,267,407	97.43%	2,459,491	2.57%	95,726,898	34,159

The following table sets out the voting in respect of the Directors' Remuneration Policy at the 2021 AGM:

Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Policy	86,686,919	97.54%	2,186,365	2.46%	88,873,284	15,646

Approval

This report was approved by the board of directors on 29 March 2023 and signed on its behalf by:



Eamonn Flanagan
Chair of the Remuneration Committee
29 March 2023

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY

Remuneration Policy (Policy)

This year the Committee has conducted a review of the current Policy, which received a vote in favour of 94.49% at the 2020 AGM. As part of the review, the Committee considered market best practices; the alignment of our existing structures with strategy; and a comparison of both structure and quantum to comparator companies. Our objective is to ensure that the company continues to have a remuneration package for executive directors which motivates and retains, whilst aligning with both the company's strategy and the shareholder experience.

Based on the review, the Committee believes that the remuneration structures within the current Policy remain fit for purpose and aligned to business strategy. The core structure will therefore retain the market-standard elements of base salary, benefits, pension aligned to that of the wider workforce, Short-term Incentive Scheme (STI) and Long-Term Incentive Plan (LTIP). The Policy continues to meet the UK's high governance standards with features such as 35% deferral of STI outcomes into shares for 3 years; 2 year post-vesting holding periods for LTIP awards; malus and clawback; and minimum shareholding requirements. For this reason, no significant changes to the company's remuneration structure are proposed.

The company has consulted with employees in the development of the Policy, and the alignment of directors' pay with UK employees has been discussed through a meeting held by the Remuneration Committee Chair and Group CEO with representatives from across the UK workforce.

Alignment of incentives with strategy

Chesnara plc is a European life and pensions consolidator listed on the London Stock Exchange. It operates as Countrywide Assured and CASLP in the UK, as The Waard Group and Scildon in the Netherlands, and as Movestic in Sweden with oversight and governance being provided by a central governance team based in the UK.

The company has three core strategic objectives:

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

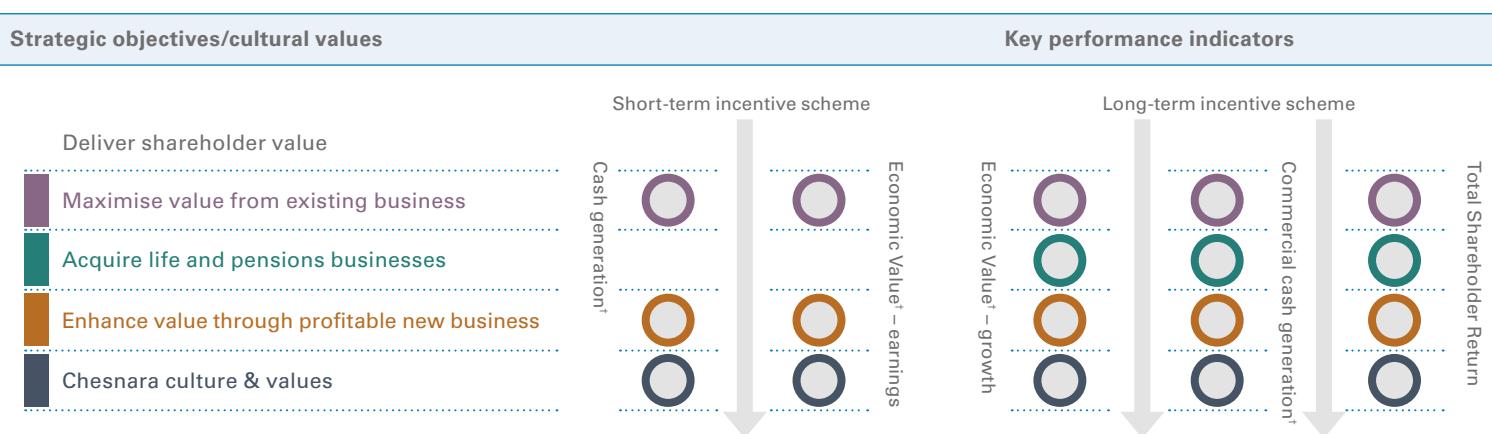
The achievement of these objectives is considered against the culture and risk environment of the company to ensure that rewards do not encourage excessive risk taking or an inappropriate culture to develop.

The schematic below illustrates how the company's KPIs align to its core strategic objectives and, in turn, how those KPIs flow into the performance measures of the executives' short-term and long-term incentives schemes. Reading across the chart shows how the KPIs align to Chesnara's core strategic objectives. For example, 'Maximise value from existing business', 'Enhance value through profitable new business' and 'Acquire life and pensions businesses' will directly impact the Economic Value growth of the group and our ability to generate cash. And likewise, progress against all three of these objectives will have an impact on Total Shareholder Return to varying degrees.

The diagram demonstrates that the Policy aligns to all aspects of the group's objectives. For illustration purposes, the diagram shows the KPIs that the Committee has most recently considered appropriate for the incentive schemes but, the Committee may change the KPIs and/or their weighting for future awards. In addition to the KPIs shown, the short-term incentive scheme includes objectives for the executives covering key strategic deliverables for the year ahead.

Overall Policy aims are:

- to maintain a consistent and stable remuneration strategy based on clear principles and objectives;
- to ensure remuneration structures do not encourage or reward excessive risk-taking which is outside the boundaries of our stated risk appetite;
- to link remuneration clearly to the achievement of our business strategy and ensure that both executive and shareholder reward are closely aligned;
- to enable the company to attract, motivate and retain high calibre executives; and
- for the Policy to be easy to understand and communicate.

**The implementation of this Policy involves:**

- paying salaries that reflect individual roles, an individual's personal development in their role and sustained individual performance and contribution, taking account of the external competitive market;
- enabling executives to enhance their earnings by meeting and then outperforming stretching short and long-term targets in line with the group's strategy;
- requiring executives to build and maintain shareholdings in the company during employment and for 2 years post-employment;
- rewarding executives fairly and responsibly for their contribution and paying what is commensurate with achievement of their objectives; and
- including malus and clawback provisions in the Short-term Incentive Scheme (STI Scheme), including the deferred share award, and the Long-term Incentive Scheme (LTIP 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.

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

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY

The Policy table

Executive remuneration

The company and the Committee intends that, subject to shareholder approval, the following Directors' Remuneration Policy will take effect from the date of the 2023 Annual General Meeting. The table below describes each component of the remuneration package applicable to the executive directors:

Purpose and link to strategy	Operation	Performance measures and maximum	Changes from previous Policy
Basic salary			
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group.	<p>In setting basic salaries for new executive roles, or reviewing the salaries for existing roles, the Committee will take into account, as it considers appropriate, some or all of the following factors:</p> <ul style="list-style-type: none"> – assessment of the responsibilities of the role; – the experience and skills of the jobholder on their commencement and their development in it at the review point; – the group's salary budgets and results; – the jobholder's performance; – with the use of periodic benchmarking exercises, the external market rates for roles of a similar size and accountability; – inflation and salaries across the company; and – the balance between fixed and variable pay to help ensure good risk management disciplines. <p>Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance and development in the role.</p> <p>Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions or significant changes in a jobholder's responsibilities).</p>	Changes to responsibilities, increased complexity of the organisation, personal and group performance are taken into consideration when deciding whether a salary increase should be awarded.	No changes
Taxable benefits			
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to reduce the potential for ill health to undermine executives' performance.	<p>Executives receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of car and fuel benefits.</p> <p>Benefits may be changed in response to changing circumstances, whether personal to an executive or otherwise, subject to the cost of any changes being largely neutral.</p>	No performance measures attached.	No changes
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 currently 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.	No changes

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

Purpose and link to strategy	Operation	Performance measures and maximum	Changes from previous Policy
Short-Term Incentive (STI) Scheme			
To drive and reward achievement of the group's business plan and key performance indicators. To help retention and align the interests of executives with those of shareholders.	<p>Awards are based on the Committee's assessment and judgement of personal and corporate performance against specific targets and objectives in support of the group's business plan. These are assessed over each financial year.</p> <p>Provided the minimum performance criteria is judged to have been achieved, an award will be granted in two parts; at least 35% into deferred share awards which will vest after a three-year deferral period making a total of four years after the award grant; and the balance in cash.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the award is granted and the date exercised.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>The STI Scheme includes malus and clawback provisions.</p>	<p>Performance is measured based on the financial results of the group and its strategic priorities, together with the performance of the executives in relation to specific personal objectives. The main weighting is given to financial results – typically 80%.</p> <p>The Committee determines the measures, their weighting and the targets for each financial year. The metrics may include, but are not limited to, costs, IFRS pre-tax profit, EcV¹ operating profit, cash generation¹, group strategic objectives, including consideration of environmental, social and governance risks and performance, and personal performance.</p> <p>STI Scheme targets are commercially sensitive and therefore are not disclosed prospectively. Actual targets and results will be disclosed in the Annual Report immediately following each performance period.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the scheme rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is 100% of basic salary with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>	No changes
Long-Term Incentive (LTIP) Scheme			
To incentivise the delivery of the longer-term strategy of the group by the setting of stretching targets based on shareholder value, and to help to retain executives and increase their share ownership in the company.	<p>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.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the share awards between the date the award is granted and the date of exercise.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>A further 2-year holding period applies beyond the 3-year vesting period, making a total of five years after the grant date.</p> <p>Awards are subject to malus and clawback provisions.</p>	<p>Awards vest based on financial and/or strategic performance conditions which are aligned to the company's strategy. At least 50% of the assessment will be based on financial metrics.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is up to 125% of basic salary, with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>	<p>Updated to allow more flexibility in the choice of performance measures going forward, including incorporation of non-financial measures.</p> <p>Subject to shareholder approval of the Policy, the 2023 LTIP awards will be based upon the following performance measures:</p> <ul style="list-style-type: none"> • 33% Relative TSR performance versus FTSE 350 Higher Yield index • 33% EcV earnings • 33% commercial cash generation <p>Updated to increase maximum award from 100% of salary to 125% of salary. For information on awards to be granted in 2023, see page 111.</p>

Purpose and link to strategy	Operation	Performance measures and maximum
Fees & expenses	<p>To recruit and retain independent individuals with the skills, experience and qualities relevant to the non-executive role and who are also able to fulfil the required time commitment.</p> <p>Fees for the Chair are determined and agreed with the board by the Committee (without the Chair being party to this deliberation). Non-executive director fees are determined by the Chair and the executives.</p> <p>Fees are reviewed periodically. In their setting, consideration is given to market data for similar roles in companies of comparable size and complexity whilst also taking account of the required time commitment.</p> <p>All non-executive directors are paid a base fee. Additional fees are paid to the Senior Independent Director, the chair of board Committees and to other non-executive directors to reflect additional time commitments and responsibilities required by their individual roles.</p>	<p>Fees for the Chair and non-executive directors are not performance related.</p> <p>Reflecting the periodic nature of the fee reviews, increases at the time they are made may be above those paid to executives and/or other employees.</p>
Explanatory Notes:		
1. Why these performance measures were chosen and how performance targets are set		
<p>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.</p>		
<p>The Policy table notes that all of the financial targets for the STI Scheme are commercially sensitive as are the EcV^t and commercial cash generation^t measures for the LTIP 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.</p>		
STI Scheme		
<p>(i) 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;</p>		
<p>(ii) Awards may be subject to malus provisions which will reduce the number of shares or cash amounts payable on vesting in circumstances including:</p>		
<ul style="list-style-type: none"> • the discovery of a material misstatement in the accounts of the company or another member of the group; • a regulatory breach by the group resulting in material financial or reputational harm; • the discovery of an error in the assessment of the extent to which a performance target applicable to a participant's Cash Award has been satisfied; • action or conduct of the participant amounting to fraud or gross misconduct; • events or behaviour of the participant leading to the censure or reputational damage to a group member; • a material failure of risk management of the company, a group member or a business unit of the group; or • insolvency or corporate failure of the company or any group member or business of the group for which the participant is wholly or partly responsible. 		
<p>In determining the reduction which should be applied, the Committee shall act fairly and reasonably but its decision shall be final and binding.</p>		
<p>For the avoidance of doubt, any reduction may be applied on an individual basis as determined by the Committee.</p>		
<p>Cash and deferred share awards are subject to a 2-year clawback provision in substantially the same circumstances as apply to malus (as described above) for a period of two years after vesting. Clawback may be effected, among other means, by requiring the transfer of shares back to the company or as it directs, or by a cash payment; and</p>		
<p>(iii) it is the intention of the Committee to make a new award each year.</p>		
LTIP Scheme		
<p>(i) 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;</p> <p>(ii) 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 (ii) above for the STI Scheme;</p> <p>(iii) A 2 year clawback provision applies in substantially the same circumstances as apply to malus. Clawback may be effected, among other means, by requiring the transfer of shares back to the company or as it directs, or by a cash payment; and</p>		
<p>(iv) It is the intention of the Committee to make a new award each year.</p>		
Minimum shareholding requirement		
<p>In order to align the executives' interests with those of shareholders, a minimum shareholding requirement (the 'MSR') applies which is currently equal to 100%/200% of basic salary (for joiners before 1 May 2021/from 1 May 2021 respectively). 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 LTIP schemes must be retained if the minimum shareholding has not yet been met.</p>		
<p>Post-employment provisions exist which require a departing executive to retain a post-employment minimum shareholding. For joiners before 1 May 2021, for a period of 12 months commencing on the date of departure this will be equal to the lower of 100% of final basic salary on departure or the level of shareholding attained on the date of departure. For a subsequent period of 12 months, the post-employment minimum shareholding to apply will be equal to the lower of 50% of final basic salary on departure or the level of shareholding attained on the date of departure.</p>		
<p>In determining the post-employment minimum shareholding, only awards made since the date of the approval of the 2020 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.</p>		

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

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

The Committee's proposed changes to the Remuneration Policy include that the 200% of salary shareholding requirement (to be held for the full 2 years post-employment) would apply for all future awards granted from 2023 to executive directors who joined prior to May 2021. This is believed to strike a balance between the current status and the requirement set-out at the time of each past LTIP grant with the recognition that shareholders have a preference for larger holdings to be held in full for 2 years post-employment.

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

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. The CEO in Sweden participates 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 no longer participate in a bonus scheme although there remains some roll-off of deferred elements of past arrangements. Since 1/1/19 there has no longer been a bonus scheme for the Dutch 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 LTIP Scheme, as set out in the Policy table, apply in recruitment situations. By exception, the company may award a one-off compensatory bonus or LTIP award where the new joiner would lose a bonus or long-term award relating to their former role. In the event that such a payment is made, full details will be disclosed in the Annual Report on remuneration for the relevant year.

Service contracts and loss of office

Executives

Our policy is for executives to have service contracts with a rolling twelve-month notice period exercisable by either party.

The table below summarises the notice periods and other termination rights of the executives and the company. The approach of the company on any termination is to consider all relevant circumstances and to act in accordance with any relevant rules or contractual provisions. Typically, a leaving employee is classified as a 'Good Leaver' if they depart under 'Special Circumstances' (defined in the table below). An employee leaving under any other circumstances is classified as a 'Bad Leaver'.

The Committee has discretion to classify an employee as a 'Good Leaver' or a 'Bad Leaver' and to determine the treatment of their outstanding awards upon departure. Regardless of whether a departing executive is deemed to be a 'Good Leaver' or 'Bad Leaver', the Committee has discretion to pay a departing executive's legal fees subject to any such payment being made in accordance with the terms of a compromise agreement which waives all claims against the company.

Typical treatment in relation to salary, benefits and outstanding incentive awards for leavers under each scenario is shown below:

Nature of termination	Notice period	Salary and benefits	Short-Term Incentive Scheme	Long-Term Incentive Scheme	Nature of termination
By executive or company giving notice (and where deemed to be a Bad Leaver).	12 months	Cease on date employment ends. Payment may be made for any unused holiday entitlement.	No grants following service of notice. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	No grants following service of notice. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	By executive or company giving notice (and where deemed to be a Bad Leaver).
By company summarily (Bad Leaver).	None	Cease on date employment ends.	No further grants. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends	No further grants. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	By company summarily (Bad Leaver).
Under special circumstances: Good Leaver Status whether leaving by reason of death, injury or disability, redundancy, retirement with the agreement of the Committee, the sale of employing business, or other special circumstances (such as terminal illness) at the discretion of the Committee.	None prescribed	Normally cease on date employment ends. Payment may be made for any unused holiday entitlement. Discretion for the company to pay salary and benefits in a single payment or in monthly instalments. Where payments are made monthly the executive is under an obligation to mitigate his or her loss and monthly payments will cease or reduce upon the executive accepting alternative employment. If leaving by reason of redundancy the payment may include statutory redundancy pay.	Discretion to make further grants during a notice period where this is considered to be in the company's interests. Where employment ends before deferred share awards made, at the discretion of the Committee, the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms, or determine award is to vest on ceasing to be employed and will also assess the extent to which targets have been met. In either case the award will be pro-rated to reflect the period of the Performance Period that has been worked and will be paid in cash. The Committee has discretion to pro-rate using a longer period. Where employment ends after deferred share awards made, the award will be retained and vest in accordance with original terms. The Committee has discretion to allow the award to vest on ceasing to be employed. All outstanding options must be exercised within 6 months of the date on which employment ends or on which they vest (whichever is later), unless the Committee specifies a longer period.	No further grants. Where employment ends before share awards vest, at the discretion of the Committee the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms or, by exception may determine awards to vest on ceasing to be employed and will also assess the extent to which the targets have been met. In either case the award will be pro-rated to reflect the period of the Performance Period that has been worked. The Committee has discretion to pro-rate using a longer period. All outstanding options must be exercised within 6 months of the date on which they vest (whichever is later) unless the Committee specifies a longer period.	Under special circumstances: Good Leaver Status whether leaving by reason of death, injury or disability, redundancy, retirement with the agreement of the Committee, the sale of employing business, or other special circumstances (such as terminal illness) at the discretion of the Committee.

DIRECTORS' REMUNERATION REPORT • REMUNERATION POLICY (CONTINUED)

Non-executive directors

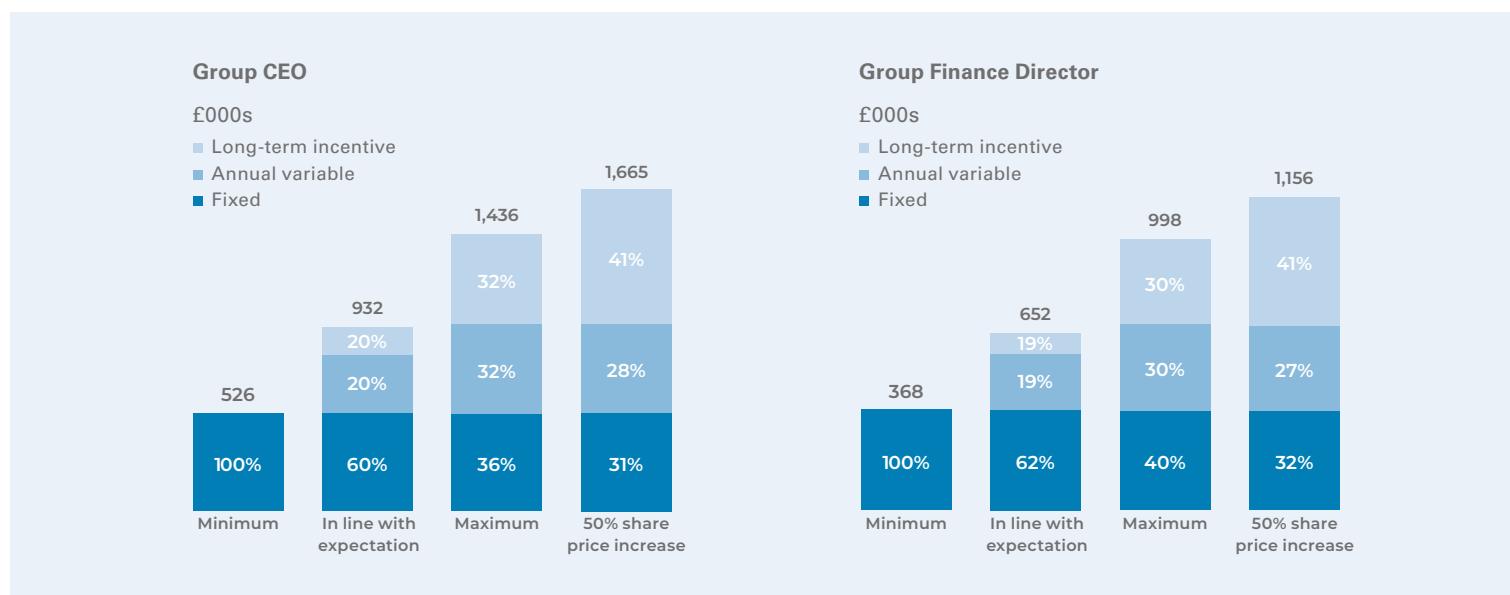
- Appointments are made under a contract for services for an initial term of three years subject to election by shareholders at the first Annual General Meeting following their appointment and annual re-election thereafter.
- Non-executive directors are typically expected to serve two three-year terms 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 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 LTIP payments are at 65.0% and 25.0% of their maximum respectively for the Group CEO and the Group Finance Director. The targets relate to the measures outlined above but are not declared prior to the publication of the accounts for the relevant year as they may be commercially sensitive.

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

Minimum

The table below analyses the constitution of the minimum remuneration projection for 2023.

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Group Chief Executive Officer	457.8	29.0	38.9	525.7
Group Finance Director	315.3	23.0	30.0	368.3

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

Statement of shareholder views

We consulted with our largest shareholders and proxy voting agencies on the proposed changes to our Directors' Remuneration Policy. In light of the positive feedback received, we made little change to the proposals outlined in our consultation letter but did move to align 200% post-employment shareholding requirements for LTIP awards made from 2023 onward to executive directors employed prior to May 2021 with the requirements of executive directors appointed since that date.

Approval

This report was approved by the board of directors on 29 March 2023 and signed on its behalf by:

Eamonn Flanagan

Chair of the Remuneration Committee

AUDIT & RISK COMMITTEE REPORT



'Our focus in the year has included IFRS 17, climate change reporting, acquisitions and operational resilience.'

NUMBER OF MEETINGS DURING YEAR: 8

MEMBERS:

Jane Dale	Chair
Eamonn Flanagan	Member
Mark Hesketh	Member
Karin Bergstein	Member (appointed 14 Feb 2022)

The requirements for the composition of the Audit & Risk Committee are detailed within its Terms of Reference. The composition of the committee, in accordance with the requirements of the UK Corporate Governance Code and with DTR 7.1.1AR, and committee member biographies are detailed on pages 88 to 89.

CHAIR'S INTRODUCTION

Welcome to the Chesnara 2022 annual report from the Audit & Risk Committee. It has been a full agenda for the committee this year.

Aside from our business as usual obligations the committee's plan for the year focused on the following key areas:

- the group's IFRS 17 implementation programme;
- the Government's agenda of improving corporate governance;
- continuous improvements over financial reporting controls;
- climate change reporting;
- operational resilience; and
- acquisitions.

Below I have provided a bit more insight into each of these, along with some other matters that are pertinent to the year.

IFRS 17: The committee continued its oversight of the group's IFRS 17 programme. As in previous years, this included regular updates on progress and budget, reviewing key deliverables and focusing on key areas of complexity and judgement. In addition, the updates included monitoring the external audit activity, which accelerated during 2022. The committee also received further training on the fundamentals of IFRS 17 as well as reviewing dry run results, including the format of the primary statements. 2023 will see the conclusion of the programme and the committee will oversee the delivery of outstanding activity and the first live reported results, including the completion of audit reviews.

Corporate governance reform: The committee has been monitoring developments in this area closely. When I reported on the Government's agenda in last year's report there was the possibility that a 'UK Sarbanes Oxley' type framework could be introduced. Whilst there are no firm plans to introduce such a framework at this stage, the Government did announce in May 2022 that it is inviting the Financial Reporting Council to consider strengthening the internal control provisions in the Corporate Governance Code, including consideration of a more explicit statement on the effectiveness of the internal control systems. We will continue to monitor this closely so that the group is well prepared for any changes.

Financial reporting controls: During the year the committee has given some additional attention to controls over financial reporting. In particular we were keen to understand any areas of concern across the group and any planned changes/improvements. In terms of areas of change, during the year the

board approved a plan to implement a new financial reporting consolidation system, covering both IFRS and Solvency II reporting. The system, which is planned to go live during 2023, will introduce a higher level of automation into the process, and has robust embedded controls that will replace some of the End User Computing (EUCs) that form part of the current control framework. Whilst the current process is satisfactory for the group as it is, the new system will support the group's ongoing acquisition agenda and will be a positive step in the overall suite of controls in place as part of the implementation of IFRS 17. The committee is mindful of the level of financial reporting process changes that IFRS 17 will introduce, not just at the consolidation process level, but also within each operating unit. As a result the committee has focused on the new controls that have been designed and implemented to support reporting under this new accounting standard. This will be an area that the committee will continue to pay close attention to as the reporting embeds over coming periods.

Climate change risk and reporting: The committee's work in this area has included assessing the impact of climate change on our risk profile. For Chesnara, climate change risk tends to manifest itself in the risk of asset value changes as the group is not directly exposed to climate change related underwriting risks, and these risks are assessed in the group's annual ORSA document. The committee has also paid close attention to the disclosures in the 2022 TCFD report on pages 70 to 84, ensuring that this is reflective of the status of our group-wide sustainability programme. Looking forward there remains lots to be done, and the Audit & Risk Committee will be heavily involved in supporting the group's climate change risk agenda.

Operational resilience: During the year the committee has overseen the group's operational resilience programme. This programme is focused on ensuring that critical business services can continue to be delivered within our risk tolerances in the event of some form of operational disruption, such as a system failure. The committee has received and scrutinised regular updates on the programme and is satisfied that all relevant, primarily UK focused, regulatory deadlines have been met. This programme will continue into next year and beyond. As a general theme the committee is mindful that change in its own right can introduce operational risk. As a result the committee has focused on relevant change programmes across the group, including acquisition integration, IT change programmes and the IFRS 17 programme.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Acquisitions: We have completed two material acquisitions during the year; one in the Netherlands and one in the UK. The committee oversaw the due diligence and completion process for both of these deals and subsequently scrutinised how they have been accounted for in this year's accounts. In addition the committee has been monitoring their integration into the group against the timelines outlined in the due diligence phase of the deals.

Other areas:

Risk themes: As well as the planned items referred to above, the committee's role also includes reacting to any other relevant matters that may have emerged during the year. This has included overseeing the impact that the Russian invasion of Ukraine has had on economic factors such as inflation, yields, equity prices and bond spreads, and how these in turn affect the strength of the group's balance sheet. Not only have global events such as the Ukraine invasion been an area of focus, close attention has been paid to the potential financial impact of what was a turbulent year in British politics. In particular the mini budget in September resulted in a significant amount of economic turmoil. The committee's role was to ensure that the financial consequences on Chesnara were properly understood, and reacted to as necessary.

Other accounting and financial reporting matters: Aside from IFRS 17, the committee has also ensured that it has appropriately considered any other relevant financial reporting matters, whether this is driven by internal activity of Chesnara or through changes to reporting rules. From an internal perspective the committee has paid close attention to the reporting of:

- Chesnara's inaugural listed debt issue during February 2022;
- The foreign exchange hedge arrangement that was entered into during December 2022;
- The group's second year of having to report under the ESEF (European Single Electronic Format) rules;
- The accounting for the acquisitions that were completed during the year;
- Sustainability and ESG reporting; and
- Disclosures required surrounding the implementation of IFRS 17, which is effective from 1 January 2023.

Role of the Audit & Risk Committee

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

Governance: During the year the committee underwent an external assessment of its performance and effectiveness (see page 94 for further detail). It is pleasing to report that the committee scored well across all aspects of the assessment framework. As ever, there was some valuable feedback that arose from this process which the committee will ensure it builds on. It is also worth noting that we completed our usual group-wide 'systems of governance' assessment and produced our annual internal controls assessment report during the year. The conclusions continue to be positive and it provided a high level of assurance regarding the effective operation of the systems of governance and internal controls around the group.

Looking forward: As we look ahead, a number of the items I have previously referred to remain firmly on the agenda. IFRS 17 will be a key focus, both in terms of the embedding of controls around the process, as well as ensuring the committee is in a position to sign off the numbers and associated disclosures. We will also be overseeing the implementation of the aforementioned group financial reporting consolidation tool, continuing our oversight of climate change and ESG reporting and will continue to focus on the group's operational resilience programme.



Jane Dale
Chair of the Audit & Risk Committee
29 March 2023

THE CHESNARA AUDIT & RISK COMMITTEE HAS RESPONSIBILITIES OVER A COMBINATION OF BOTH RISK AND AUDIT MATTERS. AN UPDATE AGAINST EACH OF THESE TWO KEY OBLIGATIONS HAS BEEN PROVIDED BELOW.

Audit responsibilities

This section of the report includes the following:

1. **Activities during 2022:** 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 2022

The committee's work is driven by a combination of business as usual ('BAU') activities and non-standard areas that have required attention during the year. The committee has focused on the following non-BAU areas during 2022: The group's **IFRS 17 implementation programme**; the **post-acquisition integration** of Sanlam Life & Pensions UK and Robein Leven; the group's **operational resilience programme**; **climate change and ESG reporting**; the **impact of economic turmoil** and **keeping abreast of corporate governance developments**. A summary of all the activities performed by the committee during 2022 in relation to its audit responsibilities is summarised below:

Financial reporting	<ul style="list-style-type: none"> – Annual Report and Accounts: Reviewed the Annual Report and Accounts, including; compliance with accounting standards; accounting policy appropriateness; consideration of financial reporting changes and emerging practice; whether they are fair, balanced and understandable; and disclosures surrounding going concern, prospects and longer-term viability. See the significant issues section on page 123 for further details on certain aspects of this year's accounts. – Half-year report: Reviewed and challenged the Chesnara half year report for the six months ended 30 June 2022. – Actuarial assumptions: Reviewed and challenged the actuarial assumptions underpinning the quarterly financial reporting process, covering IFRS, Solvency II and EcV. See the significant issues section on page 123 for further detail. – Solvency II narrative reporting: Reviewed the Chesnara Group Solvency and Financial Condition Report, which is published annually on the Chesnara website and also sent to the Prudential Regulation Authority. – Financial performance: Monitored and scrutinised the financial performance of the group, covering IFRS, Solvency, EcV[†], cash generation[†] and expenses. – IFRS 17: Maintained its close oversight of the group's programme. This has included focusing on some of the key areas of complexity and challenges that the programme has been facing; monitoring progress of the external audit process; a continuation of the A&RC's education programme; and a review of the opening balance sheet including an early view of the format of the primary statements. – FRC updates: Actively monitored and reviewed any key publications issued by the Financial Reporting Council regarding financial reporting matters during the year. This has included, amongst other things, 'CRR Thematic review of TCFD disclosures and climate in the financial statements', Annual Review of Corporate Reporting 2021/22, Key matters for 2022/23 reports and accounts and Review of Corporate Governance Reporting November 2022.
External audit	<ul style="list-style-type: none"> – External audit plans: Reviewed the group-wide plans of the external auditor, including consideration of the key audit risks. – External audit quality: Assessed the quality of the external auditor during the year. This has included, amongst other things, consideration of feedback from management, coupled with reviewing the FRC report entitled 'Deloitte LLP Audit Quality Inspection and Supervision Report' which was published in July 2022. – External audit reporting and feedback: Reviewed key findings reported by the group external auditor on the Annual Report and Accounts and half year report, including financial reporting judgements and control matters. As part of its interactions with the external auditor the committee met with the external auditor without the presence of executive directors. – External audit independence: Reviewed the assessment regarding the independence of the external auditor, with specific consideration given to audit fees and also the nature and volume of the services delivered by the external auditor during the year.
Internal audit	<ul style="list-style-type: none"> – Oversight of Internal Audit function during the year: The committee reviewed and approved the plans of the Internal Audit functions across the group, via interactions with local Audit & Risk Committees, and their subsequent delivery. See page 122 for more information. – Evaluation of internal audit effectiveness: The committee evaluates the effectiveness of internal audit on an annual basis and concluded that the function remains appropriate for the business. – Review of internal audit findings: Received regular updates from business unit Audit & Risk Committees regarding key findings from internal audits that have been performed during the year. Reviewed the internal audit findings and management responses for Chesnara plc and each of the regulated entities across the group.
Other	<ul style="list-style-type: none"> – Feedback from divisional Audit & Risk Committees: Reviewed and challenged regular feedback provided by the group's divisional Audit & Risk Committees. The Audit & Risk Committee chairs of both the Dutch and Swedish divisions also attended a Chesnara A&RC meeting each during 2022. – Committee Terms of Reference: Reviewed its Terms of Reference during the year and also completed its annual assessment of compliance with its Terms of Reference. – Performance evaluation: Conducted an evaluation of the committee's performance during the year, which was completed by members of the committee. The review was managed by a third party and showed that the committee performed well across all aspects of the assessment framework.

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

AUDIT & RISK COMMITTEE REPORT (CONTINUED)**Audit responsibilities (continued)****2. External audit****Quality and effectiveness of the audit process**

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

- The quality of the background papers and verbal presentations to the committee on the audit planning process, interim and final audit findings and compliance with independence criteria;
- The credentials and tenure of the lead audit partner. Matt Perkins is leading the group audit for the first time this year, having replaced Andrew Holland. During 2021 the committee selected Matt from a shortlist of potential options and concluded that Matt has the appropriate qualifications and experience to lead the audit. As such this change does not affect the committee's views on the effectiveness of Deloitte as our external auditor;
- The rationale put forward for the materiality limits established and the explanation given of the impact these have had on the work performed;
- The views of the executive on the way in which the audit has been conducted;
- The conclusion from the FRC's publication entitled 'Deloitte LLP Audit Quality Inspection and Supervision Report' which was published in July 2022; and
- The audit fees charged and the change in fees from the previous year. Changes in annual fees do, of course, need to reflect change in the nature of the company's business which has expanded over time.

It was concluded that the audit process was effective. The company is committed to putting its audit out to tender at least every ten years, having completed its last external audit tender during 2017. The next audit tendering process will need to take place at the latest during 2027, following the 2026 audit.

Provision of non-audit services and independence

The committee has in place a policy on the engagement of the audit firm for non-audit services. Approval is granted where the service is clearly related to the process of audit services, including regulatory returns ('assurance services'). In other cases, the approval of the committee is required and documented governance processes are followed.

The committee regularly monitors the level of fees paid for non-audit services to ensure, over a period of years, that these represent a low proportion of total fees paid. Reports from the auditor on independence are also reviewed annually and discussed with the auditor. It should be noted that total fees paid by the company are not material in the context of the overall business of the auditor.

Details of the fees paid to Deloitte, and its associates, for both audit and non-audit services during the year have been provided below:

Audit fees	2022 £000	% proportion	2021 £000	% proportion
Audit services	2,050	90	1,385	86
Assurance services	227	10	217	14
Total	2,277	100	1,602	100

Audit services

The fees charged for audit services have increased when compared with 2021 (which have been updated from those published last year to include fee overruns due to scope change). The key reasons for the net increase since the prior year are:

- A reduction of c£400k due to the Waard Group and Scildon audits now being performed by Ernst & Young (see below);
- An increase of c£600k in relation to the Sanlam Life & Pensions UK Limited audit fee, due to it being acquired during the year;
- An increase of c£300k in relation to the preparatory audit work associated with the implementation of IFRS 17; and
- An increase of c£100k in relation to additional scope work, including the acquisition accounting for the two material acquisitions in the year.

Audit fees of £950k (2021: £112k) were paid to Ernst & Young during the year for the audits of Scildon, the Waard Group and Movestic. The increase represents Ernst & Young taking on the Waard and Scildon audits during 2022.

Assurance services

The cost of assurance services performed by the external auditor is broadly in line with the prior year. However, its composition is slightly different. In 2021 this included c£80k for the audits of the Waard and Scildon SFCRs, and these are now performed by Ernst & Young. During 2022 Deloitte charged £80k for assurance work over our Tier 2 debt issuance. The remaining fees primarily relate to the half year review.

Non-audit services

No non-audit services were delivered in 2022 or 2021.

3. Internal audit

Chesnara adopts a local decentralised model to deliver its Line 3 function, with the local Audit & Risk Committees being responsible for the oversight and supervision of its own work. At a group level the Chesnara Audit & Risk Committee oversees this by reviewing plans and receiving regular reports from each territory. The group utilises a mix of outsourced and in-house capabilities, adapted to meet the specific needs of each local market.

Each of the local teams have continued to operate a hybrid working model, with some work performed remotely whilst other reviews have been conducted on site, as a result of the changes to working patterns brought about by COVID-19. This hasn't affected the focus and content of the individual audit plans but in some cases the approach taken to individual reviews has been adapted e.g. desktop reviews using data analytics.

Across the group, internal audit covered a broad range of topics including information security, oversight of its third parties, premiums collection, policyholder payments, unit pricing, incident management, customer complaints, anti-money laundering controls, governance, data quality, underwriting, IT change management, ORSA, risk management, remuneration, outsourcing and general IT controls. No significant issues have been identified through the delivery of the internal audit programme during the year.

4. Significant issues

The table below provides information regarding the significant issues that the committee has considered in relation to the preparation of the Annual Report and Accounts. This includes consideration of matters communicated by the auditors.

Area of focus	Reporting issue	Role of the committee	Conclusion/action taken
Acquisitions of Robein Leven and Sanlam Life & Pensions UK Limited	During the year the group completed the acquisition of Robein Leven and Sanlam Life & Pensions UK Limited. These represent material and unique transactions to the group and careful consideration needs to be given to the accounting and associated disclosures in the Annual Report and Accounts.	The committee's focus is to review and challenge the papers that support the acquisition accounting for the Robein Leven and Sanlam Life & Pensions UK Limited acquisitions, and ensure that disclosures in the financial statements reflect its understanding of the transactions.	The committee is satisfied that it understands the accounting for these one-off transactions and that they are appropriately reflected in the year end 2022 Annual Report & Financial Statements. See note 51 for further detail.
Acquisition of 'Conservatrix'	On 16 December 2022 the group announced that the necessary court and regulatory approvals had been obtained for the acquisition of the insurance portfolio of Nederlandsche Algemeene Maatschappij van Levensverzekering 'Conservatrix' N.V., with formal completion taking place on 1 January 2023. This represents a disclosable non-adjusting event after the balance sheet.	The committee's role is to ensure that disclosures in the Annual Report and Accounts meet the disclosure and measurement requirements of International Financial Reporting Standards, and also reflect its understanding of the acquisition.	The committee has reviewed and challenged the disclosures in the Report and Accounts, which is supported by management's paper associated with the post balance sheet acquisition.
Valuation of Chesnara plc's investment in CA plc	Chesnara plc's solo balance sheet includes the value of its investment in its various subsidiaries. These are typically carried at cost and are reviewed at least annually for impairment. As a result of dividend payments over time, at some point the underlying value of the group's closed-book subsidiaries will become lower than the carrying value that it is held at in the Chesnara plc balance sheet, resulting in a need to write down the carrying value.	The committee's role is to review and challenge management's paper covering the assessment of the carrying value of Chesnara's investment in its subsidiaries. This includes scrutinising the underlying assumptions underpinning the 'value in use' assessment and the conclusions made.	As a result of the annual impairment process it was noted that the carrying value of Chesnara plc's investment in Countrywide Assured plc required writing down by £25m. This reflects that the underlying value of Countrywide Assured has reduced, largely as a result of its continued dividend streams up to Chesnara plc. Further detail can be found on page 183.
Movestic DAC	The group balance sheet includes an intangible asset representing the component of acquisition costs that have been deferred to be recognised over the expected life of the policies to which the acquisition costs relate. The asset is made up of different cohorts of policies and is subjected to an annual impairment test. The expected life of the policies is a key judgement for management and is influenced by recent experience.	The committee is required to satisfy itself that the judgements underpinning the accounting assumptions are appropriate and reflect the relevant facts and observations.	The review concluded that no impairment of the DAC asset was required during the year.
Impairment assessment of AVIF intangible assets	The group IFRS balance sheet includes intangible assets ('the AVIF' assets), representing the acquired value of the in-force policies at the point of previous acquisitions, which is amortised over the estimated profit profile of the associated policies that were acquired. An impairment test of these intangible assets is required on an annual basis.	The committee is required to review the work performed by management in assessing the carrying value of the AVIF intangible assets, including scrutinising the assumptions made and conclusions drawn.	The review concluded that no impairments were necessary as at the balance sheet date.
Implementation of IFRS 17 and IFRS 9	IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' provides rules on what should be disclosed when a new IFRS is in issue but is not yet effective. Both IFRS 17 'Insurance contracts' and IFRS 9 'Financial Instruments' fall into this category and therefore careful consideration needs to be given to the required disclosures in this year's accounts.	The committee is required to pay close attention to the IAS 8 disclosures in this year's accounts in relation to the application of both IFRS 9 and IFRS 17, ensuring they reflect their understanding of the impact of these standards on the group's balance sheet.	The committee has reviewed and challenged the IAS 8 disclosures in relation to the impact of IFRS 9 and IFRS 17 on the group's financial statements, as shown in note 1. The committee is satisfied that this provides a fair and balanced summary of impact of the new standards.
UK business expense assumptions	The actuarial reserving process for Countrywide Assured plc and Sanlam Life & Pensions UK Limited includes an assumption on the future expenses that are required to run the businesses. For both these businesses this includes making judgements on both the future outsourcer and non-outsourcer costs.	The responsibility of the committee is to satisfy itself that the judgements underpinning the projected future expenses required to run the UK life insurance operations are appropriate, and to ensure these judgements are appropriately reflected in the year end 2022 financial statements.	The committee is satisfied that the expense assumptions included in the valuation of the insurance contract liabilities of Countrywide Assured plc and Sanlam Life & Pensions UK Limited at 31 December 2022 are appropriate and that they are suitably described in note 30 on page 198.
Actuarial assumptions	A key aspect of the Audit & Risk Committee's role is to review and challenge the actuarial assumptions that underpin the valuation of the policyholder liabilities in the financial statements. The assumptions are inherently judgemental and are updated at least annually to reflect the facts and circumstances available at the time. The assumptions are underpinned by a combination of internally observed experience coupled with data that is available at a market level. The key assumptions include estimates over: <ul style="list-style-type: none"> - future mortality and morbidity rates; - future lapse assumptions; - future expense required to manage the policies in force; - policyholder options and guarantees; and - ensuring that the liability adequacy test is met under IFRS 4. 	The committee's role is to review and challenge the actuarial assumptions report which underpins the valuation of insurance liabilities.	The committee concluded that the actuarial assumptions were appropriate. Disclosures over key judgements are included in note 3 and note 30 of the IFRS financial statements.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)**Risk responsibilities**

This section of the report provides information regarding the risk oversight responsibilities of the Audit & Risk Committee.

General responsibilities

Overall the committee is responsible for:

- the group's risk management and internal control systems and their effectiveness;
- overseeing the group's risk profile in the context of its current and future strategy;
- discussing and recommending to the board for approval, the group's risk appetite statement, reverse stress testing and scenario stress testing;
- advising the board on proposed changes to the group's risk appetite statement where this is deemed appropriate;
- monitoring risk exposures across the group and advising the board where such exposures do not appear to accord with the group's risk appetite statement;
- reviewing the group's capability to identify and manage emerging and new risk types;
- challenging the regular stress and scenario testing of the group's business;
- determining whether there is a sufficient level of risk mitigation in place;
- overseeing due diligence of a major strategic transaction, including any proposed acquisition or disposal, prior to the board taking a decision to proceed with a view to ensuring that the board is aware of all material risks associated with the transaction;
- considering the adequacy and effectiveness of the technology infrastructure and supporting documentation in the Risk Management System and framework;
- considering and approving the remit of the Risk function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- providing qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to any performance objectives; and
- considering and recommending to the board for approval, the group's risk related regulatory submissions, including the ORSA.

Focused activities performed during the year

The table below provides some information regarding the more focused activities that the committee has performed during the year in discharging its risk oversight responsibilities.

Ukraine conflict:

The impact of the invasion of Ukraine by Russia was considered to be an emerging risk for the group, with it being a rapidly evolving situation at the time. The committee reviewed and challenged management's initial risk assessments in order to understand Chesnara's direct and indirect exposures to the situation. It was concluded that:

- Investment exposures were low.
- No specific customers were identified that were to become subject to new sanctions.
- No material exposures were identified in the group's connections and there are no obvious links with Russia.
- There were a small number of members of staff across the organisation that have family in Ukraine.
- There was an increase in volatility in financial markets, with potential for higher inflationary pressures in the short term and further economic uncertainty in the longer term. At the outset there were no material impacts on solvency levels of the group or the group's regulated insurance subsidiaries.
- There is a potential increase to cyber risk with the possibility of a rise in Russian sponsored cyber attacks.

As the situation evolved over the year the committee received regular updates on the impact from the conflict on the group and was satisfied that the risks were being appropriately monitored and responded to by management.

Integration of acquisitions during the year:

The Audit & Risk Committee has been monitoring the integration programmes associated with the acquisitions of Robein Leven and CASLP. With regards to the more complex CASLP integration, attention was given to delivering the long-term operating model of the business and the planned Part VII transfer. Part of the integration plan also included aligning the CASLP Risk Management and Internal Control Framework with Chesnara, where it is proportionate to do so. Over the course of the year the committee has focused on:

- **Transition risks:** The committee focused on management's assessment of the risks surrounding transitioning CASLP to its planned long-term operating model, and the interim steps required to achieve this. This has included factors such as preparing the business for the planned migration to the long-term outsourcing model and ensuring that the operating model at the point of acquisition remains stable and robust, including the services that the group continues to require from Sanlam in the shorter term.
- **Business as usual risks:** The committee has been focusing on overseeing key risks associated with the operating model at the point of acquisition. This has included giving particular attention to the people risk, in terms of resource stretch, staff turnover and key man dependency. The committee has also been monitoring management's assessment of policy persistency risk. CASLP also relies on some key suppliers, and the committee has been reviewing management's monitoring of their services in the post-acquisition period.

IT/data security and cyber risk:

The committee's risk responsibilities include overseeing management's plans to continue to ensure the group remains resilient to IT risks. This includes monitoring results from various initiatives such as the group's 'phishing' tests, cyber attack simulations and penetration testing. Chesnara has also recently established a new group-wide cyber response framework to guide the group in preparing and responding effectively to a cyber-attack which includes an updated policy on ransomware. The committee was satisfied that the group's IT risk programme continues to focus on the right areas and this ever-evolving area.

Global market instability:

Sustained market/economic instability and increasing inflation is driving the likelihood of a prolonged recession in many countries, creating the potential for material risks across the group. As a result of these observations the committee has obtained regular updates from management on potential impacts. This has included consideration of the following:

- Financial results volatility;
- Increased expense base with wage inflation and increasing supplier costs; and
- 3rd party/supplier failure risks.

The committee is satisfied that management is monitoring these risks closely, and that the group's ORSA process suitably examines these scenarios.

Operational change:

The group has a number of operational change projects across the group, and as a result the committee has been monitoring these closely. Activity across the group includes:

- the acquisitions and subsequent post acquisition integrations of Sanlam Life & Pensions UK Limited and Robein Leven;
- the operational implementation of IFRS 17;
- the ongoing policy administration IT upgrade programme in Scildon; and
- activity surrounding the outsourcer selection process for CASLP.

The committee was satisfied that the risk reporting surrounding these programmes has been appropriate and that management has responded to any associated risks as they emerge.

Regular activities performed during the year

The table below provides some further information regarding the 'business as usual' activities that the committee has performed during the year in discharging its risk oversight responsibilities:

- **Quarterly risk reporting:** During the year the committee reviewed the quarterly group and divisional risk reports on the identification, evaluation and management of principal risks across the group, including any emerging risks. The quarterly risk reporting included 'in focus' topics as required and also reports against the group's 'watchlist' of items.
- **Principal risk definition:** Reviewed and challenged the group's definition of principal risks for the purpose of reporting and monitoring against these risks, including how they are mitigated through the group's internal control framework.
- **Risk plan review and sign off:** The committee reviewed and approved the group and divisional risk plans and associated resourcing needs.
- **Internal control report:** The committee reviewed and approved the annual internal controls assessment report, which concluded that the controls across the group are operating effectively.
- **Systems of governance review:** An annual review of the effectiveness of the systems of governance review was facilitated by the Risk function. This considered a number of areas of the overall system of governance including its completeness, effectiveness, its use and the overall culture. This concluded there were no major areas of concern. Any areas for improvement have been built into future plans, with suitable priorities attached.
- **ORSA review:** The committee reviewed the 2022 Group ORSA and made a formal recommendation to the board to approve it. The ORSA includes the outcome of the group's stress and scenario testing. The stresses that are modelled are reviewed and approved as part of the ORSA planning process, and the results are included in the final ORSA report.
- **Risk appetite:** Reviewed and approved the group's risk appetite framework, including reviewing and challenging the key risk indicators/tolerance limits and key business performance measures.
- **Review divisional Audit & Risk Committee progress:** Received and challenged updates provided by divisional Audit & Risk Committees.
- **Continuous solvency monitoring:** Reviewed the output from the group's continuous solvency monitoring activities. There were no issues arising from this process during the year.
- **Standard formula assessment:** As part of its annual cycle the Actuarial function performs an assessment of the appropriateness of the standard formula for the purposes of calculating the group's capital requirements under Solvency II. The work and associated findings was reviewed and challenged by the committee.

Assurance

Taken together, the group's Risk function and Internal Audit function ensure that the committee is provided with appropriate assurance throughout each year. The second-line Risk function ensures independent review and challenge of business performance and activities with the opportunity to influence areas of review to be undertaken by the independent third-line Internal Audit function. The committee can direct the activity of either function as circumstances require, amending work plans to accommodate deep dives if felt appropriate to do so. The committee leverages these functions within the group's proportionate three-lines of defence model in addition to engaging with and having board representation on the business unit Audit & Risk Committees which themselves have local Risk and Internal Audit functions. In this way, and through receiving assurance reports from each business unit on a quarterly basis, the committee satisfies itself with regard the assurance it obtains on the group's activities and performance.



Jane Dale
Chair of the Audit & Risk Committee
29 March 2023

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 2022. The Corporate Governance Report on pages 92 to 95 forms part of the Directors' Report.

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

Requirements/reference

Financial risk management objectives and policies

The financial management section on pages 55 to 56 and the risk management section on pages 57 to 65.

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 38 to 44.

Greenhouse gas reporting

The corporate and social responsibility section on pages 66 to 84.

Environmental, employee and social community matters

The corporate and social responsibility section on pages 66 to 84.

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.

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 2022, the company had 150,369,603 ordinary shares in issue, of which none were held as treasury shares. During the year, no treasury shares were held or traded.

In order to retain maximum flexibility, the company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2022, to repurchase up to 10% of its issued share capital. Further details are provided in the Notice of this year's Annual General Meeting.

At the Annual General Meeting in 2022, shareholders approved resolutions to allot shares up to an aggregate nominal value of £5,005,153 and to allot shares for cash other than pro rata to existing shareholders. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

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

Articles of Association

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

Conflicts of interest

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

There were no material conflicts of interest noted in 2022.

Directors

Full information of the directors who served in 2022 is detailed in the Corporate Governance Report on pages 88 to 89.

Detail of the non-executive directors who served as Chairs and members of the board committees of the board are set out in the Corporate Governance Report on pages 88 to 95. Information in respect of the Chair and members of the Remuneration Committee and in respect of directors' service contracts is included in the Remuneration Report on pages 100 to 111, which also includes details of directors' interests in shares and share options. The Chair and all the non-executive directors will retire at the Annual General Meeting and, being eligible, offer themselves for election or re-election as appropriate. All of the executive directors have service contracts with the company of no more than 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. 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 2021 and 31 December 2022 and the period to 29 March 2023.

Director evaluations

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

Director appointments

With regard to the appointment and replacement of directors, the company follows the UK Corporate Governance Code 2018 and is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution.

Results and dividends

The consolidated statement of comprehensive Income for the year ended 31 December 2022, prepared in accordance with United Kingdom adopted international accounting standards and set out on page 140 shows:

	2022 £000	2021 £000
(Loss)/profit for year attributable to shareholders	(98,333)	27,294

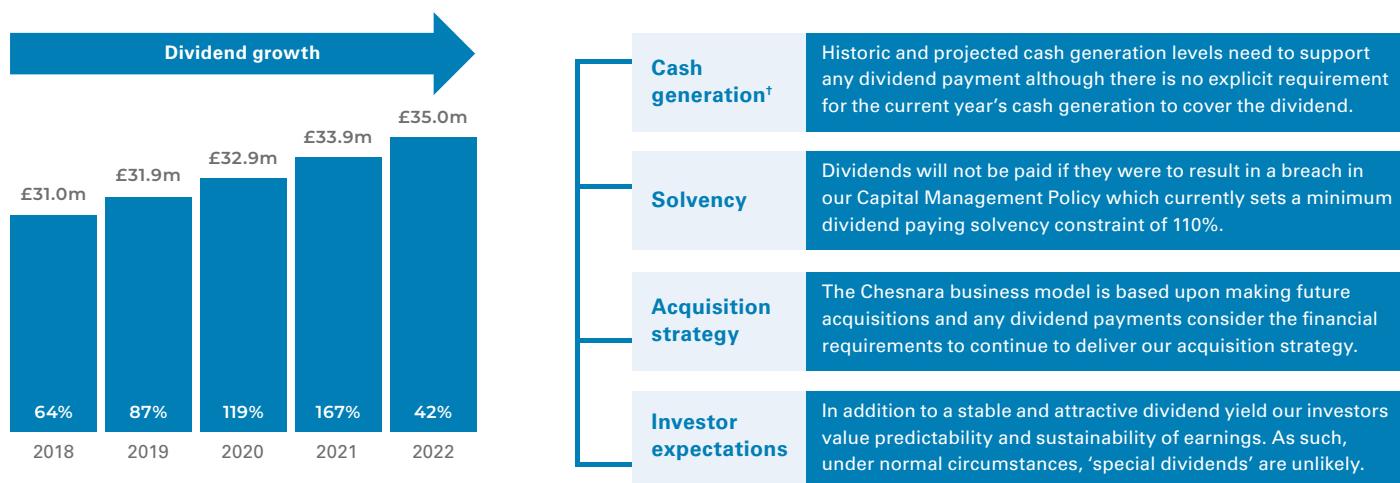
An interim dividend of 8.12p (2021: 7.88p) per ordinary share was paid by Chesnara on 21 October 2022. The board recommends payment of a final dividend of 15.16p (2021: 14.72p) per ordinary share on 26 May 2023 to shareholders on the register at the close of business on 11 April 2023.

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

Considerations



The chart above shows the dividend paid in each respective year as a percentage of the cash generated. Over the past 5 years £165m of dividends have been paid at an average annual yield of 7.1% (based on average annual share prices) representing 76% of the cash generated over the period.

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 25 January 2022; 04 August 2022; 05 August 2022; 22 August 2022; 01 September 2022; 14 November 2022; and 15 December 2022:

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 31 December 2022
Columbia Threadneedle Investments (London)	17,989,073	11.96%
Aberdeen Standard Investments (Standard Life) (Edinburgh)	17,213,517	11.45%
Hargreaves Lansdown Asset Mgt (Bristol)	10,659,098	7.09%
Interactive Investor (Manchester)	10,503,396	6.99%
M&G Investments (London)	9,764,368	6.49%
Canaccord Genuity Wealth Mgt (London)	8,550,000	5.69%
Janus Henderson Investors (London)	5,222,218	3.47%

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

DIRECTORS' REPORT (CONTINUED)

Subsequent to 31 December 2022 there have been changes to this position and the holdings as at 15 March 2023 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 15 March 2023
Columbia Threadneedle Investments (London)	17,875,760	11.89%
Aberdeen Standard Investments (Standard Life) (Edinburgh)	16,221,793	10.79%
Hargreaves Lansdown Asset Mgt (Bristol)	10,880,388	7.23%
Interactive Investor (Manchester)	10,687,194	7.11%
M&G Investments (London)	9,764,368	6.49%
Canaccord Genuity Wealth Mgt (London)	8,395,687	5.58%
Janus Henderson Investors (London)	5,465,510	3.63%

Chesnara plc has no multiple voting rights or voting certificates relative to total voting rights and no issued share capital is composed of non-voting shares. Depositary receipts represent 0% of voting rights and our free float percentage of voting rights exceeds 98%.

Related party transactions and significant contracts

During the year ended 31 December 2022, 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

On 1 January, the company confirmed the successfully completion of the acquisition of the insurance portfolio of Conservatrix in the Netherlands.

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

Charitable donations

Charitable donations made by group companies during the year ended 31 December 2022 were £65,353 (2021: £3,780). This consisted of the board approved donation of £46,000 to the DEC Ukrainian Humanitarian Appeal, which was paid in early 2022, £8,068 donated to Save the Children by Movestic and £11,285 donated to a range of other charitable initiatives by our Dutch division.

No political contributions were made during the year ended 31 December 2022 (2021: £nil).

Employees

The average number of employees during 2022 was 414 (2021: 322).

Employee involvement

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

Business relationships

Throughout the year the directors have had regard for the need to foster the company's business relationships with suppliers, customers and stakeholders, including on the principal decisions taken by the company during the financial year. Information supporting this is provided in the Section 172 disclosures on pages 32 to 37.

Going concern statement

After making appropriate enquiries, including consideration of the prevailing high inflation environment and the ongoing impact of the war in Ukraine on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements. Further details can be found within the financial management section on page 56.

Disclosure of information to the auditor

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

Auditor

A resolution for the re-appointment of Deloitte LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting. Chesnara is satisfied that it adheres to the rules that are imposed on UK listed companies to perform a tender after 10 years and with a mandatory change of auditors after 20 years.

Approved by the board on 29 March 2023 and signed on its behalf by:



David Rimmington
Group Finance Director

DIRECTORS' RESPONSIBILITIES STATEMENT

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the group financial statements in accordance with UK-adopted international accounting standards.

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

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

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

Disclosures under Listing Rule 9.8.4R

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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



Luke Savage
Chair
29 March 2023

Steve Murray
Chief Executive Officer
29 March 2023

SECTION D IFRS FINANCIAL STATEMENTS

Blackfriars Bridge, London

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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 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated and Parent Company Cash Flow Statements; and
- the related Notes 1 to 52, excluding the capital adequacy disclosures calculated in accordance with the Solvency II regime in Note 29 which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis of opinion

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

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

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

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Valuation of the CASLP Limited (CASLP) Acquired Value In-Force (AVIF) intangible asset; – Valuation of Scildon insurance liabilities; – Valuation of the Movestic Deferred Acquisition Costs (DAC) intangible asset; and – Valuation of Chesnara plc's investment in Countrywide Assured plc (CA plc) <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Similar level of risk
Materiality	The materiality that we used for the group financial statements was £9.9m which was determined on the basis of 3% of net assets at 31 December 2022.
Scoping	Our group scope audit work focused on the material components where the group's policies are administered. In 2022, the full scope of audit covered all components of the group.
Significant changes in our approach	<p>On 28 April 2022, Chesnara plc completed the acquisitions of Sanlam Life & Pensions UK (subsequently renamed CASLP Limited) and Robein Leven N.V., including the respective books of business. At 31 December 2022 both entities were within the scope of the group audit, although all Robein Leven N.V. policies had transferred into Waard Leven.</p> <p>As a result of the two acquisitions that took place in the year, we identified CASLP Limited as a significant component for 2022 audit and performed audit procedures on Robein Leven N.V. assets and liabilities as part of Waard Group component.</p> <p>The acquisition of CASLP has given rise to the recognition of an AVIF intangible asset of £59.6m, held on the group balance sheet. This reflects the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. We have identified a new key audit matter relating to the discount rate used to determine the fair value of the CASLP AVIF intangible asset.</p>

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating management's stress and scenario testing, and challenging management's key assumptions. In conjunction with internal actuarial specialists, reviewing the governance over, and the production of, solvency monitoring information, and considering its consistency with other available information and our understanding of the business;
- evaluating management's assessment of the risks across the group, including: investment and liquidity risk, regulatory change risk, acquisition risk, demographic experience risk, expense risk, operational risk, IT and data security and cyber risk, new business risk, and reputational risk;
- assessing the mitigating actions management have put in place, and further plans they have if required, in anticipation of any further deterioration of the wider UK and global economy; and
- assessing the going concern disclosures made by management in the financial statements, based on our knowledge gained throughout the audit.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the CASLP AVIF intangible asset

Key audit matter description

On 28 April 2022, Chesnara plc completed the acquisition of Sanlam Life & Pensions UK (subsequently renamed CASLP Limited). The acquisition has resulted in the recognition of an AVIF intangible asset amounting to £59.6m, which represents the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business.

We have identified a new key audit matter relating to the discount rate used by management to discount the future cash flows underpinning the fair value of the CASLP AVIF intangible at acquisition date. Due to the highly judgemental nature of this balance, we identified manipulation of this assessment as an area of potential fraud.

The Accounting Policy adopted by the group is documented within Note 2(n) to the financial statements, with details of the balance sheet movement in Note 20.

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

In respect of the CASLP AVIF:

- we gained an understanding of the relevant controls in place over the accuracy and completeness of key assumptions;
- with involvement of valuation specialists, we constructed a range of independent discount rates based on alternative industry data in order to challenge the discount rate applied by management;
- with the involvement of actuarial specialist, we assessed the reasonableness of management's cash flow assumptions and amortisation rate used in deriving the AVIF balance; and
- we have assessed the disclosure of the AVIF recognised at acquisition within Note 20.

Key observations

Based on the audit procedures performed, we consider the discount rate used in the AVIF recognised at the date of acquisition to be appropriate.

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

 **Valuation of Scildon insurance liabilities****Key audit matter description**

Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions. At 31 December 2022, the Scildon insurance liabilities represented £1.7bn (2021: £1.9bn) of the group total of £3.8bn (2021: £3.8bn).

IFRS 4 Insurance Contracts requires an insurer, at the end of each reporting period, to assess whether its recognised insurance contract liabilities are adequate, using current estimates of future cash flows (the liability adequacy test, or LAT). Given Scildon's Accounting Policy makes use of historical market interest rates, there is a heightened risk that its reserves under IFRS 4 are not adequate. We therefore consider the initial parameter setting process and LAT as key audit matters, specifically in relation to the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors.

We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the setting of the parameters used to calculate the reserves at inception.

The Accounting Policy adopted by the group is documented within Note 2(g) in the financial statements. The assumptions, and the sensitivity of Scildon insurance contract liabilities to such assumptions are set out in Note 30. Actuarial assumptions, specifically the liability adequacy test, are referred to within the Audit & Risk Committee report on page 123.

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

In respect of the Scildon insurance contract liabilities, we performed the following procedures:

- gained an understanding of the relevant controls around the setting of the assumptions feeding into the LAT;
- with the involvement of actuarial specialists, challenged the mortality, lapse and expense assumptions which feed into the test, by evaluating experience, supporting documents and calculations;
- assessed the results of the experience investigations carried out by management to determine whether they provide support for the assumptions;
- performed analytics on policy cash flows, and carried out further investigation on outliers and movements compared to the prior period; and
- for a sample of policies, recalculated the reserve at a policy level, using our independent replication model, and compared the results to those produced by management.

Key observations

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

 **Valuation of Movestic Deferred Acquisition Costs (DAC) intangible asset****Key audit matter description**

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

There are a number of key judgement areas within this balance, both in terms of the amortisation period selected for the DAC and also in management's assessment of the asset for impairment. The impairment assessment is most sensitive to mortality, transfer, surrender, and expense assumptions.

As at year end 2022, the DAC balance held on the group balance sheet totalled £62.8m (2021: £63.3m), of which £51.9m (2021: £53.6m) related to the Movestic component. Due to the significance of the balance and the uncertainty brought about by macro-economic factors and regulatory changes in the Swedish market, we identified a key audit matter related to the valuation of the Movestic DAC.

We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the assumptions used in the impairment assessment and determination of the amortisation period applied.

The Accounting Policy adopted by the group is set out in Note 2(h) to the financial statements, with details of the balance sheet movement in Note 19.

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

In respect of the Movestic DAC we:

- gained an understanding of the relevant controls in place around the setting of the amortisation profile, and the impairment test;
- assessed the rationale for the expense ledger balances capitalised, and performed tests of detail in respect of valuation which involved agreeing acquisition costs back to contracts;
- created an expectation of the DAC balance using the amounts capitalised through the period, offset with the amortisation charge. We have also performed investigation into any differences;
- with the involvement of actuarial specialists, challenged the amortisation profile adopted by management, by constructing a range of independent amortisation profiles based on alternative data; and
- with the involvement of internal actuarial specialists, challenged the reasonableness of management's assumptions within the impairment test by evaluating experience, supporting documents and calculations.

Key observations

Based on the procedures performed, we consider the DAC valuation to be reasonable.

◀ Valuation of Chesnara plc's investment in CA plc

Key audit matter description

Chesnara plc, the group's parent entity, holds a total investment of £414.1m (2021: £354.7m) on the Company Balance Sheet relating to its investment in group subsidiaries, of which £142.9m (2021: £167.9m) related to the UK entity, CA plc. The balance is held at cost less impairment. In line with IAS 36 'Impairment of Assets', management are required to carry out an impairment assessment if there is indication of impairment loss at the balance sheet date. Through the assessment, management challenge whether the investment in CA plc is carried at more or less than the recoverable amount, which is the higher of fair value less costs of disposal and value in use, and therefore whether an impairment is required. Management have historically deemed Economic Value (EcV) to be an appropriate proxy for the IAS 36 'value in use' within their impairment assessment. Management's definition of EcV has been set out on page 49.

In recent periods, the CA plc EcV has been on a downwards trend due to the entity being closed to new business, poor investment returns, and increasing pressures from macro-economic factors. The impairment assessment performed by management at the balance sheet date highlighted £25.0m (2021: £14m of headroom) of impairment over the carrying value of the investment. We therefore identified a key audit matter relating to the valuation of Chesnara plc's investment in CA plc.

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

The Accounting Policy relating to the valuation of Chesnara plc's investment in CA plc has been presented in Note 2(gg), with details of the balance and movement in Note 18. The investment in CA plc is also referred to in the Audit & Risk Committee report on page 123.

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

In respect of the investment in CA plc:

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

Key observations

Based on the procedures performed, we consider the carrying value of Chesnara plc's investment in CA plc on the Company Balance Sheet is appropriate.

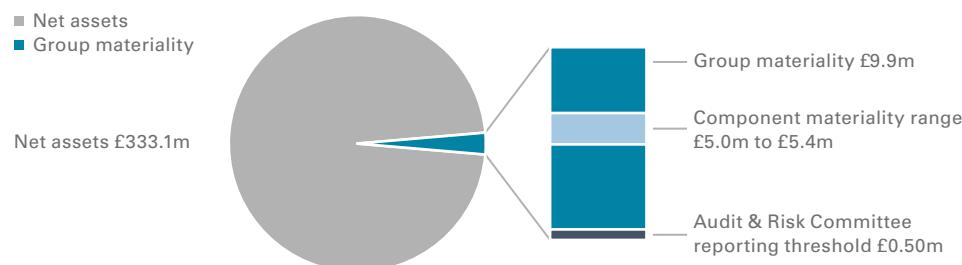
Our application of materiality

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	£9.9m (2021: £13.6m)	£9.4m (2021: £11.4m)
Basis for determining materiality	We have used 3% of net assets at 31 December 2022, consistent with the prior year. In the case of the parent company, materiality has been capped at 95% (2021: 85%) of group materiality. The cap has been increased to 95% in 2022, due to there being low number of misstatements identified in previous audits.	
Rationale for the benchmark applied	A net assets measure is closely aligned to the objectives of capital solvency and efficiency, dividend payments and ultimately cash generation that is relevant for Chesnara's business model. This represents a stable long-term measure of value in a business that has a significant closed insurance book.	



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

Our application of materiality (continued)

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2021: 70%) of group materiality	65% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the quality of the control environment and whether we were able to rely on controls, internal and external factors affecting the business, the nature of the balances, the level of audit adjustments identified in the previous audit.</p> <p>In the current period, we have reduced the performance materiality to 65% from 70% in the prior period, due to various changes in the business, such as acquisitions of CASLP and Robein Leven N.V. (Robein Leven) and the impairment of assets, that have increased the complexity of the business.</p>	

Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the committee all audit differences in excess of £495,000 (2021: £680,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

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

The risk assessment and scoping for the group has been performed centrally by the group audit team. Based on this assessment and consistent with the prior year, we focused our group audit scope primarily where the group's policies are administered. This included CA plc, CASLP Limited in the United Kingdom, Waard Group and Scildon in the Netherlands, and Movestic Livförsäkring AB in Sweden. These components account for all the operations of the group and were all subject to a full scope audit, which covered 100% of net assets, profit before tax and revenue of the group.

Excluding the parent company, the component materiality levels set by the group auditor range from £5.0m to £5.4m (2021: £6.7m to £8.7m).

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

Our consideration of the control environment

We have focused our assessment of controls around each of the key audit matters detailed on pages 133 to 135, and significant balances and business processes, including premiums, claims, reserving, investments, policy administration and financial reporting. With the support of our IT specialists, we have performed walkthroughs to gain an understanding of the underlying IT systems. The extent of the controls assessment and testing performed across the group varies depending on the maturity of the IT systems and controls.

If, through the process of understanding the systems and controls, we identified deficiencies or found that previously identified deficiencies had not been remediated or had been risk accepted by management, we did not seek to take a controls reliance approach. Management recognises the need to enhance certain aspects of its general IT controls across the group, which will be considered as part of IFRS 17 implementation as stated on page 147.

We took a controls reliance approach over the Movestic listed investments cycle. We have shared observations arising from our procedures with management and the Audit & Risk Committee. The board's assessment of the control environment is set out on page 95.

Our consideration of climate-related risks

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

The group's Risk Management Policy and framework encompass the potential impacts and opportunities of environmental, social, and governance factors (ESG) and climate change as explained in the Strategic Report on pages 24 to 84. Climate-related risks and opportunities are overseen by the group board as well as management, with climate change matters assigned to Group Chief Executive at a group level and the respective CEOs at business unit level. As set out in Note 2(ii) on page 157, management does not consider that climate change risk is currently a key source of estimation uncertainty nor that it presents a material impact to the judgements made in the financial statements.

As part of the audit, we have held discussions with management and reviewed their supporting papers to understand the climate-related risk assessment, legal and regulatory requirements, ESG strategy, governance, and disclosures. Further, we have obtained an understanding of management's process and controls in considering the impact of climate risks.

With the support of our actuarial specialists, we performed our own qualitative risk assessment of the potential impact of climate change on the group's account balances and classes of transaction, incorporating the external and internal factors affecting the entity, and did not identify any additional risks of material misstatement.

We read the disclosures included in the Annual Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

Working with other auditors

Referral instructions have been provided to each of the component audit teams detailing the procedures to be performed to support the group opinion. The group audit team have utilised virtual meetings and in-person visits throughout the audit, to monitor and challenge each of the component audit teams, including the attendance of senior group audit team members at key component meetings. Furthermore, the group audit team have reviewed the audit files of each component team, focusing on the following areas;

- independence and continuance;
- controls work around key audit matters, and financial reporting;
- legal and regulatory compliance; and
- assessment of key audit matters and significant risks.

In addition to the review of the component audit files, the group audit team has challenged the component responses to the referral instructions ensuring that the planned procedures have been performed appropriately.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, internal audit, and the Audit & Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team, including significant component audit teams, and relevant internal specialists, including tax, actuarial, valuations, pensions, IT, and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC (CONTINUED)**Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)****Identifying and assessing potential risks related to irregularities (continued)**

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Valuation of Scildon insurance liabilities, the valuation of the Movestic Deferred Acquisition Costs balance, the valuation of Chesnara plc's investment in CA plc and the valuation of the CASLP AVIF intangible asset. 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 Scildon insurance liabilities, the valuation of the Movestic Deferred Acquisition Costs balance, the valuation of Chesnara plc's investment in CA plc, and valuation of the CASLP AVIF intangible asset as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Reporting Council (FRC), Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA), De Nederlandsche Bank (DNB) and the Swedish Financial Services Authority (FSA); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 128;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 128;
- the directors' statement on fair, balanced and understandable set out on page 129;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 59;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 95; and
- the section describing the work of the Audit & Risk Committee set out on page 119.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the group's board on 1 October 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years, covering the years ending 31 December 2009 to 31 December 2022.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Matthew Perkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor
Birmingham, United Kingdom
29 March 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2022 £000	2021 £000
Insurance premium revenue	7	317,457	312,046
Insurance premium ceded to reinsurers	7	(44,821)	(115,881)
Net insurance premium revenue		272,636	196,165
Fee and commission income	8	93,380	89,975
Net investment return	9	(1,487,013)	1,172,988
Other operating income	10	48,371	46,568
Total revenue net of investment return		(1,072,626)	1,505,696
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	11	(458,530)	(506,490)
Net decrease/(increase) in insurance contract provisions	11	510,572	(23,577)
Reinsurers' share of claims and benefits	11	18,101	60,168
Net insurance contract claims and benefits		70,143	(469,899)
Change in investment contract liabilities	12	1,003,957	(902,579)
Reinsurers' share of investment contract liabilities	12	(2,653)	4,110
Net change in investment contract liabilities		1,001,304	(898,469)
Fees, commission and other acquisition costs	13	(43,432)	(24,023)
Administrative expenses	14	(85,097)	(67,925)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	15	(13,259)	(8,184)
Charge for amortisation of acquired value of customer relationships	15	(45)	(55)
Other	15	(8,700)	(5,964)
Total expenses net of change in insurance contract provisions and investment contract liabilities		920,914	(1,474,519)
Total (expenses)/income less expenses		(151,712)	31,177
Profit/(loss) arising on business combinations and portfolio acquisitions	51	15,361	(93)
Financing costs	16	(10,549)	(2,272)
(Loss)/profit before income taxes	7	(146,900)	28,812
Income tax credit/(expense)	17	48,567	(1,518)
(Loss)/profit for the year	7	(98,333)	27,294
Items that may be reclassified subsequently to profit and loss:			
Foreign exchange translation differences arising on the revaluation of foreign operations	4	5,785	(23,879)
Revaluation of land and buildings		674	369
Other comprehensive income/(expenses) for the year, net of tax		6,459	(23,510)
Total (expenses)/comprehensive income for the year		(91,874)	3,784
Basic earnings per share (based on (loss)/earnings for the year)	46	(65.45)p	18.18p
Diluted earnings per share (based on (loss)/earnings for the year)	46	(64.67)p	18.00p

The Notes and information on pages 146 to 223 form part of these financial statements.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the company has not presented its own income statement or statement of other comprehensive income. The company reported a loss of £16.4m (2021: profit £29.0m) during the year. The retained profit for the financial year reported in the financial statements of the company was £175.2m (2021: £225.0m).

CONSOLIDATED BALANCE SHEET

31 December	Note	2022 £000	2021 £000
Assets			
Intangible assets			
Deferred acquisition costs	19	62,805	63,327
Acquired value of in-force business	20	96,922	49,629
Acquired value of customer relationships		268	320
Software assets	21	9,300	8,885
Property and equipment	22	7,894	7,830
Investment properties	23	94,481	1,071
Reinsurers' share of insurance contract provisions	30	196,315	247,750
Amounts deposited with reinsurers	32	32,803	38,295
Financial assets			
Equity securities at fair value through income	24	79,233	6,352
Holdings in collective investment schemes at fair value through income	24	8,157,208	6,858,054
Debt securities at fair value through income	24	932,711	978,199
Policyholders' funds held by the group	24	1,130,476	990,700
Financial assets held at amortised cost	25	305,228	293,811
Derivative financial instruments	24/27	141	264
Total financial assets		10,604,997	9,127,380
Insurance and other receivables	26	36,672	35,613
Prepayments	26	15,630	13,245
Reinsurers' share of accrued policyholder claims	38	14,125	16,340
Income taxes		5,846	7,233
Cash and cash equivalents	28	175,294	70,087
Total assets		11,353,352	9,687,005
Liabilities			
Insurance contract provisions	30	3,611,261	3,818,412
Other provisions	31	7,953	992
Financial liabilities			
Investment contracts at fair value through income	32	5,804,869	4,120,572
Liabilities relating to policyholders' funds held by the group	33	1,130,476	990,700
Lease contract liabilities	34	1,233	2,019
Borrowings	35	211,976	47,185
Derivative financial instruments	27	3,850	–
Total financial liabilities		7,152,404	5,160,476
Deferred tax liabilities	36	8,095	15,699
Reinsurance payables	37	48,821	70,414
Payables related to direct insurance and investment contracts	38	149,723	129,262
Deferred income	39	2,383	2,809
Income taxes		4,426	6,527
Other payables	40	35,150	23,991
Bank overdrafts	28	19	256
Total liabilities		11,020,235	9,228,838
Net assets	7	333,117	458,167
Shareholders' equity			
Share capital	41	7,502	7,496
Merger reserve	41	36,272	36,272
Share premium	41	142,332	142,085
Other reserves	42	13,721	7,262
Retained earnings	43	133,290	265,052
Total shareholders' equity		333,117	458,167

The Notes and information on pages 146 to 223 form part of these financial statements.

Approved by the board of directors and authorised for issue on 29 March 2023 and signed on its behalf by:



Luke Savage
Chair

Steve Murray
Chief Executive Officer

Company number: 04947166

COMPANY BALANCE SHEET

31 December	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Investments in subsidiaries	18	414,046	354,720
Deferred tax asset		5,711	732
Total non-current assets		419,757	355,452
Current assets			
Property and equipment		98	164
Financial assets			
Holdings in collective investment schemes at fair value through income	24	106,291	39,456
Receivables and prepayments		1,003	1,153
Income taxes		3,032	6,514
Cash and cash equivalents	28	1,371	6,655
Total current assets		111,795	53,942
Total assets		531,552	409,394
Current liabilities			
Lease contract liabilities		96	158
Borrowings	35	200,356	31,273
Derivatives	27	3,498	–
Other payables	40	2,501	3,324
Total current liabilities		206,451	34,755
Non-current liabilities			
Borrowings	35	–	–
Total non-current liabilities		–	–
Total liabilities		206,451	34,755
Net assets		325,101	374,639
Shareholders' equity			
Share capital	41	7,502	7,496
Share premium	41	142,332	142,085
Other reserves	42	50	50
Retained earnings	43	175,217	225,008
Total shareholders' equity		325,101	374,639

The Notes and information on pages 146 to 223 form part of these financial statements.

The financial statements of Chesnara plc (registered number 4947166) were approved by the board of directors and authorised for issue on 29 March 2023 and signed on its behalf by:



Luke Savage
Chair

Steve Murray
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2022 £000	2021 £000
(Loss)/profit for the year		(98,333)	27,294
Adjustments for:			
Depreciation of property and equipment	22	732	749
Amortisation of deferred acquisition costs	19	13,571	13,370
Impairment of acquired value of in-force business	20	–	–
Amortisation of acquired value of in-force business	20	13,259	8,184
Amortisation of acquired value of customer relationships		45	55
Amortisation of software assets	21	1,785	1,382
Depreciation on right of use assets	22	659	739
Interest on lease liabilities	16	28	95
Share based payment		867	593
Tax paid		(32,268)	1,518
Interest receivable		(9,530)	(2,269)
Dividends receivable		(1,519)	(614)
Interest expense	16	10,521	2,177
Fair value gains on financial assets		1,219,377	(990,914)
Profit arising on acquisition		(15,361)	–
Increase in intangible assets related to insurance and investment contracts		(13,704)	(8,938)
Interest received		9,626	2,493
Dividends received		1,458	1,930
Changes in operating assets and liabilities:			
Increase in financial assets		(31,148)	(187,975)
Decrease/(increase) in reinsurers' share of insurance contract provisions		54,013	(37,747)
Decrease in amounts deposited with reinsurers		5,492	5,858
Decrease in insurance and other receivables		11,690	5,980
Increase in prepayments		(2,149)	(873)
(Decrease)/increase in insurance contract provisions		(422,279)	15,534
(Decrease)/increase in investment contract liabilities		(755,826)	1,098,809
(Decrease)/increase in provisions		(2,827)	445
(Decrease)/increase in reinsurance payables		(21,564)	67,766
Increase in payables related to direct insurance and investment contracts		17,141	35,701
Decrease in other payables		(12,755)	(24,950)
Net cash (utilised by)/generated from operations		(58,999)	36,392
Income tax paid		(12,121)	(9,796)
Net cash (utilised by)/generated from operating activities		(71,120)	26,596
Cash flows from investing activities			
Development of software		(2,400)	–
Acquisition of subsidiary, net of cash acquired		55,557	–
Purchases of property and equipment		(1,106)	(3,636)
Net cash generated from/(utilised by) investing activities		52,051	(3,636)
Cash flows from financing activities			
Net proceeds from the issue of share capital		253	–
Net proceeds of Tier 2 debt raise		196,542	–
Proceeds from borrowings		2,013	–
Repayments of borrowings		(37,135)	(16,102)
Repayment of lease liabilities		(342)	(598)
Dividends paid		(34,296)	(33,276)
Interest paid		(5,801)	(2,271)
Net cash generated from/(utilised by) financing activities		121,234	(52,247)
Net decrease in net cash and cash equivalents		102,165	(29,287)
Net cash and cash equivalents at beginning of year	28	69,831	103,706
Effect of exchange rate changes on net cash and cash equivalents		3,279	(4,588)
Net cash and cash equivalents at end of the year	28	175,275	69,831

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 146 to 223 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2022 £000	2021 £000
(Loss)/profit for the year		(16,362)	29,042
Adjustments for:			
Tax recovery		(5,383)	(2,830)
Interest receivable		9,497	1,092
Share based payment		867	593
Dividends receivable		(30,568)	(38,844)
Depreciation on right of use assets		66	60
(Increase)/decrease in financial assets		(41,835)	18,489
Changes in operating assets and liabilities:			
Increase in loans and receivables		(128)	(112)
Decrease/(increase) in prepayments		134	(1,030)
Increase in provisions		–	4
Increase in other payables		1,740	1,348
Net cash (utilised by)/generated from operations		(81,972)	7,812
Income tax paid		3,934	–
Net cash (utilised by)/generated from operating activities		(78,038)	7,812
Cash flows from investing activities			
Acquisition of subsidiary		(37,850)	–
Capital contribution paid to subsidiary		(46,476)	–
Dividends received from subsidiary companies		30,568	38,844
Net cash (utilised by)/generated from investing activities		(53,758)	38,844
Cash flows from financing activities			
Net proceeds from the issue of share capital		253	–
Proceeds of Tier 2 debt raise		196,542	–
Repayment of borrowings		(31,175)	(7,485)
Repayment of lease liabilities		(62)	(62)
Dividends paid		(34,296)	(33,277)
Interest paid		(4,750)	(1,092)
Net cash generated from/(utilised by) financing activities		126,512	(41,916)
Net decrease in net cash and cash equivalents		(5,284)	4,740
Net cash and cash equivalents at beginning of year		6,655	1,915
Net cash and cash equivalents at end of the year	28	1,371	6,655

Note. Net cash and cash equivalents includes overdrafts.

The Notes and information on pages 146 to 223 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022		Note	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2022			7,496	142,085	36,272	7,262	265,052	458,167
Loss for the year			–	–	–	–	(98,333)	(98,333)
Dividends paid			–	–	–	–	(34,296)	(34,296)
Foreign exchange translation differences	4		–	–	–	5,785	–	5,785
Revaluation of land and buildings			–	–	–	674	–	674
Issue of share capital	6		–	–	–	–	–	6
Issue of share premium			–	247	–	–	–	247
Share based payment			–	–	–	–	867	867
Equity shareholders' funds at 31 December 2022			7,502	142,332	36,272	13,721	133,290	333,117

Year ended 31 December 2021		Note	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021 (as previously stated)			43,768	142,085	–	30,772	270,442	487,067
Transfer to merger reserve	38		(36,272)	–	36,272	–	–	–
Equity shareholders' funds at 1 January 2021 (restated)			7,496	142,085	36,272	30,772	270,442	487,067
Profit for the year			–	–	–	–	27,294	27,294
Dividends paid			–	–	–	–	(33,277)	(33,277)
Foreign exchange translation differences	4		–	–	–	(23,879)	–	(23,879)
Revaluation of land and buildings			–	–	–	369	–	369
Share based payment			–	–	–	–	593	593
Equity shareholders' funds at 31 December 2021			7,496	142,085	36,272	7,262	265,052	458,167

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022			Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2022			7,496	142,085	50	225,008	374,639
Loss for the year			–	–	–	(16,362)	(16,362)
Issue of share capital	6		–	–	–	–	6
Issue of share premium			–	247	–	–	247
Dividends paid			–	–	–	(34,296)	(34,296)
Share based payment			–	–	–	867	867
Equity shareholders' funds at 31 December 2022			7,502	142,332	50	175,217	325,101

Year ended 31 December 2021			Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021			7,496	142,085	50	228,650	378,281
Profit for the year			–	–	–	29,042	29,042
Issue of share capital			–	–	–	–	–
Issue of share premium			–	–	–	–	–
Dividends paid			–	–	–	(33,277)	(33,277)
Share based payment			–	–	–	593	593
Equity shareholders' funds at 31 December 2021			7,496	142,085	50	225,008	374,639

The Notes and information on pages 146 to 223 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Chesnara plc (Registered number 4947166) (the company) is a limited liability company, incorporated in the United Kingdom and registered in England and Wales. The company is limited by shares and has a primary listing on the London Stock Exchange. The address of the registered office is 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, England, PR1 8UY, UK.

The company and its subsidiaries, together forming the group, comprise UK, Swedish and Dutch life and pensions businesses.

The UK segment consists of the CA and CASLP businesses, as described in Note 7. The acquisition of Sanlam Life & Pensions UK (SLP) took place on 28 April 2022, and the business subsequently changed its legal name to CASLP. 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 segment comprises the Movestic business, 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, distributing its products principally through independent financial advisors.

The Dutch segment comprises the Waard Group and Scildon businesses, as described in Note 7. These represent the group's Dutch life 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. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.

These financial statements are presented in pounds sterling, which is the functional currency of the parent company. Foreign operations are included in accordance with the policies set out in Note 2. The financial statements were authorised for issue by the directors on 29 March 2023.

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 businesses, the Swedish business and the Dutch businesses.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with United Kingdom adopted international accounting standards.

IFRS 9 – temporary exemption

'IFRS 9 Financial Instruments' was effective from 1 January 2018 and replaced '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 recommended that the exemption applies until the earlier of the introduction of 'IFRS 17 Insurance Contracts' and 1 January 2023.

To support the application of the temporary exemption, an assessment of the group's liabilities was made as at 31 December 2017. The assessment determined that the proportion of liabilities connected within scope of IFRS 4, together with other liabilities connected with insurance, was greater than 90% of the total liabilities of the group as at that date. Other liabilities connected with insurance include non-derivative investment contract liabilities measured at fair value under IAS 39, with a value of £3,420.3m at 31 December 2017. Certain disclosures are required as a result of deferring the application of IFRS 9 and these disclosures are contained in Note 5 and Note 24 to the financial statements.

Chesnara plc (the company) does not meet the qualifying criteria for temporary exemption from applying IFRS 9 as a stand-alone reporting entity. Therefore, IFRS 9 has been applied to the parent company financial assets within these financial statements.

Standards issued but not yet effective or adopted by the group

At the date of authorisation of these financial statements the following table shows new accounting standards or amendments to, or interpretations of, standards relevant to the group, which are not yet effective or adopted by the group:

Title	Subject
IFRS 17	Insurance contracts
Amendments to IAS 1	Classification of liabilities as current or non-current
Amendments to IAS 1	Disclosure of accounting policies
Amendments to IAS 1	Non-current liabilities with covenants
Amendments to IAS 8	Definition of accounting estimates
Amendments to IFRS 16	Lease liability in a sale and leaseback

The directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the financial statements of the group in future periods, except as follows:

IFRS 17 – Insurance Contracts

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

IFRS 17 requires insurance liabilities to be broken down into separate component parts, consisting of the Liability for Remaining Coverage (LRC) and the Liability for Incurred Claims (LIC). The LRC comprises the present value of future cash flows and also introduces a risk adjustment for non-financial risk, measuring uncertainty in the amount and timing of the cash flows. The LIC is in respect of outstanding claims for insured events that have already occurred.

The component parts of the LRC are collectively described as fulfilment cash flows and the movements in the fulfilment cash flows either impact the profit and loss or the Contractual Service Margin (CSM), the final component of the LRC. The CSM represents the future unearned profits of the insurance contracts and as such will be a key measure in the future reporting of insurance contracts. In the case that a group of contracts is onerous, a loss component is established instead of a CSM, with losses on onerous contracts recognised in profit or loss immediately.

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

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

Measurement models

IFRS 17 introduces a General Measurement Model (GMM) as the default method to determine how movements in the fulfilment cash flows impact either profit and loss or the CSM. For example, changes in the fulfilment cash flows that relate to future service impact the CSM; and changes to fulfilment cash flows due to the effect of the time value of money and the effect of financial risk do not adjust the CSM and instead impact the profit and loss. The Variable Fee Approach (VFA) is a modification of the GMM and is used where the insurance contract meets the IFRS 17 definition as having 'direct participating features'. This means that the nature of the contract is predominantly for the provision of an investment service rather than the insurance benefits also provided. The Premium Allocation Approach (PAA) is a further simplification that can be applied for short-duration contracts whereby all movements in the liability goes to profit and loss. Reinsurance contracts are considered separately to gross insurance contracts with the majority of reinsurance contracts within the group measured under the GMM and a small amount measured under PAA.

Disclosure

As well as introducing more detailed disclosures relating to insurance and reinsurance contracts, IFRS 17 will have a significant impact on the presentation of the income statement with a separate insurance service result and investment result. The disclosure of insurance contracts and reinsurance contracts in the group financial statements will follow the IFRS 8 operating segment split already applied.

Key judgements

The group will apply a 'bottom-up' approach to determining discount rates with the most liquid liabilities with reference to Solvency II risk free interest rate term structures whilst an additional illiquidity premia will be applied to less liquid liabilities.

The group will calculate the Risk Adjustment using a Cost of Capital (CoC) methodology similar to the Solvency II Risk Margin approach, whilst incorporating risk drivers consistent with the contract boundaries applicable under IFRS 17. The CoC rate will reflect that used in the group's own EcV reporting.

The CSM at the end of the reporting period will be allocated to profit and loss based on the relevant underlying coverage units where the number of coverage units in a group is determined by considering, for each contract, the quantity of the benefits provided under a contract and its expected coverage period. The quantity of benefits provided is based on the maximum benefit payment which may become due. For contracts that provide an investment return or investment related service, the account balance is generally considered the main driver for determining the amount of service provided in a period. For products that provide an insurance service the sum assured, in excess of any account balance, is considered the main driver for determining the amount of insurance service provided in a period.

IFRS 17 is required to be applied retrospectively unless it is impracticable to do so due to the lack of available and supportable historical information. For a Fully Retrospective Approach (FRA), the CSM at the date of transition is calculated by rolling forward the CSM determined at inception of the contract as if IFRS 17 had always applied. The group has been able to apply the FRA to its Dutch businesses with the inception date for the contracts acquired being the date of historical acquisition into the group.

Where the FRA is impracticable, a choice between a Modified Retrospective Approach (MRA) and a Fair Value Approach (FVA) is permitted. The FVA has been applied for CA plc in the UK where the length of time elapsed since acquisition into the group has meant that the retrospective application of IFRS 17 is not possible or practicable.

Scope and classification

In applying IFRS 17, we have conducted a full product assessment across the group to determine the contracts within scope of IFRS 17 and also to classify the contracts into contract groups for measurement purposes based on factors such as risks, expected profitability and date of recognition of the contract. For context, under IFRS 4 the net insurance contracts make up approximately 35% of total liabilities of the group as at 31 December 2022 and although there are some differences in scope under IFRS 17, this will not change the general composition of the balance sheet.

The majority of the Swedish business comprises savings contracts with some smaller value personal risk products. While we are satisfied with the assessment of the personal risk products (measured as PAA) and the majority of the savings benefits (savings component to be measured under IFRS 9 with income protection and waiver of premium benefits where provided to be separated from the host contract and measured under PAA), there is a minority of the savings benefits for which we are finalising our assessment; however, this makes up a small proportion of the total Swedish business and the liability value within the group as a whole, with the unit value of the savings balances representing less than 2% of the total liability value of the group at 31 December 2022.

We will finalise this assessment for the interim 2023 reporting. As with all elements of our implementation, our assessment will first and foremost be based on our interpretation of the IFRS 17 standard, factoring in other considerations including market practice, commercial substance, materiality and operational limitations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)**(a) Statement of compliance (continued)****Accounting for acquisitions and profit recognition**

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

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

IFRS 9 – Financial Instruments

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

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

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

The majority of the group's financial assets and liabilities will be classified as FVTPL either mandatorily as prescribed by IFRS 9, or by designating as such, as permitted under IFRS 9.4.1.5 to avoid an accounting mismatch that would otherwise have occurred with the valuation of the corresponding liabilities. Borrowings and short-term receivables will be classified as AC and no assets will be categorised as FVTOCI.

The valuation of the vast majority of assets will therefore be consistent with the current valuation method under IAS 39 in these financial statements. The only exception to this is the mortgage loan portfolio within Waard, where currently under IAS 39, both the direct mortgages and savings mortgages are measured at AC. In order to avoid an accounting mismatch with the measurement of the corresponding liability valuation under IFRS 17, these assets will be designated as FVTPL under IFRS 9.

The impact of these changes in classification and measurement on application of IFRS 9 to the overall group net equity position is considered below. As the measurement of assets under IFRS 9 cannot be considered without reference to the measurement of liabilities under IFRS 17, the impact below combines the impact of applying both IFRS 9 and IFRS 17. Although not mandatory, for the 2023 reporting cycle, the group will elect to apply IFRS 9 within its comparative statements from 1 January 2022 in line with IFRS 17 in order to avoid any potential accounting mismatch that may otherwise arise.

Initial application and impact of IFRS 17 and IFRS 9 in the group financial statements

The group has had an IFRS 17 and IFRS 9 implementation programme in place since 2018 across its various divisions and central group function. Significant progress has been made during 2022 to ensure financial and operational readiness for the 2023 reporting cycle, including the production of comparative information from 1 January 2022; the opening balance sheet date for reporting purposes.

The 2023 financial statements of the group will disclose a restated balance sheet as at 1 January 2022 applying both IFRS 17 and IFRS 9. The Statement of Changes in Equity will contain an opening adjustment from the previously reported net equity position at 1 January 2022 to the comparative position reported in the 2023 financial statements.

The impact to net equity at 1 January 2022 on application of IFRS 17 has been calculated by management, but as this has only recently been finalised it is still subject to our final governance procedures and has not yet been audited and therefore has not been disclosed in these financial statements.

Across the group there will be various offsetting impacts to the net equity position as at 1 January 2022, the key ones being:

- Recognition of the CSM as an explicit liability representing future unearned profits (net of reinsurance this will result in a decrease to net equity);
- Recognition of an explicit liability for Risk Adjustment for non-financial risk (net of reinsurance this will result in a decrease to net equity);
- The move from a variety of local methodologies with different areas of implicit margin to a valuation of 'best estimate' future cash flows discounted using market interest rates (net of reinsurance this will result in an increase to net equity); and
- Derecognition of Deferred Acquisition Costs (DAC) in respect of insurance contracts (decrease to net equity).

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and of entities controlled by the company (its subsidiaries), made up to 31 December each year. Control is achieved when the company is exposed or has rights to the variable returns from the involvement with the entity and has the ability to affect those returns through its power over the entity. The parent company financial statements present information about the company as a separate entity and not about its group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profit or loss and each component of other comprehensive income are attributed to the company and to the non-controlling interests. Total comprehensive income is attributed to the company shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Basis of preparation

The consolidated and parent company financial statements have been prepared on a going concern basis. The directors believe that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the directors have taken into consideration the points as set out in the financial management section under the heading 'Going Concern'.

The financial statements are presented in pounds sterling, rounded to the nearest thousand, and are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments; financial instruments at fair value through income; assets and liabilities held for sale; investment property; and investment contract liabilities at fair value through income.

Assets and liabilities are presented on a current and non-current basis in the Notes to the financial statements. If assets are expected to be recovered or liabilities expected to be settled within a year, they are classified as current. If they are expected to be recovered or settled in more than one year, they are classified as non-current. The Company Balance Sheet is also presented in this manner.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements made by management in the process of applying the group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in Note 3.

The accounting policies set out below, unless otherwise stated, have been applied consistently to all years presented in these consolidated financial statements.

In accordance with IFRS 4, Insurance Contracts, on adoption of IFRS the group applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards, introducing changes only where they provide more reliable and relevant information.

(d) Business combination

The group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Expenses directly attributable to the acquisition are expensed as incurred. The acquiree's identifiable assets, liabilities, and contingent liabilities, which meet the conditions for recognition under IFRS 3, are measured initially at their fair values at the acquisition date. Gains arising on a bargain purchase, where the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree exceeds the cost of acquisition, is recognised in the Consolidated Statement of Comprehensive Income at the acquisition date.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates, being its functional currency. For the purpose of these consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the parent company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency, being foreign currencies, are recorded at the rates of exchange prevailing on the dates of the transactions. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. At each balance sheet date, monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date and exchange differences are recognised in profit or loss. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing when the fair value was determined.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as other comprehensive income and are recognised in the group's foreign currency translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Transactions relating to business combinations denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the transaction date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)**(f) Product classification**

The group's products are classified at inception as either insurance or investment contracts for accounting purposes. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all rights and obligations are extinguished or expire (see below for how we classify different products). They may also transfer financial risk. Investment contracts are contracts which carry financial risk, with no significant insurance risk. Where contracts contain both insurance and investment components and the investment components can be measured reliably, for certain Movestic products, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

In some insurance contracts and investment contracts the financial risk is borne by the policyholders. Such contracts are usually unit-linked contracts.

With-profits contracts, which subsist only within the UK business, all contain a Discretionary Participation Feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses, which may be a significant portion of the total contractual benefits.

In respect of the S&P component of the CA segment, the amount and timing of such contractual benefits are at the discretion of the group and are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the group. The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the group may exercise its discretion as to the quantum and timing of their payment to contract holders.

In respect of the original CA book, all such contracts are wholly reinsured with ReAssure Limited (now part of the Phoenix Group), and the amount or timing of the additional payments are contractually at the discretion of the reinsurer and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract; or
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the reinsurer; or
- (iii) the profit or loss of the reinsurer.

For the purpose of assessing whether significant insurance risk exists, the following general framework is applied:

- *Unit-linked contract with death benefit greater than 105% of unit fund:* A threshold has been set to determine significant insurance risk, and for this group of products the assessment is made with reference to the policyholder's unit fund. In the event that the death benefit on a product is deemed to exceed 105% of the value of the unit fund, it is classified as an insurance product.
- *Unit-linked product with death benefit based on premiums received:* Products that have a death benefit based on premiums received are deemed to carry significant insurance risk, as there are plausible scenarios where the additional amounts may be significant.
- *Unit-linked product with death benefit of a fixed sum assured:* A death benefit that is a fixed sum assured is classed as having significant insurance risk as there are plausible scenarios where additional amounts may be significant.
- *With-profits – guaranteed minimum pensions:* Guaranteed minimum pension products have significant insurance risk as the cost to the provider is contingent on the policyholder, their survival to maturity and the annuity market.
- *With-profits – guaranteed minimum fund value:* These products have a death benefit equal to the present value of the guarantee which may be onerous depending on the timing of the death.
- *Protection:* Protection products, such as term assurance or whole of life products, carry clear insurance risk, as the potential benefit can far exceed the premiums for the product.

(g) Insurance contracts

There are fundamental differences between the nature of the insurance contracts subsisting in the UK, Swedish and Dutch businesses, including *inter alia* contract longevity. The related product characteristics are set out for the separate UK, Swedish and Dutch businesses in Note 5. As a consequence, the alignment of income and expense recognition with the underlying assumption of risk leads to the adoption of separate accounting policies appropriate to each business, as follows:

(i) Premiums

Across all four businesses, both regular and up-front single payment premiums are accounted for when they fall due, or in the case of unit-linked insurance contracts, when the liability is recognised, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

In Sweden, written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties paid on premiums.

For the annually renewed risk contracts in Sweden, unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a straight-line basis according to the duration of the policy underwritten.

(ii) Claims and benefits

Claims are accounted for in the accounting year in which they are due or notified. Surrenders are accounted for in the accounting year in which they are paid. Claims include policyholder bonuses allocated in anticipation of a bonus declaration. Reinsurance recoveries are accounted for in the same period as the related claim.

Swedish non-life claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses, together with any adjustments to claims from previous years.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claims provisions are not discounted. Provisions are calculated gross of any reinsurance recoveries.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of outstanding claims provisions is described in Note 30.

(iii) Acquisition costs

In the UK, Swedish and Scildon segments, acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. Such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

(iv) Measurement of insurance contract provisions

In the UK and Dutch businesses, insurance contract provisions are measured using accounting policies having regard to the principles laid down in Council Directive 2002/83/EC.

Insurance contract provisions are determined following an annual actuarial investigation of the long-term funds and are calculated initially on a statutory basis in order to comply with the reporting requirements of the Prudential Sourcebook for Insurers and the Dutch Central Bank respectively. This valuation is then adjusted to remove certain contingency reserves and to remove excess prudence from other reserves. In accordance with this, the provisions are calculated on the basis of current information, using the specific valuation methods set out below.

Unit-linked provisions are measured by reference to the value of the underlying net asset value of the group's unitised investment funds, determined on a bid value basis, at the balance sheet date.

For immediate annuities in payment the provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, including projected improvements in future mortality, interest rates and expenses. For certain temporary annuities in payment no allowance for mortality or mortality improvement has been made.

In respect of CA (S&P), for those classes of non-linked business with a discretionary participation feature, a gross premium method has been used to value the liability, whereby expected income and costs have been projected, allowing for mortality, interest rates and expenses.

For the other classes of non-linked business the provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

In respect of CA (original book) for those classes of non-linked and unit-linked business where policyholders participate in profits the liability is wholly reassured to ReAssure Limited. The liability is calculated on a net premium basis, but is then increased to the realistic liability as a result of the liability adequacy test.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets: this is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in income for the year. Insurance contract provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

In Sweden, provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claim provisions are not discounted other than for income protection and waiver of premium benefits, where payments may be made for a considerable period of time.

(h) Investment contracts

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(i) Amounts collected

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the balance sheet as an adjustment to the liability to the investor.

(ii) Amounts deposited with reinsurers

Amounts deposited with reinsurers under reinsurance arrangements, which primarily involve the transfer of financial risk, are entered directly to the balance sheet as amounts deposited with reinsurers. These assets are designated on initial recognition as at fair value through income.

(iii) Benefits

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities in the accounting period in which they are paid.

(iv) Acquisition costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)**(h) Investment contracts (continued)**

(v) Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through income. The group has designated investment contract liabilities at fair value through income as this more closely reflects the basis on which the businesses are managed.

The financial liability in respect of unit-linked contracts is measured by reference to the value of the underlying net asset value of the unitised investment funds, determined on a bid value, at the balance sheet date.

For the UK business, the impact of deferred tax on unrealised capital gains is passed to the policyholder and for the Swedish business a policyholder yield tax in respect of an estimate of the investment return on the underlying investments in the unitised funds is also reflected in the measurement of the respective unit-linked liabilities.

Investment contract liabilities are managed together with related investment assets on a fair value basis as part of the documented risk management strategy.

The fair value of other investment contracts is measured by discounting current estimates of all contractual cash flows that are expected to arise under contracts.

(i) Reinsurance

The group cedes reinsurance in the normal course of business for the purpose of avoiding the retention of undue concentration of risk on any one life, policyholder or loss event (for example multiple losses under a group Life contract). Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, which comprise amounts due from insurance companies for paid and unpaid losses and ceded life policy benefits. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments and are presented as amounts deposited with reinsurers.

The net premiums payable to a reinsurer may be more or less than the reinsurance assets recognised by the group in respect of the reinsurance cover purchased. Any gain or loss is recognised in the income statement in the period in which the reinsurance premiums are payable.

Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts and in accordance with the terms of the reinsurance contract. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the group may not recover all amounts due and the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer. Impairment losses reduce the carrying value of the related reinsurance assets to their recoverable amount and are recognised as an expense in the income statement.

The group enters into certain financing arrangements, which are established in the form of a reinsurance contract, but which are substantively in the form of a financial instrument. Such arrangements are classified and presented as borrowings within financial liabilities.

(j) Fee and commission income and other operating income*Fee and commission income:*

In accordance with IFRS 15, fees charged for investment management services provided in connection with investment contracts are recognised as revenue over time, as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period over time in which services will be provided.

Initial fees charged for investment management services provided in connection with insurance contracts are recognised over time as revenue when earned.

For both insurance and investment contracts, initial fees, annual management charges and contract administration charges are recognised over time as revenue on an accruals basis. Surrender charges are recognised as a reduction to policyholder claims and benefits incurred when the surrender benefits are paid.

Benefit-based fees comprising charges made to unit-linked insurance and investment funds for mortality and morbidity benefits are recognised over time as revenue on an accruals basis.

For insurance and investment contracts, commissions received or receivable which do not require the group to render further services are recognised at the point at which the commission becomes due. However, when it is probable that the group will be required to render further services during the life of the contract, the commission, or part thereof, is deferred and recognised over time as revenue over the period in which services are rendered.

Other operating income:

Fee income from investment managers is recognised in accordance with IFRS 15 and is in relation to Movestic, and is received from the fund companies, based on the value of the managed assets. The fee income is recognised and adjusted on an ongoing basis, as Movestic meets its commitments.

(k) Investment income

Investment income comprises income from financial assets and rental income from investment properties.

Income from financial assets comprises dividend and interest income, net fair value gains and losses (both unrealised and realised) in respect of financial assets classified as fair value through income, and realised gains on financial assets classified as loans and receivables.

Dividends are accrued on an ex-dividend basis. Interest received and receivable in respect of interest-bearing financial assets classified as fair value through income is included in net fair value gains and losses. For loans and receivables and cash and cash equivalents interest income is calculated using the effective interest method.

Rental income from investment properties under operating leases is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of each lease. Lease incentives are recognised in the Consolidated Statement of Comprehensive Income as an integral part of the total lease income.

(l) Expenses

(i) Operating lease payments

Under IFRS 16, the depreciation of right-of-use assets is recognised in the Statement of Comprehensive Income as an administration expense. Payments made in relation to lease commitments are reflected in the balance sheet as a reduction to the corresponding lease liability.

(ii) Financing costs

Financing costs comprise interest payable on borrowings and on reinsurance claims deposits included within reinsurance payables, calculated using the effective interest rate method. Under IFRS 16, interest on lease liabilities is recognised in the Statement of Comprehensive Income as finance costs.

(m) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income. Tax that relates directly to transactions reflected within equity is also presented within equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Within each tax jurisdiction that the group operates, there exists the ability to offset individual deferred tax assets and deferred tax liabilities.

(iii) Policyholders' fund yield tax

Certain of the group's policyholders within the Swedish business are subject to a yield tax which is calculated based on an estimate of the investment return on underlying investments within their unitised funds. The group is under an obligation to deduct the yield tax from the policyholders' unitised funds and to remit these deductions to the tax authorities. The remittance of this tax payment is included in other operating expenses as it does not comprise a tax charge on group profits.

(n) Acquired value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

The difference between the fair value of insurance contracts and the liability measured in accordance with the group's accounting policies for the contracts is recorded as acquired present value of in-force business. The present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated at the time of acquisition. The present value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test.

The present value of in-force investment contracts recognised under IAS 38 is stated at cost less accumulated amortisation and impairment losses. The initial cost is deemed to be the fair value of the contractual customer relationships acquired. The acquired present value of the in-force investment contracts is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of profit from the contracts. The recoverable amount is estimated at each balance sheet date. If the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount is reduced to its recoverable amount.

(o) Acquired value of customer relationships

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. These are carried gross of tax, are amortised in accordance with the expected emergence of profit from the new contracts and are tested periodically for recoverability.

(p) Software assets

An intangible asset in respect of internal development software costs is only recognised if all of the following conditions are met:

- (i) an asset is created that can be identified;
- (ii) it is probable that the asset created will generate future economic benefits; and
- (iii) the development costs of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Software assets, including internally developed software, are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years.

(q) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful economic lives of the property and equipment on the following basis:

Computers and similar equipment	3 to 5 years
Fixtures and other equipment	5 years

Assets held under leases, as right of use assets, are depreciated over their useful economic lives on the same basis as owned assets, or where shorter, over the term of the relevant lease. These include office buildings, office and IT equipment and motor vehicles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)**(r) Investment property**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. On initial recognition investment properties are measured at cost including attributable transaction costs, and are subsequently measured at fair value. Independent external valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every 12 months. These are self-invested fund properties which are initially recorded at purchase price and then valued triennially, by an independent professional valuer, on an open market basis, using valuation models in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards (5th Edition). The portfolio is revalued annually using an index valuation on each property. Any funds in receipt of the sale of the property are for the benefit of the respective pension fund members.

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 profit and loss. Rental income from investment property is accounted for as described in Accounting Policy (l).

(s) Financial assets

Investments in subsidiaries are carried in the Company Balance Sheet at cost less impairment.

All financial assets held for investment purposes other than the Waard mortgage loan portfolio and derivative financial instruments are designated as at fair value through income on initial recognition since they are managed, and their performance is evaluated, on a fair value basis in accordance with documented investment and risk management strategies. This designation is also applied to the group's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis as part of the documented risk management strategy. Purchases and sales of 'regular way' financial assets are recognised on the trade date, which is when the group commits to purchase, or sell, the assets.

All financial assets are initially measured at fair value plus, in the case of financial assets not classified as fair value through income, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, financial assets classified as at fair value through income are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

The fair values of financial assets quoted in an active market are their bid prices at the balance sheet date.

The mortgage loan portfolio and mortgage loan portfolio cash deposit held by the Waard Group are stated at amortised cost less impairment losses and incorporates the effective interest rate calculation method.

Financial assets not recognised at fair value through income are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the group considers, among other factors, the financial stability of the counterparty, current market conditions and fair value volatility.

Financial assets are derecognised when contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

(t) Insurance and other receivables, prepayments

Financial assets classified as insurance and other receivables are stated at amortised cost less impairment losses. A provision for the impairment of loans and receivables is established when there is objective evidence that the group will not be able to collect all the amounts due according to the original contract terms after the date of the initial recognition of the asset and when the impact on the estimated cash flows of the financial asset can be reliably measured.

Prepayments are held at cost and are amortised over the relevant time period.

(u) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Hedge accounting has not been applied.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Embedded derivatives which are not closely related to their host contracts and which meet the definition of a derivative are separated and fair valued through income.

(v) Policyholders' funds held by the group and liabilities relating to policyholders' funds held by the group

Policyholders' funds held by the group and liabilities relating to policyholders' funds held by the group are recognised at fair value.

(i) Policyholders' funds held by the group

The policyholders' funds held by the group represent the assets associated with an investment product in the Swedish business, where the assets are held on behalf of the policyholder and where all the risks and rewards associated with the assets are the policyholders' not the group's.

The policyholders' funds held by the group are held for investment purposes on behalf of the policyholders and are designated as at fair value through income. The fair values of the policyholders' funds held by the group are the accumulation of the bid prices of the underlying assets at the balance sheet date. Transactions in these financial assets are recognised on the trade date, which is when the group commits (on behalf of the policyholder) to purchase or sell the assets.

(ii) Liabilities relating to policyholders' funds held by the group

The liability relating to policyholders' funds held by the group represents the liability that matches the asset policyholders' funds held by the group. As stated previously, the risk and rewards associated with the investment product (and its underlying assets and matching liability) lie with the policyholders, not the group.

(w) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments. Highly liquid is defined as having a short maturity of 3 months or less at their acquisition.

Operating activities cash flows includes loans and financial investments. The purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. This is due to the cash receipts and payments made on behalf of the customers for which their funds are held by the entity. Dividends and interest received from the financial investments are captured within the operating activities.

Investing activities cash flows includes payments to acquire property, plant and equipment, intangibles, and other long-term assets. These payments include those relating to capitalised development costs.

Financing activities cash flows include cash proceeds from issuing shares capital, cash payments to owners to acquire or redeem the entity's shares, cash repayments of amounts borrowed, cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease, dividends paid out to shareholders, and interest paid on the borrowings.

(x) Impairment

The carrying amounts of the group's assets other than reinsurance assets (refer to (i) on page 152) and assets which are carried at fair value are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and impairment losses are recognised in the Consolidated Statement of Comprehensive Income. The recoverable amount of the cash generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Impairment losses are reversed through the Consolidated Statement of Comprehensive Income if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(y) Provisions

Provisions are recognised when the group has a present, legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(z) Borrowings

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised in the Consolidated Statement of Comprehensive Income on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability.

(aa) Leases

The group assesses whether a contract is or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments
- Variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options
- The payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the consolidated balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured by discounting the revised lease payments using a revised discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)**(aa) Leases (continued)**

The group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The group does not have any leases that include purchase options or transfer ownership of the underlying asset. The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if these were owned. For the group this is 'Property and Equipment'.

For short-term leases (lease of than 12 months or less) and leases of low-value assets (such as personal computers and office furniture) the group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'Other operating expenses' in the Consolidated Income Statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has not used this practical expedient.

The group's weighted average incremental borrowing rate applied to lease liabilities during 2022 is 5.2% for the UK division, 2.8% for the Swedish division and 2.0% for the Dutch division.

(bb) Employee benefits**(i) Pension obligations***UK businesses*

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which group companies pay fixed contributions. There are no legal or constructive obligations on group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Swedish business

The group participates in a combined defined benefit and defined contribution scheme for the benefit of its employees. However, the Scheme is a multi-employer scheme, with the associated assets and liabilities maintained on a pooled basis. There is limited information available to the group to allow it to account for the Scheme as a defined benefit scheme and, in accordance with IAS 19 Employee Benefits, it is, therefore, accounted for as a defined contribution scheme. Contributions paid to the Scheme are recognised in the Consolidated Statement of Comprehensive Income when due.

Dutch business (Waard)

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which group companies pay fixed contributions. There are no legal or constructive obligations on group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Dutch business (Scildon)

Scildon had a defined benefit plan which was closed and transferred into a defined contribution pension plan during 2019. The defined Benefit Pension Scheme was administered by Stichting Pensionfonds Legal & General Nederland. The company had agreed to contribute to the premium for the unconditional part of the pension. The company paid a contribution to the Scheme and subsequently had no further financial obligations with respect to this part of the Scheme. During 2019, a new defined contribution pension scheme was established for the benefit of Scildon employees.

(ii) Bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The expense is recognised in the Consolidated Statement of Comprehensive Income on an accruals basis.

(cc) Share-based payments

The value of employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

(dd) Share capital and shares held in treasury**(i) Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments, as consideration for the acquisition of a business, are included in the cost of acquisition.

(ii) Shares held in treasury

Where the company purchases its own equity share capital, the consideration paid, including directly attributable costs, is deducted from total shareholders' equity and shown separately as 'treasury shares' until they are cancelled. Where such shares are subsequently sold, any consideration received is credited to the share premium account.

(ee) Dividends

Dividend distributions to the company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the company's shareholders at the Annual General Meeting.

(ff) Other payables and payables related to direct insurance and investment contracts

Insurance and investment contract payables and other payables are recognised when due and are measured on initial recognition at the fair value of the consideration paid.

(gg) Investment in subsidiaries

Investments in subsidiaries are carried in the statement of financial position at cost less impairment. The company assesses at each reporting date whether an investment is impaired by assessing whether any indicators of impairment exist. If objective evidence of impairment exists, the company calculates the amount of impairment as the difference between the recoverable amount of the group entity and its carrying value and recognises the amount as an expense in the income statement. The recoverable amount is determined based on the cash flow projections of the underlying entities.

(hh) Acquisitions and portfolio transfers

Acquisitions are accounted for under IFRS 3 'Business combinations'. This requires management to perform an assessment of the fair value of the assets and liabilities acquired and consideration paid at the point of acquisition. In the event that the fair value of the assets and liabilities exceeds the fair value of the consideration, this is recognised as a day 1 gain. Where the fair value of the consideration exceeds the fair value of the assets and liabilities acquired it is recognised as a goodwill intangible asset on the group balance sheet. Where a transaction is not deemed to be a business combination it is accounted for as an asset and liability purchase. In this scenario the group identifies and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 Intangible Assets) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

(ii) Climate change

In our climate-related financial disclosures on pages 70 to 84 we identify that climate change related risks have the potential to manifest as an 'Investment and liquidity risk' (Principal Risk 1) or a 'Regulatory change risk' (Principal Risk 2). Whilst climate change risk is one of the most significant challenges facing the world, with Chesnara having its part to play in shaping policies and practices that contribute to managing climate risk challenges, the year end balance sheet does not include any significant judgements that are underpinned by a particular climate change scenario. As a consequence, we do not believe that climate change risk is currently a key source of estimation uncertainty.

3 Critical accounting judgements and key sources of estimation and uncertainty

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities and also makes critical accounting judgements in applying the group's accounting policies. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The more critical areas, where accounting estimates and judgements are made, are set out below. Each item identifies the business segments, as described in Note 7, to which it is relevant.

Critical accounting judgements**(a) Classification of long-term contracts (CA, CASLP, Movestic, Waard Group and Scildon)**

The group has exercised judgement in its classification of long-term business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 2 Significant Accounting Policies. Insurance contracts are those where significant risk is transferred to the group under the contract and judgement is applied in assessing whether the risk so transferred is significant, especially with regard to pensions contracts, which are predominantly, but not exclusively, created for investment purposes. Refer to Note 2(f) – Product Classification on page 150.

Key sources of estimation and uncertainty**(a) Acquired value of in-force business (CASLP)**

The group applies accounting estimates and judgements in determining the fair value, amortisation and recoverability of acquired in-force business relating to insurance and investment contracts. In the initial determination of the acquired value of in-force business, the group uses actuarial models to determine the expected net cash flows (on a discounted basis) of the policies acquired. The key assumptions applied in the models are driven by the expected behaviour of policyholders on termination rates, expenses of management and age of individual contract holders as well as global estimates of investment growth, based on recent experience at the date of acquisition. The assumptions applied within the models are considered against historical experience of each of the relevant factors. Refer to Accounting Policy Note 2(n) on page 153 and Note 19 on page 183.

The acquired value of in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. Acquired value of in-force business is tested for recoverability by reference to expected future income and expense levels. Such impairment testing requires a degree of estimation and judgement. In particular the value is sensitive to the rate at which future cash flows are discounted and to the rates of return on invested assets, based on applying a range of discount rates, which have been determined with reference to our review of the current market assessment of the true value of money and the risks specific to the asset for which the cash flows have not been adjusted. The rates used for the purpose of the impairment testing range from 4% to 12%.

As at 31 December 2022 there is deemed to be a key source of estimation and uncertainty regarding the AVIF for CASLP, for which the carrying value of acquired in-force business, net of amortisation, is £52.2m.

A 400 basis point increase in the effective discount rate would reduce the underlying value of in-force business in CASLP by £11.3m. A 10% fall in projected future profits would reduce the underlying value of in-force business in CASLP by £5.7m.

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)****(b) Deferred acquisition costs and deferred income – investment contracts (CA, Movestic and Scildon)**

The group applies judgement in deciding the amount of direct costs that are incurred in acquiring the rights to provide investment management services in connection with the issue of investment contracts. Judgement is also applied in establishing the amortisation of the assets representing these contractual rights and the recognition of initial fees received in respect of these contracts. The assets are amortised over the expected lifetime of the investment management service contracts and deferred income, where applicable, is amortised over the expected period over which it is earned. Estimates are applied in determining the lifetime of the investment management service contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels. This test for recoverability is performed using best estimates of future cash flows, using a market consistent estimate of future investment returns. Refer to Accounting Policy 2(j) on page 152 and Note 18 on page 183.

As at 31 December 2022, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £0.9m and £1.9m respectively (as at 31 December 2021: £1.1m and £2.3m 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 2022, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £51.9m (as at 31 December 2021: £53.6m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2022 by £3.7m and shareholders' equity as at 31 December 2022 by £3.7m.

As at 31 December 2022, the carrying values of deferred acquisition costs, net of amortisation, in respect of Scildon, was £10.0m (as at 31 December 2021: £8.6m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2022 by £5.1m and shareholders' equity as at 31 December 2022 by £4.0m.

(c) Estimates of future payments arising on insurance contracts

Longer-term business: The group has to make a number of estimates in order to calculate the liabilities for long-term insurance business. Such estimates are also used when performing liability adequacy tests to verify the adequacy of IFRS technical provisions. These estimates include areas such as future mortality and morbidity rates, the level of contract persistency, investment returns, administration expenses and the costs of guarantees. Future expenses are based on management's best estimate at the balance sheet date, and include the costs and benefits of in-flight projects to the extent there is reasonable certainty as to their outcome. The technical provisions for such contracts arise in CA, CASLP, Waard Group and Scildon, and are summarised in Note 30 on page 196. The total carrying value at 31 December 2022 was £3,705.0m (31 December 2021: £3,758.6m). Further information on how these estimates are derived, along with the sensitivity of the balance sheet to these assumptions on a gross and net of reinsurance basis, is included in Note 30 on page 196.

Products with guarantees: The group has offered guaranteed annuity options within certain contracts. Estimates have been made of the number of contract holders who will exercise these options, in order to measure their value. Changes in investment conditions could result in significantly more contract holders exercising their options than the group has assumed in determining the liabilities arising from these contracts.

S&P with-profits contracts contain a Discretionary Participation Feature (DPF) which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that may be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the group; and
- that are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the group.

The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the group may exercise its discretion as to the quantum and timing of their payment to contract holders.

As at 31 December 2022, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £206.4m (31 December 2021: £257.6m). This amount is part of the technical provisions for CA in Note 30a on page 196. Key sensitivities for this balance are included within the sensitivities disclosure for CA in Note 30 on page 202.

(d) Investment in subsidiary CA

The group applies accounting estimates and judgements in determining the holding value and recoverability of its investment in subsidiaries, in particular that of Countrywide Assured plc. An annual impairment test is performed which requires a degree of estimation and judgement, and for which management have determined that the reported EcV of the UK business is appropriate to be used as a proxy for the IAS 36 'value in use' assessment, as this value takes into account the future cash flows and hence future profitability of the business. This assessment showed that as at the balance sheet date, there was a deficit of £25m against the carrying value of the investment in subsidiary value and hence the conclusion drawn was that a £25m impairment of the carrying value was necessary.

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 12.47 (2021: £1 = SEK 11.80) for the Swedish business and £1 = EUR 1.17 (2021: £1 = EUR 1.16) for the Dutch business.

Assets and liabilities have been translated at the year end rate of £1 = SEK 12.49 (31 December 2021: £1 = SEK 12.21) for the Swedish business and £1 = EUR 1.13 (31 December 2021: £1 = EUR 1.19) for the Dutch business.

Total foreign currency exchange rate gains for the year ended 31 December 2022 recognised in the Consolidated Statement of Comprehensive Income of £5.8m (year ended 31 December 2021: loss of £23.9m).

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, comprise 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			
	2022		2021	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,494,249	1,350,438	1,627,050	1,462,498
Long-term non-linked without DPF (sums assured)	6,867,769	852,752	7,547,127	950,035
Immediate annuities (benefits per annum)	9,574	4,836	4,916	34
Deferred annuities with DPF (benefits per annum)	1,738	1,738	1,767	1,767
Long-term with DPF (sums assured)	257,284	251,715	268,082	261,817

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. There are also immediate annuity contracts in the recently acquired CASLP business.

For contracts where death is the insured risk, the most significant factors that could increase risk are epidemics and pandemics (such as COVID-19, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

Management of risks

Unit-linked insurance contracts are contracts where charges are made for insurance risk and administration charges and the primary purpose of which is to provide an investment return to policyholders. In addition, the policyholder is insured against death and serious injury. Unit-linked contracts operate by investing the policyholders' premiums into pooled investment funds of the UK business, the policyholders' share of the fund being represented by units. The benefit is payable on death, or maturity if earlier, the amount payable on death being subject to a guaranteed minimum amount. For these contracts, all of the investment risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Therefore, there is exposure to insurance risk only insofar as the value of the unit-linked fund is lower than the guaranteed minimum death benefit. For a material portion of the business, the charges taken for mortality and morbidity costs are reviewable, which allows the company to mitigate some of its insurance risk.

The UK business also has a small amount of unit-linked annuities, which provide regular income payments which vary in amount depending on the value of the policyholder's underlying unit fund. These contracts do not have a surrender value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)**(a) UK business (continued)**

Non-linked business contains three distinct groups of products:

- (i) A number of products representing approximately 74% (2021: 75%) of sums assured, provide fixed and guaranteed benefits and have fixed future premiums. For these there are no mitigating terms and conditions that reduce the insurance risk accepted;
- (ii) Immediate annuities in both CA and CASLP 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 this is mitigated to some extent by reinsurance.
- (iii) For the remainder of the business, which is operated on a quasi-linked basis, charges are made for mortality risk on a monthly basis and these charges may be altered based on mortality experience, thereby minimising the exposure to mortality risk. In the light of charges made for insurance risk and administration services and of the investment performance of the assets notionally backing these contracts, the premium payable may be altered at regular intervals. A number of these contracts also include Permanent Health Insurance (PHI) benefits which have reviewable charges, which may be altered, based on morbidity experience, thereby minimising the exposure to morbidity risk, subject to the company being satisfied that it is fair to customers to do so. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce this mitigating effect.

Reinsurance is used extensively on the business described above to mitigate concentrations of insurance risk. Including a large concentration of the immediate annuities. The insurance risk is further managed through pricing, product design and, for non-linked and quasi-linked contracts, appropriate investment strategy.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases, are avoided through the use of reinsurance.

Long-term insurance contracts – with discretionary participation features – CA*Product features*

CA historically wrote with-profits business in the UK, where the policyholder benefits comprise a guaranteed sum assured payable on death or at maturity, to which may be added a discretionary annual bonus and a discretionary terminal bonus.

Management of risks

This business is wholly reassured to ReAssure Limited and hence the only risk retained by CA for this business is the risk of default by the reinsurer. This risk is detailed in the credit risk management section of Note 6.

Long-term insurance contracts – with discretionary participation features – CA (S&P)*Product features*

At retirement the with-profits deferred annuity contracts provide for guaranteed minimum pensions and the with-profits endowments provide for guaranteed minimum lump sums. With-profits whole of life policies guarantee a minimum amount payable on death. The guaranteed annuities or lump sums represent investment returns on contributions mainly at 5% p.a. A terminal bonus may be paid at maturity or retirement, and on death, depending on the investment performance of the with-profits policyholder assets when the policyholder receives the higher of the asset share and the minimum guaranteed amount. The asset share is based on the contributions invested plus an allocation of investment return less a fixed charge for expenses, and certain direct expenses. In accordance with the Principles and Practices of Financial Management for its with-profits business S&P may make a deduction of up to 1.5% per annum from the asset shares of with-profits policyholders to meet the future cost of guarantees. The amount deducted remains part of the assets in the with-profits policyholder funds. The size of the deduction is reassessed at least annually. In the event of a policyholder choosing to transfer out, the amount payable is not guaranteed and is based on the asset share.

Management of risks

For life endowment and whole of life policies mortality risk is material. This risk is mitigated to some extent by the use of reinsurance. The risk is to increases in mortality rates, which are most likely to be from epidemics (such as COVID-19, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For deferred annuity contracts, the risk is to improving mortality. The risk is managed through the initial pricing, and technical provisions are assessed allowing for future mortality improvements based on industry available information on mortality experience.

Concentration of insurance risk

Exposures to material insurance risks, on individual cases, are avoided through the use of reinsurance.

Other risks on insurance contracts

Apart from financial risks relating to the financial assets, which support life assurance contracts, as set out in Note 6, there are other significant types of risk pertaining to life insurance contracts written by the UK business, as follows:

Expense risk

The strategy of the UK business is to outsource the majority of operational activities to third party administrators in order to reduce the significant expense inefficiencies that would arise with fixed and semi-fixed costs on a diminishing policy base. There are, however, risks associated with the use of outsourcing. In particular, there will be a need in future to renegotiate the terms of the outsourcing arrangements as the existing agreements expire, and to determine the level of outsourcing required to manage the CASLP business in future. 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	2022		2021	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	6,346	4,567	5,871	4,992
Norway	5	–	11	2
Individual				
Death	3,086	1,615	3,187	1,859
Waiver of premium	1,019	400	1,485	500
Income protection	2,154	1,379	2,822	407
	12,610	7,961	13,376	7,760

Claims outstanding As at 31 December	2022		2021	
	Gross £000	Net £000	Gross £000	Net £000
Group				
Sweden	24,738	19,312	28,935	22,361
Norway	106	23	131	28
Individual				
Death	1,760	1,360	1,234	994
Waiver of premium	5,360	2,042	8,165	2,962
Income protection	15,858	7,715	21,504	10,121
	47,822	30,452	59,969	36,466

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 2022: SEK 48,300, being approximately £3,867) although most policies are between 5 to 20 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (31 December 2022 NOK: 111,477 being approximately £8,924) although most policies are between 5 to 15 times the base amount.

All contracts are for an annual period.

Product features – individual contracts

In relation to individual contracts, Movestic writes contracts, which include death and morbidity benefits on term assurance with disability, waiver of premium and income protection options. Policies are sold in Sweden and all sales are intermediated.

In relation to the income protection and the waiver of premium benefits within the individual contracts, the monthly benefits upon a claim may be payable to the policyholders over a long period up to their retirement. The contracts have been unbundled as between insurance and investment contracts. Risk in respect of investment contracts is described in Note 6. All insurance contracts are for an annual period and payments are made on a monthly basis.

Management of risk

The main risk associated with the group and individual contracts is the frequency and size of claims (for either death or accident or sickness). Claims experience can be variable, with the main factors being the age, sex and occupation of the policyholder.

In addition, for the group contracts, Movestic is exposed to a single loss event that covers a number of employees of an organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)**(b) Swedish business (continued)**

The key risks are managed through appropriate product design and pricing of the policies to ensure that the potential cost to Movestic of these events (and associated expenses of underwriting and administration) are reflected in the price charged to the policyholder. Key controls implemented include a defined pricing structure based on the characteristics of the policyholder and the regular review of management information on the type and frequency of accidents.

Group contracts are issued on an annual basis which means that Movestic's exposure runs for a period of 12 months, after which Movestic has the option to decline to renew or can increase the price on renewal.

Individual contracts are long-term contracts but Movestic has the option to review the premiums on an annual basis.

For both the group and individual contracts, between 1% to 80% of the premiums and claims relating to this product are ceded to a reinsurer which reduces the overall insurance risk exposure to Movestic. The claim portfolio arising from the acquisition of the business of Aspis Liv, a small Swedish Life and Health insurer in 2010, is reinsured for approximately 80% of the claims amount.

In addition, for the majority of the group contracts, the loss arising from a single event to multiple employees is reinsured. The reinsurance provides indemnity for a single loss between SEK 5m (approximately £0.4m) and SEK 150m (approximately £12.0m).

Concentration of insurance risk

Concentration of insurance risk is determined by reference to benefits assured for individual contracts and by estimated maximum loss for group contracts.

Regarding benefits assured for individual contracts, the combined effect of reinsurance and the fact that the vast majority of the total benefit assured relates to numerous small value contracts, limit the level of concentration risk. Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 98.5% 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 299m (approximately £24.0m) 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	2022		2021	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	697,653	434,809	791,980	461,425
Long-term non-linked without DPF (sums assured)	3,183,358	1,292,156	3,459,369	1,498,384

Protection*Product feature*

Waard's original business mainly consists of term life, sold as a single premium policy in combination with a loan or mortgage. Policy conditions allow for a surrender value at lapse. In addition, similar types of policies covering the risk of disability, unemployment and accident were written. The most significant factors that could increase risk are epidemics and changes in lifestyle and the social security environment. The policies acquired from Monuta and Argenta are mainly term life and endowments with some profit sharing conditions. The recently acquired policies from Robein Leven are primarily endowments.

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*

Waard Leven has a small amount of 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. The unit-linked policies acquired from Robein Leven are a mixture of savings and annuity contracts, with the latter paying regular income payments which vary in amount depending on the value of the policyholder's underlying unit fund.

Persistency and expense risk

The portfolio is small and very mature. To mitigate the expense risk, management may also consider the possibility of merging the portfolio into a larger scale one, keeping cost levels appropriate. Persistency levels are moderate and largely depend on investment performance.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Waard are set out in Note 30 Insurance Contract Provisions.

(d) Scildon

Sums assured/benefits per annum – gross and net of reinsurance 31 December	2022		2021	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	1,540,527	1,330,553	1,618,087	1,430,318
Long-term non-linked without DPF (sums assured)	44,592,321	19,163,770	39,631,901	17,195,631
Immediate annuities (benefits per annum)	66,347	46,025	52,626	34,227
Deferred annuities	5	5	4	4

Protection*Product feature*

The division mainly wrote term life, sold as a regular premium policy. Older policy profit sharing conditions (before 2011) allow for a surrender value at lapse or profit sharing at maturity. The current mass market product has no surrender value or profit sharing. The most significant factors that could increase risk are epidemics and changes in lifestyle leading to higher mortality.

Management of risks

Term assurances are the main new business product type and significant underwriting occurs. Quota share reinsurance agreements are in place with a maximum retention per policy, to mitigate the risk in excess of risk appetite for mortality at the moment of underwriting. Catastrophe reinsurance is in place to mitigate the loss arising from a catastrophe risk event. The national NHT cover in case of terrorism is in place.

Concentration of insurance risk

Scildon does write group pensions contracts (SME segment) with an excess of loss limit of €200,000 per life, hence concentration risk is limited.

Unit-linked*Product features*

Scildon writes unit-linked and index-linked business, with most policies paying out 0%, 90% or 110% of the unit-value at death of the policyholder and 100% at maturity. Early surrender triggers smaller charges for policyholders. Index linked policies contain either explicit or implicit guarantees, which triggers smaller charges for policyholders. The group pension contracts are also unit-linked in nature.

Persistency and expense risk

The portfolio is large, but slowly decreasing. To mitigate the expense risk, management may also consider the possibility of merging the portfolio into a larger scale one, keeping cost levels appropriate. Persistency levels are moderate and due to the guarantees given for some policies there is a prevailing risk of high persistency.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for Scildon are set out in Note 30 Insurance Contract Provisions.

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. The group has some 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. However, in 2022 a currency hedge was established to remove some future currency risk.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in Note 5. The terms and conditions of investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from investment contracts are as follows:

The group provides two types of investment contract: unit-linked savings and unit-linked pensions predominantly written in the UK and Sweden.

- (i) Unit-linked savings are single or regular premium contracts, with the premiums invested in a pooled investment fund, where the policyholder's investment is represented by units or trust accounts where the policyholder decides where to invest. On certain contracts there is a small additional benefit payable on death which is deemed not to transfer significant insurance risk to the business for these contracts. The benefits payable at maturity or surrender of the contracts are the underlying value of the investment in the unit-linked funds or trust accounts, less surrender charges where applicable.
- (ii) Unit-linked pensions are single or regular premium contracts with features similar to unit-linked savings contracts. Benefits are payable on transfer, retirement or death.
- (iii) No investment contracts exist within the Dutch business.

Market risk management**(i) General**

The group businesses manage their market risks within Asset Liability Matching (ALM) frameworks that have been developed to achieve long-term investment returns at least equal to their obligations under insurance and investment contracts, with minimal risk. Within the ALM frameworks the businesses periodically produce reports at legal entity and asset and liability class level, which are circulated to the businesses' key management. The principal technique of the ALM frameworks is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, with separate portfolios of assets being maintained for each distinct class of liability.

For unit-linked contracts the group's objective is to match the liabilities, both insurance and investment contract liabilities, with units in the assets of the funds to which the value of the liabilities is linked, such that the policyholder bears the market risk. This minimises the impact of market risks on these contracts, such that the remaining primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign currency movements on the fair value of the unit-linked assets, on which asset-related fees are based.

For non-unit-linked business, the group's objective is to match the timing of cash flows from insurance and investment contract liabilities with the timing of cash flows from assets subject to identical or similar risks. By matching the cash flows of liabilities with those of suitable assets, market risk is managed effectively, whilst liquidity risk is minimised. These processes to manage the risks, which the group has not changed from previous periods, ensure that the group is able to meet its obligations under its contractual liabilities as they fall due.

With respect to CA (S&P) there is significant additional risk insofar as investment returns on policyholder with-profits assets supporting the with-profits business may result in insufficient policyholder assets to meet contractual obligations to with-profits policyholders, because of the impact of contract guarantees.

The Notes below explain how market risks are managed using the categories utilised in the businesses' ALM frameworks. In particular, the ALM frameworks require the management of interest risk, equity price risk, and liquidity risk at the portfolio level, so that the appropriate risks for each portfolio may be managed in an effective way. The following tables reconcile the classes and portfolios used in the businesses' ALM frameworks to relevant items in the consolidated balance sheet and are followed by a portfolio-by-portfolio description of the nature of the related market risk and how that risk is managed.

31 December 2022

	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	–	–	–	7,894	7,894
Investment properties	93,266	–	–	1,215	94,481
Reinsurers' share of insurance contract provisions	8,333	35,743	53,102	99,137	196,315
Amounts deposited with reinsurers	32,803	–	–	–	32,803
Financial assets					
Equity securities at fair value through income	79,233	–	–	–	79,233
Holdings in collective investment schemes at fair value through income	7,473,464	168,618	46,491	468,635	8,157,208
Debt securities at fair value through income	17,600	49,421	10,877	854,813	932,711
Financial assets held at amortised cost	271,390	–	–	33,838	305,228
Derivative financial instruments	–	141	–	–	141
Total financial assets	7,841,687	218,180	57,368	1,357,286	9,474,521
Insurance and other receivables	(4,943)	554	–	41,061	36,672
Prepayments	159	46	–	15,425	15,630
Reinsurers' share of accrued policyholder claims	5,624	73	–	8,428	14,125
Income taxes	5,035	–	–	811	5,846
Cash and cash equivalents	81,686	1,296	252	92,060	175,294
Total assets	8,063,650	255,892	110,722	1,623,317	10,053,581
Liabilities					
Insurance contract provisions	2,634,557	235,134	108,938	632,632	3,611,261
Other provisions	–	–	–	7,953	7,953
Financial liabilities					
Investment contracts at fair value through income	5,800,871	–	–	3,998	5,804,869
Lease liabilities	–	–	–	1,233	1,233
Borrowings	2,013	–	–	209,963	211,976
Derivative financial instruments	–	119	–	3,731	3,850
Total financial liabilities	5,802,884	119	–	218,925	6,021,928
Deferred tax liabilities	–	–	–	8,095	8,095
Reinsurance payables	285	7	–	48,529	48,821
Payables related to direct insurance and investment contracts	43,987	5,356	1,784	98,596	149,723
Income taxes	452	–	–	3,974	4,426
Other payables	5,292	215	–	29,643	35,150
Bank overdrafts	3	–	–	16	19
Total liabilities	8,487,460	240,831	110,722	1,048,363	9,887,376

*Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(i) General (continued)

31 December 2021		Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £000	Other non-linked contracts and other shareholder £000	Total £000
Assets						
Property and equipment	–	–	–	–	7,830	7,830
Investment properties	–	–	–	–	1,071	1,071
Reinsurers' share of insurance contract provisions	9,446	38,157	69,949	130,198	247,750	
Amounts deposited with reinsurers	38,295	–	–	–	–	38,295
Financial assets						
Equity securities at fair value through income	6,352	–	–	–	–	6,352
Holdings in collective investment schemes at fair value through income	6,208,981	230,262	–	418,811	6,858,054	
Debt securities at fair value through income	9,453	61,803	21,981	884,962	978,199	
Financial assets held at amortised cost	274,014	–	–	19,797	293,811	
Derivative financial instruments	94	170	–	–	–	264
Total financial assets	6,498,894	292,235	21,981	1,323,570	8,136,680	
Insurance and other receivables	1,480	2,284	–	31,849	35,613	
Prepayments	105	46	–	13,094	13,245	
Reinsurers' share of accrued policyholder claims	5,178	118	–	11,044	16,340	
Income taxes	–	–	–	7,233	7,233	
Cash and cash equivalents	5,544	873	532	63,138	70,087	
Total assets	6,558,942	333,713	92,462	1,589,027	8,574,144	
Liabilities						
Insurance contract provisions	2,755,508	297,650	90,736	674,518	3,818,412	
Other provisions	–	–	–	992	992	
Financial liabilities						
Investment contracts at fair value through income	4,116,514	–	–	4,058	4,120,572	
Lease liabilities	–	–	–	2,019	2,019	
Borrowings	–	–	–	47,185	47,185	
Derivative financial instruments	–	–	–	–	–	
Total financial liabilities	4,116,514	–	–	53,262	4,169,776	
Deferred tax liabilities	–	–	–	15,699	15,699	
Reinsurance payables	297	7	–	70,110	70,414	
Payables related to direct insurance and investment contracts	31,765	6,128	1,726	89,643	129,262	
Income taxes	5,427	–	–	1,100	6,527	
Other payables	2,715	1,804	–	19,472	23,991	
Bank overdrafts	7	20	–	229	256	
Total liabilities	6,912,233	305,609	92,462	925,025	8,235,329	

*Insurance contracts with DPF include shareholder funds within the CA (S&P) with-profits funds.

Unit-linked contracts

For unit-linked contracts, which may be insurance or investment contracts, the group matches the financial liabilities, with units in the financial assets of the funds to which the value of the liabilities is linked, such that the policyholders bear the principal market risk (being interest rate, equity price and foreign currency risks) and credit risk. Accordingly, this approach results in the group having no significant direct market or credit risk on these contracts. Its primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based.

There is residual exposure to market risk on certain unit-linked contracts where the group provides to policyholders guarantees as to fund performance or additional benefits which are not dependent on fund performance. This exposure is mitigated to the extent that the group matches the obligations with suitable financial assets external to the unit-linked funds, such that the residual exposure is not considered to be material.

Insurance contracts with discretionary participation features

Insurance contracts with discretionary participation features subsist entirely within the UK businesses in the form of with-profits policies.

For the CA business, where the policyholder benefits comprise a discretionary annual bonus and a discretionary terminal bonus, the with-profits business is wholly reinsured to ReAssure Limited and hence there is no market risk for this class of business. Policyholders have the option, for a small element of the with-profits business, to invest a portion of their investment in unit-linked funds as an alternative to the with-profits fund. In this case, a portion of the business is retained, with the management of financial risks of this portion being the same as described under 'Unit-linked contracts' above.

For the CA (S&P) business the primary investment objective of the with-profits policyholder funds is that the guaranteed minimum benefits of the with-profits policyholders should be met entirely from the policyholder funds. The secondary investment objective is, where possible, to provide a surplus in excess of the guaranteed minimum benefits. The entire surplus in the policyholder fund accrues to the with-profits policyholders. Any deficit in the policyholder fund is ultimately borne by shareholders. Therefore, the group has a significant exposure to market risk in relation to with-profits business should the with-profits policyholder assets be unable to fully meet the cost of guarantees. To achieve the investment objectives, the funds may invest in a range of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, both in UK and overseas. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities). Investment guidelines restrict the level of exposure for certain asset categories. In respect of derivatives, these may only be used for the purposes of reduction of investment risks and efficient portfolio management.

Annuities in payment

These are contracts which pay guaranteed financial benefits, generally monthly, for the lifetime of the policyholder, and in some cases of their spouse. The financial component of these contracts is a guaranteed fixed interest rate: accordingly, the group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the fixed interest debt securities backing the liabilities are insufficient to fund the benefits payable. The group manages some of this risk with the use of reinsurance on most of its book of annuities in CA. The book of annuities in CASLP is not reinsured. The interest rate risk on non-reinsured annuity contracts is minimised by holding fixed interest debt securities of a suitable duration and quality so as to match the asset and liability cash flows as close as practically possible. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined by means of projecting expected cash flows from the contracts.

Other non-linked contracts and shareholder funds

These categories, in which market risk is borne by shareholders, consist of non-linked insurance contracts without DPF and of net shareholder assets representing shareholders' equity. The group manages market risks by setting investment guidelines which restrict market exposures.

Non-linked contracts without DPF include contracts which pay guaranteed benefits on death or other insured events, the terms being fixed at the inception of the contract. Exposure to market price risk is minimised by generally investing in fixed-interest debt securities, while interest rate risk is generally managed by closely matching contracts written with financial assets of suitable yield and duration. To the extent that the group is unable to fully match its interest rate risk, it makes provision in respect of assumed shortfalls on guaranteed returns to policyholders.

Shareholder funds at both group parent company and operating subsidiary level, in accordance with corporate objectives and, in some instances, in accordance with local statutory solvency requirements, are invested in order to protect capital and to minimise market and credit risk. Accordingly, they are generally invested in assets of a shorter-term liquid nature, which gives rise to the risk of lower returns on these investments due to changes in short-term interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. Where liabilities are backed by less marketable assets, for example investment properties, there are provisions in contractual terms which allow deferral of redemptions in times of adverse market conditions. The group's substantial holdings of money market assets also serve to reduce liquidity risk.

The tables below present a maturity analysis of the group's liabilities, showing balance sheet carrying value and distinguishing between investment contracts and insurance contracts and other liabilities. The time bands have been updated and as a result the prior year has been represented.

31 December 2022									
Carrying values and cash flows arising from:	Carrying value £000	Contractual cash flows (undiscounted)							
		<1 yr £000	1-2 yrs £000	2-5 yrs £000	5-10 yrs £000	10-15 yrs £000	15-20 yrs £000	>20 yrs £000	Total £000
Insurance contract liabilities									
Unit-linked	2,634,557	2,634,557	–	–	–	–	–	–	2,634,557
With DPF	235,134	70,321	27,145	86,444	58,862	29,979	4,489	4,175	281,415
Annuities in payment	108,938	8,212	7,855	21,860	29,946	21,424	13,773	12,056	115,126
Other non-linked	632,632	127,412	99,539	248,754	284,033	172,057	84,587	61,752	1,078,134
Total insurance contract liabilities	3,611,261	2,840,502	134,539	357,058	372,841	223,460	102,849	77,983	4,109,232
Investment contract liabilities									
Unit-linked	5,800,871	5,800,871	–	–	–	–	–	–	5,800,871
Other	3,998	3,998	–	–	–	–	–	–	3,998
Total investment contract liabilities	5,804,869	5,804,869	–	–	–	–	–	–	5,804,869
Liabilities relating policyholder's fund held by the group	1,130,476	1,130,476	–	–	–	–	–	–	1,130,476
Lease liabilities	1,233	699	534	–	–	–	–	–	1,233
Borrowings	211,976	211,976	–	–	–	–	–	–	211,976
Derivatives	3,850	3,850	–	–	–	–	–	–	3,850
Total financial liabilities	7,152,404	7,151,870	534	–	–	–	–	–	7,152,404
Other liabilities									
Other provisions	7,953	7,953	–	–	–	–	–	–	7,953
Deferred tax liabilities	8,095	8,095	–	–	–	–	–	–	8,095
Reinsurance payables	48,821	48,821	–	–	–	–	–	–	48,821
Payables related to direct insurance and investment contracts	149,723	149,723	–	–	–	–	–	–	149,723
Deferred income	2,383	2,383	–	–	–	–	–	–	2,383
Income taxes	4,426	4,426	–	–	–	–	–	–	4,426
Other payables	35,150	35,150	–	–	–	–	–	–	35,150
Bank overdrafts	19	19	–	–	–	–	–	–	19
Total	11,020,235	10,248,942	135,073	357,058	372,841	223,460	102,849	77,983	11,518,206

31 December 2021									
Carrying values and cash flows arising from:	Carrying value £000	Contractual cash flows (undiscounted)							
		<1 yr £000	1-2 yrs £000	2-5 yrs £000	5-10 yrs £000	10-15 yrs £000	15-20 yrs £000	>20 yrs £000	Total £000
Insurance contract liabilities									
Unit-linked	2,755,508	2,755,508	–	–	–	–	–	–	2,755,508
With DPF	297,650	70,957	30,836	85,106	65,310	35,956	6,587	4,499	299,251
Annuities in payment	90,736	4,890	4,680	13,144	18,312	13,443	8,957	8,316	71,742
Other non-linked	674,518	99,018	87,239	234,748	269,417	161,614	77,287	54,091	983,414
Total insurance contract liabilities	3,818,412	2,930,373	122,755	332,998	353,039	211,013	92,831	66,906	4,109,915
Investment contract liabilities									
Unit-linked	4,116,514	4,116,514	–	–	–	–	–	–	4,116,514
Other	4,058	4,058	–	–	–	–	–	–	4,058
Total investment contract liabilities	4,120,572	4,120,572	–	–	–	–	–	–	4,120,572
Liabilities relating policyholder's fund held by the group	990,700	990,700	–	–	–	–	–	–	990,700
Lease liabilities	2,019	843	479	661	44	–	–	–	2,027
Borrowings	47,185	47,185	–	–	–	–	–	–	47,185
Derivatives	–	–	–	–	–	–	–	–	–
Total financial liabilities	5,160,476	5,159,300	479	661	44	–	–	–	5,160,484
Other liabilities									
Other provisions	992	992	–	–	–	–	–	–	992
Deferred tax liabilities	15,699	15,699	–	–	–	–	–	–	15,699
Reinsurance payables	70,414	70,414	–	–	–	–	–	–	70,414
Payables related to direct insurance and investment contracts	129,262	129,262	–	–	–	–	–	–	129,262
Deferred income	2,809	2,809	–	–	–	–	–	–	2,809
Income taxes	6,527	6,527	–	–	–	–	–	–	6,527
Other payables	23,991	23,991	–	–	–	–	–	–	23,991
Bank overdrafts	256	256	–	–	–	–	–	–	256
Total	9,228,838	8,339,623	123,234	333,659	353,083	211,013	92,831	66,906	9,520,349

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as due in the earliest period in the table because they are repayable or transferable on demand. Note 6(i) on page 164 provides more information on the assets held to match these liabilities.

Insurance contracts with DPF (with-profits business) can be surrendered before maturity for a cash amount specified in contractual terms and conditions. Accordingly, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due in the earliest period of the table because this option can be exercised immediately by all policyholders. As stated above, CA insurance contracts with DPF are wholly reinsured to ReAssure Limited and hence, in practice, there is no liquidity risk, the only risk retained for this business being the risk of default by the reinsurer, which is detailed under 'Credit Risk Management' on page 171. The maturity analysis in respect of the CA (S&P) segment of the business, however, is presented on an estimated basis, in accordance with the anticipated maturity profile and on estimates of mortality.

The undiscounted contractual cash flows stated above, are based upon the cash flows payable directly to customers and hence do not include an estimate of future expenses incurred, as is the case in the balance sheet carrying values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)**(iii) Currency risk**

Currency risk is the risk that the fair value or future cash flows of an asset or liability will change as a result of movements in foreign exchange rates. The group's exposure to currency risk is minimised to the extent that the risk on investments denominated in foreign currencies which back unit-linked investment and insurance contracts is borne by policyholders. It is, however, exposed to currency risk through:

- (i) its investment in Movestic, the assets and liabilities of which are principally denominated in Swedish krona; and
- (ii) its investment in Waard and Scildon, the assets and liabilities of which are principally denominated in euros.

The group's currency risk through its ownership of Movestic, Scildon and Waard Group is reflected in:

- (i) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic, Scildon and Waard Group's financial statements; and
- (ii) the impact of adverse exchange rate movements on cash flows between Chesnara plc and its foreign subsidiaries: in the short term these relate to cash flows from Movestic, Scildon and Waard to Chesnara by way of dividend payments. The risk on cash flows is managed by closely monitoring exchange rate movements. During the year, Chesnara plc has implemented a foreign currency hedge.

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	2022	2021
	£000	£000
Swedish krona		
Assets	3,938,942	4,553,626
Liabilities	(3,850,345)	(4,461,968)
Net assets	88,597	91,658
Euro		
Assets	2,604,290	2,598,222
Liabilities	(2,361,034)	(2,304,904)
Net assets	243,256	293,318
Norwegian krone		
Assets	150	162
Liabilities	(117)	(122)
Net assets	33	40
US dollar		
Assets	840	673
Liabilities	(402)	(97)
Net assets	438	576

(iv) Sensitivities

The table below shows the impact of movements in market risk variables identified above on profit before tax for the year under review and on shareholder equity as at the balance sheet date. We believe these risk variables represent the ones that are most reasonably possible to occur in the future, to which the group results are sensitive.

The variables are:

- (i) a 10% increase and decrease in equity and property values;
- (ii) a 100 basis point increase and decrease in per annum market rates of interest; and
- (iii) a 10% favourable and adverse movement in foreign currency exchange rates.

As explained above, market risks relating to assets backing unit-linked insurance and investment contract liabilities are borne by policyholders, while there is shareholder exposure to volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based. Accordingly, the sensitivities to these risks are presented on the next page.

Gross of reinsurance

Variation in/arising from	2022		2021	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 basis point increase in market rates of interest	(40.1)	(29.9)	(45.8)	(34.2)
100 basis point decrease in market rates of interest	31.1	23.1	25.6	19.0
10% increase in equity and property prices	2.1	1.6	2.5	1.9
10% decrease in equity and property prices	(2.6)	(2.0)	(2.8)	(2.2)
10% favourable movement in SEK: sterling exchange rate	(4.4)	6.1	1.3	10.2
10% adverse movement in SEK: sterling exchange rate	4.5	(4.3)	(1.1)	(8.3)
10% favourable movement in EUR: sterling exchange rate	(19.1)	21.3	(0.1)	32.6
10% adverse movement in EUR: sterling exchange rate	16.9	(16.4)	0.1	(26.7)

Net of reinsurance

Variation in/arising from	2022		2021	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 basis point increase in market rates of interest	(45.4)	(34.2)	(59.1)	(45.0)
100 basis point decrease in market rates of interest	36.7	27.7	39.4	30.2
10% increase in equity and property prices	5.5	4.3	6.5	5.2
10% decrease in equity and property prices	(6.0)	(4.7)	(6.8)	(5.4)
10% favourable movement in SEK: sterling exchange rate	(4.4)	6.1	1.3	10.2
10% adverse movement in SEK: sterling exchange rate	4.5	(4.3)	(1.1)	(8.3)
10% favourable movement in EUR: sterling exchange rate	(19.1)	21.3	(0.1)	32.6
10% adverse movement in EUR: sterling exchange rate	16.9	(16.4)	0.1	(26.7)

The impact of a 100 basis point increase in market rates of interest has reduced in 2022 relative to 2021, due to the rise in interest rates over the year, which has reduced the convexity of assets and liabilities making them less sensitive to a further rise in interest rates. The gross of reinsurance impact of a 100 basis point decrease in market rates of interest has risen, but when reinsurance is taken into account the sensitivity has fallen for the same reason that interest rates have risen.

The 10% increase and decrease in equity sensitivities have fallen relative to 2021 due to the fall in equity markets, which has reduced the amount of equities being stressed across the group.

The impact of a 10% movement in the SEK: sterling and EUR: sterling exchange rates in 2022 reflect the new currency hedge in Chesnara plc, which acts to make an adverse currency movement more favourable and vice-versa for a favourable currency movement. More generally, the impacts on profit before tax have been measured with regards to performance over 2022 on the income statement.

(v) Credit risk management

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits;
- The mortgage loan portfolio held by Waard with respect to the interest and capital repayments due from the borrowers;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition, there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The group businesses structure the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the businesses hold a significant proportion of their financial assets in debt securities and cash deposits, the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)**(v) Credit risk management (continued)**

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the businesses' liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the businesses remain liable for the payment to the policyholder. The group limits its exposure to reinsurance counterparties with a credit rating lower than BBB- and the creditworthiness of reinsurance exposures is regularly monitored as part of the group's risk framework.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

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		2022		2021		Balance sheet carrying value £000
	Policyholder linked £000	Amount subject to credit risk £000	Balance sheet carrying value £000	Policyholder linked £000	Amount subject to credit risk £000		
Reinsurers' share of insurance contract liabilities	35	196,280	196,315	—	247,750	247,750	247,750
Amounts deposited with reinsurers	—	32,803	32,803	—	38,295	38,295	38,295
Holdings in collective investment schemes	7,724,558	432,650	8,157,208	6,547,136	310,918	6,858,054	6,858,054
Debt securities	17,600	915,111	932,711	9,455	968,744	978,199	978,199
Policyholders' funds held by the group	1,130,476	—	1,130,476	990,700	—	990,700	990,700
Financial assets held at amortised cost	304,697	531	305,228	293,811	—	293,811	293,811
Derivative financial instruments	—	141	141	—	264	264	264
Insurance and other receivables	(4,942)	41,614	36,672	14,842	20,771	35,613	35,613
Reinsurers' share of accrued policyholder claims	73	14,052	14,125	119	16,221	16,340	16,340
Income taxes	5,151	695	5,846	21	7,212	7,233	7,233
Cash and cash equivalents	81,685	93,609	175,294	2,396	67,691	70,087	70,087
Total	9,259,333	1,727,486	10,986,819	7,858,480	1,677,866	9,536,346	

The amounts presented above as policyholder linked represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts, where the risk of default is borne by shareholders.

The acquisition of the Argenta portfolio included a substantial number of saving plans designed to save the capital amount due to a bank to pay off personal mortgages. Common in the Netherlands is a structure whereby the insurance company providing the savings vehicle invests in the policyholder's mortgage, which are held by the bank that provides the mortgage. The arrangement with the bank is structured such that any impact as a result of default of the mortgage by the policyholder is incurred by the bank only, with no impact to Chesnara. These assets earn the same interest as the mortgage, thereby providing a perfect investment match against the insurance liability.

Assets held to cover insurance contracts with DPF, held within a segregated with-profits fund, are included as being subject to credit risk, as such risk will be borne by shareholders where default would result in there being insufficient with-profits policyholder assets to fund minimum guaranteed obligations. However, in normal circumstances (where the asset share is in excess of the minimum guaranteed amount) substantially all the credit risk remains with policyholders.

The group's exposure to credit risk is summarised as:

Credit rating As at 31 December 2022	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Unrated £000	Total £000
	—	119,208	—	2,919	—	74,188	196,315
Reinsurers share of insurance contract liabilities	—	32,803	—	—	—	—	32,803
Amounts deposited with reinsurers	—	—	—	—	—	—	—
Holdings in collective investment schemes	303,625	190,942	2,297,517	328,123	85,256	4,951,745	8,157,208
Debt securities at fair value through income	315,798	317,852	172,504	124,701	—	1,856	932,711
Policyholders' funds held by the group	—	71,666	248,382	116,873	86,392	607,163	1,130,476
Financial assets held at amortised cost	—	—	33,307	—	—	271,921	305,228
Derivative financial instruments	—	—	141	—	—	—	141
Insurance and other receivables	2,300	9,387	2,226	1,620	—	21,139	36,672
Reinsurers share of accrued policyholder claims	—	12,724	—	394	—	1,007	14,125
Income taxes	—	—	—	—	—	5,846	5,846
Cash and cash equivalents	—	17,374	147,260	160	—	10,500	175,294
Total	621,723	771,956	2,901,337	574,790	171,648	5,945,365	10,986,819

Credit rating As at 31 December 2021		AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Unrated £000	Total £000
Reinsurers share of insurance contract liabilities	–	170,076	–	3,822	–	73,852	247,750	
Amounts deposited with reinsurers	–	38,295	–	–	–	–	38,295	
Holdings in collective investment schemes	439,477	279,300	2,508,789	352,639	137,722	3,140,127	6,858,054	
Debt securities at fair value through income	214,886	365,487	303,109	94,621	–	96	978,199	
Policyholders' funds held by the group	–	66,006	309,634	22,600	73,320	519,140	990,700	
Financial assets held at amortised cost	–	–	–	–	–	293,811	293,811	
Derivative financial instruments	–	–	170	–	–	94	264	
Insurance and other receivables	2,574	9,421	8,954	887	–	13,777	35,613	
Reinsurers share of accrued policyholder claims	–	14,924	–	832	–	584	16,340	
Income taxes	–	–	–	–	–	7,233	7,233	
Cash and cash equivalents	–	5,868	64,389	175	–	(345)	70,087	
Total	656,937	949,377	3,195,045	475,576	211,042	4,048,369	9,536,346	

The 'Financial assets held at amortised cost', which consists of the two mortgage loan portfolios, and 'Insurance and other receivables' assets in the credit risk rating table are not held at fair value or managed on a fair value basis. The cash flows for all of these assets consist solely of payments of principal and interest. These assets are not considered to have a low credit rating as at 31 December 2022.

Included within reinsurers' share of insurance contract provisions and amounts deposited with reinsurers (in respect of investment contracts) above, is a total significant exposure of £69.2m as at 31 December 2022 (31 December 2021: £76.0m) to ReAssure, which has been included within the 'AA' rating category.

Of the ReAssure amount £43.6m (31 December 2021: £50.0m) is in respect of currently guaranteed benefits. This counterparty exposure has been mitigated by ReAssure granting to CA a floating charge over related investment assets, which ranks that company equally with ReAssure policyholders. In order to monitor the ongoing creditworthiness of ReAssure, CA plc reviews the financial statements and regulatory returns submitted by ReAssure to the PRA on an annual basis. No credit limits were exceeded during the year ended 31 December 2022 and 31 December 2021.

Monument Re makes up £50.2m of the unrated exposure to reinsurers share of insurance contract liabilities as at 31 December 2022 (31 December 2021: £69.9m). This is protected through the use of a funds withheld arrangement under which the reinsurer has deposited collateral to CA plc in respect of the value of expected future reinsured claim payments.

Debt securities		Policyholder linked £000	Policyholder with-profit £000	Non-linked/shareholder £000	Total £000
As at 31 December 2022					
Austria	–	–	–	17,935	17,935
Belgium	–	–	–	32,861	32,861
France	653	5,193	149,488	155,334	
Germany	–	361	104,304	104,665	
Italy	–	–	18,274	18,274	
Ireland	–	–	17,124	17,124	
Netherlands	521	2,484	123,086	126,091	
Poland	–	–	431	431	
Portugal	–	–	–	–	
Spain	–	424	20,839	21,263	
UK	13,767	25,882	172,907	212,556	
Other	2,184	4,845	107,249	114,278	
Europe	17,125	39,189	764,498	820,812	
USA	475	7,950	81,387	89,812	
Other	–	1,568	593	2,161	
North America	475	9,518	81,980	91,973	
Australia	–	–	12,540	12,540	
Other	–	–	7,386	7,386	
Asia Pacific	–	–	19,926	19,926	
Total	17,600	48,707	866,404	932,711	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(v) Credit risk management (continued)

Debt securities	Policyholder linked £000	Policyholder with-profit £000	Non-linked/shareholder £000	Total £000
As at 31 December 2021				
Austria	–	–	30,849	30,849
Belgium	–	–	34,183	34,183
France	825	3,965	170,026	174,816
Germany	–	480	161,920	162,400
Italy	–	–	31,148	31,148
Ireland	–	–	24,263	24,263
Netherlands	551	2,339	79,981	82,871
Poland	–	–	616	616
Portugal	–	–	1,738	1,738
Spain	–	495	18,620	19,115
UK	4,556	38,044	136,634	179,234
Other	2,931	5,906	110,657	119,494
Europe	8,863	51,229	800,635	860,727
USA	590	9,547	82,665	92,802
Other	–	174	1,101	1,275
North America	590	9,721	83,766	94,077
Australia	–	–	7,436	7,436
Other	–	–	15,959	15,959
Asia Pacific	–	–	23,395	23,395
Total	9,453	60,950	907,796	978,199

There are no direct holdings in debt securities within Russia or Ukraine.

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 2022 comprise:

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

CA consists of its original business and that of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business transferred to CA during 2006. It also contains Save & Prosper Insurance Limited which was acquired on 20 December 2010 and its then subsidiary Save & Prosper Pensions Limited. The S&P business was transferred to CA during 2011. It also contains the business of Protection Life, which was purchased on 28 November 2013 and the business of which was transferred to CA effective from 1 January 2015.

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

CA and CASLP are responsible for conducting unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk, as described in Note 6 Management of Financial Risk.

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

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

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

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

On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies (from Belgian Insurance provider Argenta Assuranties N.V.). The completion took place on the 31 August 2020, at which stage Waard Group obtained control.

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

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

The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. This segment is closed to new business.

Scildon: This segment represents the group's open Dutch life insurance business, which was acquired on 5 April 2017. Scildon's policy base is predominantly made up of individual protection and savings contracts. It is open to new business and sells protection, individual savings and group pension contracts via a broker-led distribution model.

Other group activities: The functions performed by the parent company, Chesnara plc, are defined under the operating segment analysis as other group activities. Also included therein are consolidation and elimination adjustments.

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders of the reporting segments and the group as a whole. There were no changes to the measurement basis for segment profit during the year ended 31 December 2022.

(i) Segmental income statement for the year ended 31 December 2022

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance premium revenue	33,065	12,120	32,128	240,144	–	317,457
Insurance premium ceded to reinsurers	(14,170)	(4,651)	(3,776)	(22,224)	–	(44,821)
Net insurance premium revenue	18,895	7,469	28,352	217,920	–	272,636
Fee and commission income	27,928	15,927	133	49,392	–	93,380
Net investment return	(297,659)	(876,844)	(6,599)	(302,326)	(3,585)	(1,487,013)
Other operating income	17,704	30,667	–	–	–	48,371
Segmental revenue, net of investment return	(233,132)	(822,781)	21,886	(35,014)	(3,585)	(1,072,626)
Net insurance contract claims and benefits incurred	137,517	(937)	(23,640)	(42,797)	–	70,143
Net change in investment contract liabilities	130,099	871,205	–	–	–	1,001,304
Fees, commission and other acquisition costs	(20,827)	(22,348)	(1,303)	(390)	–	(44,868)
Administrative expenses:						
Depreciation charge on property and equipment	(36)	–	–	–	–	(36)
Other	(25,081)	(13,287)	(6,939)	(25,523)	(14,231)	(85,061)
Operating expenses	(2)	(8,698)	–	–	–	(8,700)
Financing costs	(228)	(823)	(1)	–	(9,497)	(10,549)
(Loss)/profit before tax and consolidation adjustments	(11,690)	2,331	(9,997)	(103,724)	(27,313)	(150,393)
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(7,075)	(2,171)	(830)	(3,183)	–	(13,259)
Charge for amortisation of acquired value of customer relationships	–	(45)	–	–	–	(45)
Fees, commission and other acquisition costs	–	1,312	–	124	–	1,436
Segmental income less expenses	(18,765)	1,427	(10,827)	(106,783)	(27,313)	(162,261)
Profit arising on business combinations and portfolio acquisitions	9,565	–	5,796	–	–	15,361
(Loss)/profit before tax	(9,200)	1,427	(5,031)	(106,783)	(27,313)	(146,900)
Income tax credit	14,177	14	1,307	27,686	5,383	48,567
(Loss)/profit after tax	4,977	1,441	(3,724)	(79,097)	(21,930)	(98,333)

Further analysis of the segmental profit before tax and consolidation adjustments can be found on page 54 of the financial review section.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Operating segments (continued)

(ii) Segmental balance sheet as at 31 December 2022

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Total assets	4,772,475	3,952,482	587,787	1,927,937	112,671	11,353,352
Total liabilities	(4,601,373)	(3,850,513)	(519,950)	(1,846,714)	(201,685)	(11,020,235)
Net assets	171,102	101,969	67,837	81,223	(89,014)	333,117
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	10,548	254	769	–	11,571

An explanation of the nature of valuation differences between the measurements in reportable segments' assets and liabilities can be found in Accounting Policy Note 2(g).

(iii) Segmental income statement for the year ended 31 December 2021

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Insurance premium revenue	36,004	13,796	32,546	229,700	–	312,046
Insurance premium ceded to reinsurers	(87,353)	(5,374)	(3,406)	(19,748)	–	(115,881)
Net insurance premium revenue	(51,349)	8,422	29,140	209,952	–	196,165
Fee and commission income	22,140	18,029	76	49,730	–	89,975
Net investment return	179,662	821,381	11,928	160,006	11	1,172,988
Other operating income	13,681	32,887	–	–	–	46,568
Segmental revenue, net of investment return	164,134	880,719	41,144	419,688	11	1,505,696
Net insurance contract claims and benefits incurred	(34,545)	(2,787)	(35,849)	(396,718)	–	(469,899)
Net change in investment contract liabilities	(77,568)	(820,901)	–	–	–	(898,469)
Fees, commission and other acquisition costs	(316)	(23,598)	(713)	(1,816)	–	(26,443)
Administrative expenses:						
Amortisation charge on software assets	–	(1,306)	–	(36)	–	(1,342)
Depreciation charge on property and equipment	–	(115)	(54)	(577)	–	(746)
Other	(16,090)	(12,794)	(4,407)	(20,992)	(11,554)	(65,837)
Operating expenses	5	(5,972)	–	–	3	(5,964)
Financing costs	–	(1,179)	(1)	–	(1,092)	(2,272)
Profit/(loss) before tax and consolidation adjustments	35,620	12,067	120	(451)	(12,632)	34,724
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(1,443)	(2,467)	(838)	(3,436)	–	(8,184)
Charge for amortisation of acquired value of customer relationships	–	(55)	–	–	–	(55)
Fees, commission and other acquisition costs	–	1,878	–	542	–	2,420
Segmental income less expenses	34,177	11,423	(718)	(3,345)	(12,632)	28,905
Loss arising on business combinations and portfolio acquisitions	–	–	(93)	–	–	(93)
Profit/(loss) before tax	34,177	11,423	(811)	(3,345)	(12,632)	28,812
Income tax (expense)/credit	(4,979)	(1)	188	444	2,830	(1,518)
Profit/(loss) after tax	29,198	11,422	(623)	(2,901)	(9,802)	27,294

(iv) Segmental balance sheet as at 31 December 2021

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other group activities (UK) £000	Total £000
Total assets	2,551,611	4,568,400	389,846	2,122,474	54,674	9,687,005
Total liabilities	(2,420,861)	(4,462,163)	(347,961)	(1,963,052)	(34,801)	(9,228,838)
Net assets	130,750	106,237	41,885	159,422	19,873	458,167
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	11,590	197	4,483	–	16,270

8 Fees and commission income

Year ended 31 December		2022	2021
Fee income		£000	£000
Policy-based fees		44,822	43,620
Fund management-based fees recognised under IFRS 15		31,599	27,318
Fund management-based fees recognised under IFRS 4		4,473	5,964
Benefit-based fees		9,250	10,242
Change in deferred income – gross		453	508
Change in deferred income – reinsurers' share		(31)	(41)
Total fee income		90,566	87,611
Commission income		2,814	2,364
Total fee and commission income		93,380	89,975

9 Net investment return

Year ended 31 December		2022	2021
		£000	£000
Dividend income		37,475	12,325
Interest income		32,598	33,150
Rental income from investment properties		4,771	100
Net fair value gains and losses			
Equity securities designated as at fair value through income on initial recognition		(1,318,751)	1,145,279
Debt securities designated as at fair value through income on initial recognition		(231,742)	(18,492)
Derivative financial instruments		(3,921)	605
Investment properties		(7,443)	21
Net investment return		(1,487,013)	1,172,988

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 2021: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Other operating income

Year ended 31 December	2022 £000	2021 £000
Fee income from investment managers	39,978	40,932
Charges to policyholder funds for yield tax	8,344	5,561
Other	49	75
Total other operating income	48,371	46,568

11 Insurance contract claims and benefits

Year ended 31 December	2022 £000	2021 £000
Claims and benefits paid to insurance contract holders	458,530	506,490
(Decrease)/increase in insurance contract provisions	(510,572)	23,577
Total insurance contract claims and benefits	(52,042)	530,067
Reinsurer's share of claims and benefits	(18,101)	(60,168)
Net insurance contract claims and benefits incurred	(70,143)	469,899

12 Change in investment contract liabilities

Year ended 31 December	2022 £000	2021 £000
Changes in the fair value of investment contracts designated on initial recognition as fair value through income	(611,073)	707,119
Changes in the fair value of policyholders' funds held by the group designated on initial recognition as fair value through income	(392,884)	195,460
Total (decrease)/increase in investment contract liabilities	(1,003,957)	902,579
Reinsurers' share of investment contract liabilities	2,653	(4,110)
Net (decrease)/increase in investment contract liabilities	(1,001,304)	898,469

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	2022 £000	2021 £000
Directly expensed costs:		
Insurance contracts		
Commission, new business and renewal costs	6,420	6,235
Deferred amount	(5,626)	(4,483)
	794	1,752
Investment contracts		
Commission, new business and renewal costs	37,189	17,818
Deferred amount	(8,102)	(8,891)
	29,087	8,927
Amortisation of deferred acquisition costs:		
Insurance contracts	4,733	4,441
Investment contracts	8,838	8,929
Investment contracts-reinsurance	(20)	(26)
Impairment losses	–	–
Total	43,432	24,023

14 Administrative expenses

Year ended 31 December	Note	2022 £000	2021 £000
Personnel-related costs	44	37,850	31,358
Investment management fees		1,725	2,055
Amortisation charge on software assets		1,785	1,382
Depreciation charge on property and equipment		732	749
Costs paid to third-party administrators		12,837	11,246
Depreciation of right-of-use assets		659	739
Other goods and services		29,509	20,396
Total		85,097	67,925

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	2022 £000	2021 £000
Fees payable to the company's auditor for the audit of the company's financial statements	447	443
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*	1,712	836
Audit-related assurance services**	1,071	217
Total	3,230	1,496

*Includes £609k (2021: £112k) audit fees in respect of the Movestic, Waard and Scildon audit in the year performed by EY.

**Includes £344k (2021: nil) fees related to assurance services in respect of Waard and Scildon in the year performed by EY.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Other operating expenses

Year ended 31 December	2022 £000	2021 £000
Charge for amortisation of acquired value of in-force business	13,259	8,184
Charge for amortisation of acquired value of customer relationships (AVCR)	45	55
Other		
Payment of yield tax relating to policyholder funds	8,344	5,561
Other	356	403
Total	8,700	5,964

16 Financing costs

Year ended 31 December	Note	2022 £000	2021 £000
Interest expense on bank borrowings		609	1,036
Interest expense on financial reinsurance	35	796	1,138
Interest expenses on lease liabilities		28	95
Interest expense on Tier 2 debt		8,887	–
Other interest		229	3
Total financing costs		10,549	2,272

Interest expense on bank borrowings and Tier 2 debt 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

Total income tax comprises	2022 £000	2021 £000
Year ended 31 December		
CA and other group activities – net expense	19,560	(2,149)
Movestic – net expense	14	(1)
Waard Group – net credit/(expense)	1,307	188
Scildon – net credit	27,686	444
Total net credit/(expense)	48,567	(1,518)

UK business

CA and other group activities	2022 £000	2021 £000
Year ended 31 December		
Current tax		
Current year	(3,180)	(2,732)
Overseas tax	11	–
Adjustment to prior years	1,549	(2)
Net expense	(1,620)	(2,734)
Deferred tax		
Origination and reversal of temporary differences	21,180	585
Total income tax credit/(expense)	19,560	(2,149)

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2022 £000	2021 £000
(Loss)/profit before tax	(69,982)	21,545
Income tax using the domestic corporation tax rate of 19.0% (2021: 19.0%)	13,296	(4,094)
Non-taxable profit on acquisition of subsidiary	(4,750)	–
Other permanent differences	194	414
Effect of UK tax bases on insurance profits	7,796	–
Offset of franked investment income	–	1,435
Variation in rate of tax on amortisation of acquired in-force value	3,337	(8)
Impact of new life tax regime	(421)	–
Effect of change in tax rate	108	29
Other	–	77
Under provided in previous years	–	(2)
Total income tax credit/(expense)	19,560	(2,149)

The Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year remained at 19%.

Movestic

Movestic Year ended 31 December	2022 £000	2021 £000
Current tax		
Current year expense	(4)	–
Adjustments for prior years	–	(7)
Net expense	(4)	(7)
Deferred tax		
Origination and reversal of temporary differences	18	6
Total income tax credit/(expense)	14	(1)

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2022 £000	2021 £000
Profit before tax	1,427	11,423
Income tax using the domestic corporation tax rate of 20.6% (21.4%)	(294)	(2,353)
Non-taxable income in relation to unit-linked business	1,460	2,737
Impact of different tax rate for subsidiaries	–	–
Non-taxable fair value adjustment	(164)	(108)
Temporary differences	47	(19)
Permanent differences	–	–
Unrecognised tax recoverable	(886)	(175)
Non-deductible expenses	(149)	(76)
Under provided in prior years	–	(7)
Total income tax credit/(expense)	14	(1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Income tax (continued)

*Movestic (continued)**Waard Group***Waard Group****Year ended 31 December**

	2022 £000	2021 £000
Current tax		
Current year expense	(1,077)	(349)
Adjustment to prior years	–	(66)
Net expenses		
	(1,077)	(415)
Deferred tax		
Origination and reversal of temporary differences	2,384	603
Total income tax credit	1,307	188

Reconciliation of effective tax rate on profit before tax**Year ended 31 December**

	2022 £000	2021 £000
Loss before tax		
	(5,031)	(811)
Income tax using the domestic corporation tax rate of 25%	1,307	243
Impact of different tax rate for subsidiaries	–	–
Permanent differences	–	(55)
Total income tax credit	1,307	188

*Scildon***Scildon****Year ended 31 December**

	2022 £000	2021 £000
Current tax		
Adjustments for prior year	–	–
Net expense	(3,960)	(1,032)
Deferred tax		
Origination and reversal of temporary differences	31,646	1,789
Impact to changes in tax rates	–	(313)
Total income tax credit	27,686	444

Reconciliation of effective tax rate on profit before tax**Year ended 31 December**

	2022 £000	2021 £000
Loss before tax		
	(106,783)	(3,345)
Income tax using the domestic corporation tax rate of 25%	27,550	863
Non-taxable fair value adjustment	–	(94)
Permanent differences	136	(15)
Non-deductible expenses	–	(310)
Total income tax credit	27,686	444

18 Investment subsidiary
Company

Year ended 31 December	Note	2022 £'000	2021 £'000
Balance at 1 January		354,720	354,720
Additions – Arising on acquisition	51	37,850	–
Capital contribution		46,476	–
Balance at 31 December		439,046	354,720
Impairment:			
Balance at 1 January		–	–
Impairment for the year		(25,000)	–
Balance at 31 December		(25,000)	–
Carrying amounts:			
At 1 January		354,720	354,720
At 31 December		414,046	354,720

During the year, as a result of the assessment performed on whether an investment is impaired by assessing whether any indicators of impairment exist, the company carried out a review of the recoverable amount of Countrywide Assured plc. The review led to the recognition of an impairment loss of £25m, which has been recognised in profit or loss.

Included within additions is the £37.9m consideration for the acquisition of CASLP, a £25m capital contribution made to CASLP upon acquisition and £21.5m capital contribution made to Waard to provide funding for the Conservatrix acquisition.

19 Deferred acquisition costs

Year ended 31 December		2022 £'000	2021 £'000
Balance at 1 January		63,327	69,051
Additions		13,704	13,420
Amortisation charged to income		(13,571)	(13,370)
Impairment losses		–	–
Foreign exchange translation difference		(655)	(5,774)
Balance at 31 December		62,805	63,327
Current		11,202	10,927
Non-current		51,603	52,400
Total		62,805	63,327

The amortisation charged to income is recognised in fees, commission and other acquisition costs (see Note 13).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Acquired value of in-force business (AVIF)

Year ended 31 December	Note	2022 £000	2021 £000
Cost:			
Balance at 1 January		214,461	221,886
Additions – Arising on acquisition	51	59,579	771
Foreign exchange translation difference		291	(8,196)
Balance at 31 December		274,331	214,461
Amortisation and impairment losses:			
Balance at 1 January		164,832	160,231
Amortisation for the year		13,259	8,184
Foreign exchange translation difference		(682)	(3,583)
Balance at 31 December		177,409	164,832
Carrying amounts:			
At 1 January		49,629	61,655
At 31 December		96,922	49,629

The amortisation charged to the Consolidated Statement of Comprehensive Income is recognised in other operating expenses (see Note 15).

21 Software assets

31 December		2022 £000	2021 £000
Cost:			
Balance at 1 January		28,756	28,790
Additions		2,400	2,540
Foreign exchange translation difference		(625)	(2,574)
Balance at 31 December		30,531	28,756
Amortisation and impairment losses:			
Balance at 1 January		19,872	20,282
Amortisation charge for the year		1,785	1,382
Foreign exchange translation difference		(426)	(1,793)
Balance at 31 December		21,231	19,871
Carrying amounts at 31 December		9,300	8,885

22 Property and equipment

31 December	2022 £000	2021 £000
Cost:		
Balance at 1 January	14,462	14,114
Additions – Arising on acquisition	4,388	–
Addition	512	1,833
Disposals	(1,601)	(954)
Revaluation	798	570
Foreign exchange translation difference	481	(1,101)
Balance at 31 December	19,040	14,462
Amortisation and impairment losses:		
Balance at 1 January	6,632	5,396
Additions – Arising on acquisition	4,364	–
Addition	–	1,089
Depreciation charge for the year	1,391	1,488
Disposals	(1,425)	(849)
Foreign exchange translation difference	184	(492)
Balance at 31 December	11,146	6,632
Carrying amounts at 31 December	7,894	7,830

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	2022 Total £000
Carrying amounts at 1 January	1,873	29	37	39	–	13	1,991
Additions	98	–	7	–	–	–	105
Disposals	(205)	–	–	–	–	–	(205)
Depreciation charge	(568)	(19)	(33)	(33)	–	(6)	(659)
Foreign exchange translation difference	(22)	–	2	(1)	–	(1)	(22)
Carrying amounts at 31 December	1,176	10	13	5	–	6	1,210

Amount recognised in profit and loss	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2022 Total £000
Interest expense on lease liabilities	33	–	–	–	–	–	33
Fixed lease expense	605	19	33	35	–	5	697
Total cash outflow for leases	638	19	33	35	–	5	730

Right-of-use assets	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2021 Total £000
Carrying amounts at 1 January	2,583	51	102	92	–	2	2,830
Additions	98	–	8	–	–	16	122
Disposals	–	–	(17)	–	–	–	(17)
Depreciation charge	(619)	(20)	(49)	(46)	–	(5)	(739)
Foreign exchange translation difference	(189)	(2)	(7)	(7)	–	–	(205)
Carrying amounts at 31 December	1,873	29	37	39	–	13	1,991

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Property and equipment (continued)

Amount recognised in profit and loss	Non-investment property £000	Property & equipment £000	Motor vehicles £000	Hardware £000	Software £000	Other £000	2021 Total £000
Interest expense on lease liabilities	43	–	1	1	–	–	45
Fixed lease expense	645	19	48	47	–	6	765
Total cash outflow for leases	688	19	49	48	–	6	810

23 Investment properties

31 December	2022 £000	2021 £000
Balance at 1 January	1,071	1,124
Additions – Arising on acquisition	102,974	–
Additions	865	–
Disposals	(2,758)	–
Revaluation	(7,734)	21
Foreign exchange translation difference	63	(74)
Balance at 31 December	94,481	1,071

Investment properties were bought for investment purposes in line with the investment strategy of the group. The properties are independently valued in accordance with International Valuation Standards on the basis of determining the open market value of the investment properties on an annual basis. The latest valuations were conducted as at 31 December 2022. Within the investment properties, part of it is directly held (SIPP Commercial Property). There is no observable input and therefore its classed as level 3 totalling £75.8m, see Note 24.

Both of these amounts are disclosed in net investment return (see Note 9). Expenses incurred in the operation and maintenance of investment properties are disclosed in other operating expenses (see Note 15).

24 Financial instruments
Group

Financial assets by measurement category at 31 December	2022 £000	2021 £000
Fair value through income		
Designated at fair-value through income on initial recognition	9,169,152	7,842,605
Policyholders' funds held by the group	1,130,476	990,700
Derivative financial instruments	141	264
Total assets measured at fair value through income	10,299,769	8,833,569
Financial assets held at amortised cost	305,228	293,811
Total	10,604,997	9,127,380

Except as detailed in the following table, the directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

Financial assets that are not held at fair value or managed on a fair value basis, consist of mortgage loan portfolio cash deposits and a mortgage loan portfolio, which are both held at amortised cost. The fair value of these assets as at 31 December 2022 was £294.3m (31 December 2021: £294.7m) and the change in fair value in the year was a decrease of £0.4m. All other financial assets are held on a fair value basis and have a value of £10,317.3m as at 31 December 2022 (31 December 2021: £8,833.6m) with a change in fair value in the year of an increase of £1,483.7m (31 December 2021: £677.6m).

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (Level 1). However, where such information is not available, the group applies valuation techniques to measure such instruments. These valuation techniques make use of market-observable data for all significant inputs where possible (Level 2), but in some cases it may be necessary to estimate other than market-observable data within a valuation model for significant inputs (Level 3).

Fair value measurement at 31 December 2022				
Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment properties	1,215	–	93,266	94,481
Financial assets				
Equities – Listed	79,233	–	–	79,233
Holdings in collective investment schemes	7,942,461	46,505	168,242	8,157,208
Debt securities – fixed rate:				
Government bonds	420,681	24,200	–	444,881
Listed	429,316	54,960	–	484,276
Debt securities – floating rate listed	3,554	–	–	3,554
Total debt securities	853,551	79,160	–	932,711
Policyholders' funds held by the group	1,130,476	–	–	1,130,476
Derivative financial instruments	–	141	–	141
Total	10,006,936	125,806	261,508	10,394,250
Current				2,192,019
Non-current				8,202,231
Total				10,394,250
Financial liabilities				
Investment contracts at fair value through income	–	6,856,574	–	6,856,574
Liabilities related to policyholders' funds held by the group	1,130,476	–	–	1,130,476
Derivative financial instruments	–	3,681	–	3,681
Total	1,130,476	6,860,255	–	7,990,731
Fair value measurement at 31 December 2021				
Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment properties	1,071	–	–	1,071
Financial assets				
Equities – Listed	6,352	–	–	6,352
Holdings in collective investment schemes	6,602,615	65,210	190,229	6,858,054
Debt securities – fixed rate:				
Government bonds	554,146	96	–	554,242
Listed	406,608	–	–	406,608
Debt securities – floating rate listed	17,349	–	–	17,349
Total debt securities	978,103	96	–	978,199
Policyholders' funds held by the group	990,700	–	–	990,700
Derivative financial instruments	–	264	–	264
Total	8,578,841	65,570	190,229	8,834,640
Current				2,309,678
Non-current				6,524,962
Total				8,834,640
Financial liabilities				
Investment contracts at fair value through income	–	4,120,573	–	4,120,573
Liabilities related to policyholders' funds held by the group	990,700	–	–	990,700
Total	990,700	4,120,573	–	5,111,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Financial instruments (continued)**Investment properties**

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

Holdings in collective investment schemes

The fair value of holdings in collective investment schemes classified as Level 2 in 2021 are related to our UK operation, and Scildon operation for the prior year. These do not meet the classification as Level 1, as their fair value is determined using valuation techniques with observable market inputs. The holdings classified as Level 3 £133.1m (Dec 2021: £173.9m) also relate to our Scildon operation, and represent investments held in a mortgage fund. These are classified as Level 3 as the fair value is derived from valuation techniques that include inputs that are not based on observable market data. There is also a small holding of assets classified as Level 3 £35.1m (Dec 2021: £16.3m) from our Movestic operation which are unlisted. The valuation of the vast majority of these assets is based on unobservable prices from trading on the over-the-counter market.

Debt securities

The debt securities classified as Level 2 at 2021 and 2022 are traded in active markets with less depth or wider bid-ask spreads. This does not meet the classification as Level 1 inputs. The fair values of debt securities not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified at Level 2, only where there is a sufficient range of available quotes.

These assets were valued using counterparty or broker quotes and were periodically validated against third-party models.

Derivative financial instruments

Within derivative financial instruments is a financial reinsurance embedded derivative related to our Movestic operation. The group has entered into a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative asset at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rate at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out above. Further detail can be found in Note 27.

Investment contract liabilities

The investment contract liabilities in Level 2 of the valuation hierarchy represent the fair value of linked and non-linked liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields.

Significant unobservable inputs in Level 3 instruments valuations

The Level 3 instruments held in the group are in relation to investments held in an Aegon managed Dutch Mortgage Fund that contains mortgage-backed assets in the Netherlands. The fair value of the mortgage fund is determined by the fund manager on a monthly basis using an in-house valuation model. The valuation model relies on a number of unobservable inputs, the most significant being the assumed conditional prepayment rate, the discount rate and the impairment rate, all of which are applied to the anticipated modelled cash flows to derive the fair value of the underlying asset.

The assumed Conditional Prepayment Rate (CPR) is used to calculate the projected prepayment cash flow per individual loan and reflects the anticipated early repayment of mortgage balances. The CPR is based on 4 variables:

- Contract age – The CPR for newly originated mortgage loans will initially be low, after which it increases for a couple of years to its maximum expected value, and subsequently diminishes over time.
- Interest rate differential – The difference between the contractual rates and current interest rates are positively correlated with prepayments. When contractual rates are higher than interest rates of newly originated mortgages, we observe more prepayments and the vice versa.
- Previous partial repayments – Borrowers who made a partial prepayment in the past, are more likely to do so in the future.
- Burnout effect – Borrowers who have not made a prepayment in the past, while their option to prepay was in the money, are less likely to prepay in the future.

The projected prepayment cash flows per loan are then combined to derive an average expected lifetime CPR, which is then applied to the outstanding balance of the fund. The CPR used in the valuation of the fund as at 31 December 2022 was 4.9% (31 December 2021: 6.1%).

The expected projected cash flows for each mortgage within the loan portfolio are discounted using rates that are derived using a matrix involving the following three parameters:

- The remaining fixed rate term of the mortgage
- Indexed Loan to Value (LTV) of each mortgage
- Current (Aegon) mortgage rates.

At 31 December 2022 this resulted in discounting the cash flows in each mortgage using a range from 4.29% to 4.92% (31 December 2021: 1.29% to 2.02%).

An impairment percentage is applied to those loan cash flows which are in arrears, to reflect the chance of the loan actually going into default. For those loans which are 1, 2 or 3 months in arrears, an impairment percentage is applied to reflect the chance of default. This percentage ranges from 0.60% for 1 month in arrears to 13.70% for loans which are 3 months in arrears (31 December 2021: 0.60% for 1 month in arrears to 13.70% for loans which are 3 months in arrears). Loans which are in default receive a 100% reduction in value.

The value of the fund has the potential to decrease or increase over time. This can be as a consequence of a periodic reassessment of the conditional prepayment rate and/or the discount rate used in the valuation model.

A 1 percent increase in the CPR would reduce the value of the asset by £1.7m (31 December 2021: £3.5m).

A 1 percent decrease in the CPR would increase the value of the asset by £2.1m (31 December 2021: £5.2m).

A 1 percent increase in the discount rate would reduce the value of the asset by £9.6m (31 December 2021: £13.7m).

A 1 percent decrease in the discount rate would increase the value of the asset by £11.1m (31 December 2021: £15.8m).

Reconciliation of Level 3 fair value measurements of financial instruments

Level 3 movement

31 December	2022 £000	2021 £000
At start of period	190,229	185,424
Additions – acquisition of subsidiary	102,974	–
Transfers into Level 3	–	16,314
Total gains and losses recognised in the income statement	(42,224)	796
Purchases	14,691	–
Settlements	(11,452)	–
Exchange rate adjustment	7,290	(12,305)
At the end of period	261,508	190,229

31 December	Carrying amount		Fair value	
	2022 £000	2021 £000	2022 £000	2021 £000
Financial liabilities				
Borrowings	208,849	47,185	157,000	46,588

Borrowings consist of the Tier 2 debt and an amount due in relation to financial reinsurance. As at the end of 2021, prior to the raising of the Tier 2 debt, it also consisted of bank loans. The fair value of the Tier 2 debt is calculated using quoted prices in active markets and they are classified as Level 1 in the fair value hierarchy. The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date. The fair value of the bank loans are taken as the principal outstanding at the balance sheet date. These are calculated using floating rates with the amortised cost being determined net of unamortised arrangement fees which form part of the effective interest rate calculation.

During the year, there was a transfer between Level 2 to Level 3 in relation to mortgage-backed assets. There were no other transfers between Levels 1, 2 and 3 during the year. The group holds no Level 3 liabilities as at the balance sheet date.

Company

Fair value measurement at 31 December	2022 £000	2021 £000
Holdings in collective investment schemes	106,291	39,456
Total	106,291	39,456
Current	106,291	39,456
Non-current	–	–
Total	106,291	39,456

There were no Level 2 and Level 3 assets. The amounts held in collective investment schemes at a Chesnara plc company level are in relation to liquidity funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Financial assets held at amortised cost

Year ended 31 December	2022 £000	2021 £000
Mortgage loan portfolio cash deposits	271,920	274,014
Mortgage loan portfolio	33,308	19,797
	305,228	293,811
Current	2,932	1,764
Non-current	302,296	292,047
Total	305,228	293,811

Within the mortgage loan portfolio there is a balance of policyholder loans, which are short-term funding relating to the buying and selling of policies and are recovered within 1 year of the reporting date. The fair value of these loans is derived from valuation techniques that include inputs that are not based on observable market data. As a result, these are classed as Level 3 amounting to £0.5m.

26 Insurance and other receivables and prepayments
Group

Insurance and other receivables 31 December	2022 £000	2021 £000
Receivables arising from insurance contracts		
Brokers	866	980
Policyholders	663	665
Receivables arising from investment contracts		
Policyholders	3,895	2,510
Reinsurance receivables	8,017	8,651
Commission receivables	61	75
Other receivables		
Accrued interest income	8,511	13,898
Receivables from fund management companies	477	1,399
Other	14,182	7,435
Total	36,672	35,613
Current	28,932	34,797
Non-current	7,740	816
Total	36,672	35,613

The carrying amount is a reasonable approximation of fair value.

Prepayments 31 December	2022 £000	2021 £000
Prepayments	15,630	13,245
Current	15,309	12,771
Non-current	321	474
Total	15,630	13,245

The carrying amount is a reasonable approximation of fair value.

27 Derivative financial instruments

During the year, Chesnara entered into a foreign currency hedge. There are derivatives held within the unit-linked and with-profits funds, and also an option to repay a financial reinsurance contract early, which comprises an embedded derivative.

31 December	2022		2021	
	Asset £000	Liability £000	Asset £000	Liability £000
Exchange-traded futures	141	119	170	–
Foreign currency hedge	–	3,498	–	–
Financial reinsurance embedded derivative	–	233	94	–
Total	141	3,850	264	–
Current	141	3,713	203	–
Non-current	–	137	61	–
Total	141	3,850	264	–

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.

31 December	2022		2021	
	Asset £000	Liability £000	Asset £000	Liability £000
Australia	–	–	–	–
Switzerland	–	–	–	–
Europe	–	55	12	–
UK	–	–	–	–
Hong Kong	–	–	–	–
Japan	141	–	133	–
USA	–	64	25	–
Total	141	119	170	–

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 year end.

CA also purchases exchange rate futures to mitigate exchange rate risk within its with-profits funds.

These contracts are exchange-traded contracts in active markets with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Derivative financial instruments (continued)

Derivatives within Chesnara

As part of its investment management strategy, Chesnara entered into a foreign currency hedge to reduce Chesnara's exposure to FX movements between sterling and both the euro and Swedish krona.

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 2 in the three-level fair value determination hierarchy set out in Note 24.

Company

31 December	2022		2021	
	Asset £000	Liability £000	Asset £000	Liability £000
Foreign currency hedge	—	3,498	—	—
Total	—	3,498	—	—
Current	—	3,498	—	—
Non-current	—	—	—	—
Total	—	3,498	—	—

28 Cash and cash equivalents

Group

31 December	2022		2021	
	£000	£000	£000	£000
Bank and cash balances			115,390	69,569
Call deposits due within 1 month			59,904	518
Call deposits due after 1 month			—	—
Total cash and cash equivalents			175,294	70,087
Bank overdrafts			(19)	(256)
Cash and cash equivalents in the statement of cash flows			175,275	69,831

The effective interest rate on short-term bank deposits was 0.00% (2021: 0.00%), with an average maturity of 1 day (2021: 1 day). All deposits included in cash and cash equivalents were due to mature within 1 month of their acquisition. All balances are current and available on demand.

Included in cash and cash equivalents held by the group are balances totalling £81.6m (2021: £5.5m) held in unit-linked policyholders' funds.

31 December	Foreign exchange					
	1 January 2022 £000	Financing cash flows £000	translation differences £000	New leases £000	Other changes (ii) £000	31 December 2022 £000
Tier 2 debt	—	200,000	—	—	356	200,356
Bank loan (i)	31,273	(31,175)	(98)	—	—	—
Financial reinsurance	15,912	(5,960)	(345)	—	—	9,607
Lease liabilities	2,019	(342)	(459)	—	15	1,233
Total	49,204	162,523	(902)	—	371	211,196

(i) The cash flows from bank loans and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the cash flow statement.

(ii) Other changes include interest accruals and payments.

Company

	31 December	2022 £000	2021 £000
Bank and cash balances		1,274	6,558
Cash deposits due within 1 month		97	97
Total		1,371	6,655

All balances are current and available on demand.

	31 December		Foreign exchange	New leases £000	Other changes (ii) £000	31 December 2022 £000
	1 January 2022 £000	Financing cash flows £000				
Tier 2 debt	–	200,000	–	–	356	200,356
Bank loan (i)	31,273	(31,175)	(98)	–	–	–
Lease liabilities	158	(62)	–	–	–	96
Total	31,431	168,763	(98)	–	356	200,452

(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, albeit the PRA has made some changes to the provision of technical information such as the risk free yield curve, which is now based on SONIA swap rates, and the volatility adjustment and symmetric adjustment, which are now derived using indices more relevant to the UK. A more thorough review of Solvency II by the PRA is underway with the aim of adapting the regulatory framework to reflect the UK's position outside the EU and ensure it is fit for the future. The Solvency II regime includes rules over the quantity and quality of capital (known as Own Funds) that insurance companies and groups need in order to meet the regime's required level of capital (known as the Solvency Capital Requirement). The Chesnara group operates exclusively within the UK and the EU and as a result the Solvency II regime applies to the group and all regulated insurance companies within the group. The regulators responsible for the supervision of the group and its subsidiaries have been shown in Section (c)(i).

The Solvency II regime has specific rules regarding how Own Funds are recognised and valued. In a number of cases, the IFRS and Solvency II value of an asset and liability are the same, but in some cases there are differences. In particular, liabilities for insurance and investment contracts are valued differently, with IFRS remaining largely based on the previous Solvency I regime. In addition, Solvency II has differing treatments for certain intangible assets. A high level reconciliation between the IFRS net assets and Solvency II Own Funds of the group and its subsidiaries has been provided in part (c)(ii) of this Note.

Regarding the Solvency Capital Requirement (SCR) of the Chesnara group and its subsidiaries, the group has elected to use the 'standard formula' approach for its calculation, which means we are applying the formulae as included in the Solvency II framework. The calculations within the standard formula have been designed such that, on the basis that an insurance company holds Own Funds that are at least equal to its SCR, it will be able to withstand a 1 in 200 year event. An alternative would have been to use an 'internal model' but this was not deemed appropriate for the size and complexity of the Chesnara group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Capital management (continued)**(a) Regulatory context (continued)****Company law**

As well as complying with the Solvency II regime, each company within the group is required to comply with relevant company law capital and distribution rules.

(b) Objectives, policies and processes for managing capital**(i) Objectives**

To manage compliance with the externally imposed capital requirements the group and its subsidiaries have established capital management policies in place. The objectives of these policies are:

- to ensure that capital is managed in a way that is consistent with the business strategy of the group and its subsidiaries, in that they:
 - promote fair customer outcomes through protecting policyholders;
 - provide protection to shareholders through ensuring that the business is adequately protected against stress events; and
 - provide a framework to support the decision making process for returns to shareholders via dividends.
- to ensure that capital of the group and its subsidiaries is managed in accordance with the board's risk appetite, in particular each board's aversion for Own Funds to fall below the SCR.

(ii) Policies

In light of the objectives for the group's and its subsidiaries' capital management policies, the following quantitative limits for managing Own Funds are applied across the group:

Region	CA	Movestic	Waard Group	Scildon	Group
Dividend paying limit: Own Funds stated as % of SCR	120%	120%	135%	175%	140%
Management actions limit: Own Funds stated as % of SCR	110%	110%	135%	175%	110%

Dividend paying limit: This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point. This limit is set by the relevant board in each division with reference to its respective risk appetite, as articulated in each divisions' Capital Management Policy.

Management actions limit: This is the point at which, should Own Funds fall below this level, additional management actions would be considered to restore Own Funds back above this level. In essence this represents an internal 'ladder of intervention limit' that is set by the group and divisional boards.

To put the above table and definitions in context, and taking group as an example, this means that the group will not pay a dividend should the payment of the dividend take the group Own Funds to below 140% of its SCR. Should Own Funds fall below 110% 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 2022, and at 31 December 2021, 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 2022 (unaudited)

Region	UK £m	Movestic £m	Waard Group £m	Other group and consolidation adjustments £m		Group £m
				Scildon £m	£m	
Own Funds (pre dividends)	194.2	185.4	85.0	132.4	30.9	627.9
Proposed dividend	(56.0)	(12.0)	(5.3)	–	50.5	(22.8)
Own Funds (post dividends)	138.2	173.4	79.7	132.4	81.4	605.1
SCR	99.4	106.9	13.5	70.3	16.6	306.7
Solvency surplus	38.8	66.5	66.2	62.1	n/a	298.4
Solvency ratio	139%	162%	591%	188%	n/a	197%
Dividend paying limit (% of SCR)	120%	120%	175%	135%	n/a	140%
Dividend paying limit (£)	119.3	128.3	23.6	94.9	n/a	429.4
Surplus over dividend paying limit	18.9	45.1	56.1	37.5	n/a	175.7

31 December 2021 (unaudited)

Region	UK £m	Movestic £m	Waard Group £m	Other group and consolidation adjustments £m		Group £m
				Scildon £m	£m	
Own Funds (pre dividends)	158.3	234.4	50.5	151.5	(15.2)	579.6
Proposed dividend	(27.5)	–	(6.1)	(5.0)	16.5	(22.1)
Own Funds (post dividends)	130.8	234.4	44.4	146.5	1.3	557.5
SCR	100.4	158.6	11.1	76.4	20.3	366.8
Solvency surplus	30.4	75.8	33.3	70.1	n/a	190.7
Solvency ratio	130%	148%	400%	192%	n/a	152%
Dividend paying limit (% of SCR)	120%	120%	150%	175%	n/a	110%
Dividend paying limit (£)	120.5	190.3	16.7	133.7	n/a	403.5
Surplus over dividend paying limit	10.3	44.1	27.8	12.8	n/a	154.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Capital management (continued)

(c) Quantitative analysis (continued)

(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 2022 (unaudited)

Region	UK £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments		Group £m
					£m	£m	
Solvency II Own Funds (post dividends)	138.2	173.4	79.7	132.4	81.4	605.1	
Add Back: Ring-fenced fund surplus restrictions	0.0	–	–	–	–	–	0.0
Add Back: Intangible assets	53.1	77.9	3.5	31.8	–	–	166.3
Add Back: Tier 2 debt and restriction	–	–	–	–	(153.3)	(153.3)	
Add Back: Foreseeable dividends	56.0	12.0	5.3	–	(50.5)	22.8	
Add Back: Difference in valuation of technical provisions	(48.6)	(161.6)	(26.8)	(100.8)	42.1	(295.7)	
Add Back: Difference in deferred tax	(25.3)	0.0	7.5	17.8	(9.9)	(9.9)	
Add Back: Other valuation differences	(2.3)	0.3	(1.4)	–	1.2	(2.2)	
IFRS Net Assets	171.1	102.0	67.8	81.2	(89.0)	333.1	

31 December 2021 (unaudited)

Region	UK £m	Movestic £m	Waard Group £m	Scildon £m	Other group and consolidation adjustments		Group £m
					£m	£m	
Solvency II Own Funds (post dividends)	130.8	234.4	44.5	146.5	1.3	557.5	
Add Back: Ring-fenced fund surplus restrictions	7.9	–	–	–	–	–	7.9
Add Back: Intangible assets	(0.6)	81.9	4.2	32.4	–	–	117.9
Add Back: Foreseeable dividends	27.5	–	6.1	5.0	(16.5)	22.1	
Add Back: Difference in valuation of technical provisions	(48.5)	(210.8)	(16.0)	(21.8)	47.9	(249.2)	
Add Back: Difference in deferred tax	13.4	(0.2)	4.5	(2.7)	(11.5)	3.5	
Add Back: Other valuation differences	0.3	0.9	(1.3)	–	(1.4)	(1.5)	
IFRS Net Assets	130.8	106.2	42.0	159.4	19.8	458.2	

Further information on how the group uses Solvency II, and metrics derived from Solvency II, as Alternative Performance Measures can be found in Section E on pages 235 to 241.

30 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December

	2022			2021			
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000	
UK	1,402,908	181,300	1,221,608	1,529,259	228,704	1,300,555	
Movestic	49,991	17,992	31,999	59,813	23,381	36,432	
Waard Group	363,967	2,256	361,711	341,787	2,628	339,159	
Scildon	1,794,395	(5,233)	1,799,628	1,887,553	(6,963)	1,894,516	
Total insurance contract provisions	3,611,261	196,315	3,414,946	3,818,412	247,750	3,570,662	
Current	435,517	9,540	425,977	517,557	11,753	505,804	
Non-current	3,175,744	186,775	2,988,969	3,300,855	235,997	3,064,858	
Total	3,611,261	196,315	3,414,946	3,818,412	247,750	3,570,662	

(b) Analysis of movement in insurance contract provisions

Year ended 31 December	2022			2021		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	3,818,412	247,750	3,570,662	3,958,037	197,068	3,760,969
Additions – Arising on acquisition	378,756	1,014	377,742	11,731	–	11,731
Premiums received	284,997	15,145	269,852	283,952	15,764	268,188
Fees deducted	(53,648)	(1,197)	(52,451)	(62,021)	(1,250)	(60,771)
Reserves released in respect of benefits paid	(592,604)	(30,122)	(562,482)	(450,808)	39,122	(489,930)
Movements in provisions for contracts sold – Movestic						
in current year	8,018	3,135	4,883	11,077	5,406	5,671
in prior years	(12,463)	(6,206)	(6,257)	(10,214)	(3,930)	(6,284)
Investment return	(318,613)	(23,007)	(295,606)	260,433	(2,459)	262,892
Other movements	(22,734)	(9,503)	(13,231)	(25,255)	151	(25,406)
Foreign exchange translation difference	121,140	(694)	121,834	(158,520)	(2,122)	(156,398)
Balance at 31 December	3,611,261	196,315	3,414,946	3,818,412	247,750	3,570,662

(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, including unit-linked business in CASLP, 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 in CA and CASLP the technical provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, interest rates and expenses.

For certain group business within the PL component of CA, the technical provisions are assessed on an unearned premium method considered appropriate for the nature and scale of the liabilities. For the remainder of the PL business, the technical provisions are calculated on a gross premiums basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or lapse or death if earlier. The gross premiums method makes explicit allowance for future policy maintenance costs. If the net present value of future discounted cash flows is positive no asset is recognised.

For all other classes of non-linked business, the technical provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

Where reinsurance exists, the value of reinsurance assets are calculated by considering the cash flows to and from the reinsurers and applying the principles used for the calculation of gross technical provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**(c) Basis and assumptions for calculating insurance contract provisions (continued)***UK (continued)***(ii) Principal assumptions***Mortality*

A base mortality table is selected which is most appropriate for each type of contract taking into account rates charged by reinsurers. The mortality rates reflected in these tables are periodically adjusted, allowing for emerging experience and changes in reinsurer rates. The mortality assumptions used on the blocks of business most sensitive to changes in mortality assumptions are disclosed below.

Ex-Protection Life, Life Business: 80% TMN00 select and 80% TFN00 select (non-smokers), 80% TMS00 select and 80% TFS00 select (smokers).

Annuitant mortality (CA): 89% PMA08 table and 89% PFA08 table, with 100% CMI_2021 improvements with a 2.0% long-term convergence rate from 31 December 2022.

Annuitant mortality (CASLP conventional annuities): 110% PMA08 table and 110% PFA08 table, with 100% CMI_2019 improvements with a 2.0% long-term convergence rate from 31 December 2022.

Morbidity

Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistency

In general, no allowance is made for lapses or surrenders within the valuation of insurance contract liabilities, which is a prudent assumption.

For CA (S&P) unit-linked business, when assessing additional reserves for expenses and mortality risk, allowance has been made for lapses at a prudent level of 75% of the expected level as indicated by recent experience, the rates used being:

Rate of lapse 31 December	2022		2021	
	SPI**	SPP**	SPI	SPP
Assurances:				
Regular premium plans	2.063%	3.000%	2.063%	3.000%
Single premium contracts	2.250%	3.938%	2.250%	3.938%
Linked TIC*	–	5.000%	–	5.000%

*Trustee Investment Contract (TIC), a unit-linked contract.

**SPI (CA S&P Insurance business)/SPP (S&P Pension business).

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2022 for the material product types, these lay between 3.40% and 4.85% (31 December 2021: between 0.65% and 1.70%).

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 by CA are based on the charges made to CA by its two third party insurance administration services providers, with appropriate margins. The renewal expenses assumed by CASLP reflect a per policy allocation of future expected expenses, with appropriate margins. These expenses 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 and CASLP funds.

Taxation

For BLAGAB contracts subject to policyholder tax 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.

(iii) Valuation of options and guarantees

Contracts with discretionary participation features

The principal financial options and guarantees in CA (S&P) are (i) minimum benefits payable on maturity or retirement for participating business; (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; and (iv) certain insurability options offered.

Provisions for CA (S&P) contracts with DPF provide for the present value of projected payments to policyholders based on guaranteed minimum investment returns, mainly at 5% per annum. When the insurance contract provisions established on this basis are greater than the associated policyholder asset shares, a shareholder charge for the cost of guarantees arises. The actual cost to shareholders depends principally on the future investment performance of the associated policyholders' assets and on the rate of discontinuance of policies prior to maturity.

The cost of guaranteeing a minimum investment return on the S&P contracts with DPF has been assessed on a market consistent basis. This 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. The actual cost to shareholder depends principally on the future investment performance of the associated policyholders' assets and on the rate of discontinuance of policies prior to maturity. 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	2022 £000	2021 £000
At beginning of the year	10,481	18,812
Charge/(credit) to income	(1,399)	(8,331)
At the end of year	9,082	10,481

The cost of guarantees are sensitive to changes in the value of investments. A 1% decrease in investment yields would decrease net profit and net equity by £2.1m (31 December 2021: £3.5m). A 10% fall in equities would decrease net profit and net equity by £2.63m (31 December 2021: £2.6m).

Timed Investment Funds

Certain investment funds, the 'Timed Investment Funds', carry a guarantee that the price at maturity date or death will not be less than the highest price attained between commencement and contract cessation. The cost of the guarantee can be managed by changing the Investment Policy adopted by each fund.

In respect of this guarantee:

- (i) a monthly charge of 1/48% of the fund value is made; and
- (ii) investment conditions were such as to require the establishment of a reserve of £680,000 as at 31 December 2022 (31 December 2021: £914,000).

The reserve for a given fund is derived as the discounted exposure at fund maturity date, the exposure being the difference between the guaranteed Timed Investment Fund value and the projected fund maturity value, with the latter projected value being derived assuming an immediate fall in value of equities within the fund of 20% and allowing for future investment returns, including presumed future equity investment return of 3.1% per annum.

The Timed Investment Fund reserve is sensitive to changes in the value of equities, however a 10% fall in equities at 31 December 2022 would not impact net equity. This is because the fund is expected to grow sufficiently that guarantees would not bite even after the fund value has been stressed.

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 2022 was £3.5m (31 December 2021: £3.5m). 403 policies invested in the fund (31 December 2021: 410), of which 18 (31 December 2021: 19) were paying premiums (for a total of approximately £6,000 per annum (31 December 2021: £6,000)).

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	4.41% pa
Rate of return on cash	3.43% pa
Discount rate	3.40% 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 2022 was £0.1m (31 December 2021: £0.1m).

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 (continued)***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 70. The reserve for this option as at 31 December 2022 was £0.1m (31 December 2021: £1.0m). The reason for the fall in reserves relative to 2021 is the rise in interest rates, which has reduced the additional guarantee cost arising when policyholders choose to defer retirement.

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 2022 was £0.03m (31 December 2021: £0.03m).

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 2022 was £0.3m (31 December 2021: £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 2022 is £0.1m (31 December 2021: £0.1m).

Sweden**(i) Basis**

Group contracts are sold on an annual basis and the individual contracts include an option for Movestic to increase the premium on an ongoing basis. Therefore, for both group and individual contracts, Movestic adopts a reserving approach that is similar to that of a non-life insurance business, with claim reserves projected using an estimated loss ratio with reference to previous loss development for earlier years.

The insurance contract provisions comprise unearned premium provisions, outstanding claims and associated reinsurance recoveries. Except for the income protection and the waiver of premium benefits within the individual contracts, provisions for the insurance contracts are not discounted because of the short-term nature of the liabilities, which are generally paid by the fourth year of development for a single accident year. Income protection and waiver of premium contracts are discounted following Finansinspektionen guidelines.

Unearned premiums

Unearned premiums represent a proportion of the premium relating to policies that expire after the balance sheet date. Unearned premiums are calculated automatically by the underwriting system and are released to income on a straight-line basis over the period of the policy.

Outstanding claims

Outstanding claims include notified claims, claims incurred as at the balance sheet date but not reported and an estimate of the cost of handling the claims.

The key risk in respect of notified claims is that they are paid or handled inappropriately (for example invalid or fraudulent claims are paid). Management information is reviewed on a regular basis to identify unusual trends in the payment of claims.

The estimation of claims Incurred But Not Reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of costs of settling claims already notified to Movestic, where more information about the claim event is generally available. In calculating the estimated cost of claims which have not been notified, Movestic uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The most common methods that are used are the chain ladder method and the Bornhuetter-Ferguson method. Chain ladder methods involve the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected factors are applied to cumulative claims data for each accident year that is not fully developed to provide an estimated ultimate claims cost. The Bornhuetter-Ferguson method uses a combination of an initial estimate of the expected loss ratio and an estimate based on observed claims experience. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

The use of different approaches assists in giving greater understanding of the trends inherent in the data being projected and also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the policies sold. Where deemed appropriate, an allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. Although claims reserves are considered reasonable, on the basis of information available to Movestic, the ultimate liabilities will vary as a result of subsequent information and events.

(ii) Principal assumptions*Income protection and waiver of premium benefits within individual contracts*

For reported claims, the liabilities are reviewed on a case by case basis. A discounted cash flow model is used to determine the liabilities and the key factors used are:

- the probability of 'recovery' (i.e. return to work). The recovery rates depend on age, sex and length of time the claimant has been claiming the benefits;
- the mortality rate; and
- the discount rate.

For unreported claims, the claims development table is used. The development of insurance liabilities provides a measure of Movestic's ability to estimate the ultimate value of claims. The top half of the table overleaf illustrates how Movestic's estimate of total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be the most appropriate for the business written by Movestic. The information is presented on both a gross and net of reinsurance basis.

(iii) Analysis of claims development – gross

	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	2022 £000
Estimate of ultimates						
End of accident year	28,651	26,231	17,466	14,709	11,623	8,565
One year later	21,259	17,178	12,546	11,686	9,034	
Two years later	20,683	16,810	10,662	8,859		
Three years later	18,334	16,246	9,867			
Four years later	17,217	14,744				
Five years later	16,515					
Current estimate of ultimate claims	16,515	14,744	9,867	8,859	9,034	8,565
Cumulative payments	(11,972)	(9,602)	(7,632)	(4,879)	(3,886)	(2,816)
In balance sheet	4,543	5,142	2,235	3,980	5,148	5,749
Provision for prior years						20,934
Liability in balance sheet						47,732

Analysis of claims development – net

	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	2022 £000
Estimate of ultimates						
End of accident year	10,116	8,620	8,594	9,506	6,402	5,449
One year later	1,831	9,366	4,821	7,296	6,014	
Two years later	9,935	8,986	4,208	5,633		
Three years later	8,650	8,504	3,784			
Four years later	7,936	7,528				
Five years later	7,722					
Current estimate of ultimate claims	7,722	7,528	3,784	5,633	6,014	5,449
Cumulative payments	(4,536)	(4,238)	(2,898)	(3,392)	(2,761)	(2,179)
In balance sheet	3,186	3,290	886	2,241	3,253	3,270
Provision for prior years						14,267
Liability in balance sheet						30,394

Netherlands (Waard Group)

(i) Basis

For protection policies insurance contract provisions comprise a technical reserve for future claims and a claim reserve for those not settled to completion at the reporting date.

For general insurance contracts an unearned premium reserve reflecting the non-expired term of contract is held plus claims provision.

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts) the Insurance Contract Provision equals the value of assets held.

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach.

Different assumptions are used for each portfolio (e.g. Waard Leven has different assumptions for the following portfolios: DSB, HW UL portfolio/DSB Index UL, MGL, Argenta, BND). As an example, the most material portfolio (Argenta Savings Mortgages) uses the following mortality and discount rate assumptions:

Interest: EIOPA curve at 31 August 2020, without VA

Mortality: 80% of the generational prognosis table AG2018

The continued appropriateness of these assumptions are assessed by undertaking a liability adequacy test.

Claims reserves for general insurance business in Waard Schade contain assessment of those IBNR which are regularly updated reflecting analysis of recent reporting patterns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Insurance contract provisions (continued)**Netherlands (Scildon)****(i) Basis**

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts), the Insurance Contract Provision equals the value of assets held.

For non-linked contracts the insurance contract provisions are calculated as the discounted value of future claims and expenses less any expected premium income. For any given policy if the net present value of future discounted cash flows is positive then no asset is recognised.

Additionally, a liability adequacy test is performed to verify the adequacy of the IFRS technical provisions. The test is carried out by comparing the carrying amount of IFRS provisions with the best-estimate provisions calculated under Solvency II regulations. If the value of best-estimate provisions is higher, then the difference is added to the total value of IFRS provisions as a LAT deficit.

(ii) Principal assumptions

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach.

The assumptions differ by product type, and there are also different assumptions applied within each product type depending on when the contract was written. The unit-linked products are the most material, and an example of the mortality tables used are the GBM 1976-1980 (males) and GBV 1976-1980 (females). For annuities, an example of the mortality tables applied are the GBM 1980-1985 (males) and GBV 1980-1985 (females) tables and the discount rate assumption is the Solvency II curve (including VA) less investment costs, where investment costs are determined annually.

For the annuity portfolio mark to market interest assumptions are used. Term policies written after 2015 are reserved on best-estimate market value reserves.

(d) Sensitivity to changes in assumptions**Impact on reported profits and equity to changes in key variables****Gross of reinsurance**

	CA		Scildon		Movestic	
	Change in net of tax profits and equity	2022	Change in net of tax profits and equity	2022	Change in net of tax profits and equity	2022
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(0.4)	(2.0)	(14.6)	(22.5)	n/a	n/a
100 basis point increase in Investment return	1.2	2.9	(25.8)	(33.2)	(0.6)	(1.3)
100 basis point decrease in Investment return	(2.4)	(3.2)	19.9	19.5	0.5	1.1
10% increase in mortality/morbidity	(12.2)	(15.6)	(4.1)	(3.2)	n/a	n/a
10% increase in mortality alone	(9.8)	(12.6)	(4.1)	(3.2)	n/a	n/a
10% increase in morbidity alone	(2.3)	(3.0)	–	–	n/a	n/a
10% increase in policy maintenance expenses	(3.9)	(4.1)	(0.8)	(0.8)	n/a	n/a
10% mass lapse	11.4	13.4	0.5	0.4	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(1.9)	(2.3)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	1.9	2.3

Net of reinsurance

	CA		Scildon		Movestic	
	Change in net of tax profits and equity	2022	Change in net of tax profits and equity	2022	Change in net of tax profits and equity	2022
	£m	£m	£m	£m	£m	£m
Change in variable						
100 basis point increase credit spreads	(2.6)	(3.7)	(14.4)	(22.2)	n/a	n/a
100 basis point increase in Investment return	(3.2)	(8.0)	(25.1)	(32.2)	(1.2)	(2.3)
100 basis point decrease in Investment return	2.4	8.5	(18.9)	17.9	1.2	2.2
10% increase in mortality/morbidity	0.8	(0.1)	(3.4)	(3.7)	n/a	n/a
10% increase in mortality alone	1.1	0.4	(3.4)	(3.7)	n/a	n/a
10% increase in morbidity alone	(0.4)	(0.5)	–	–	n/a	n/a
10% increase in policy maintenance expenses	(3.7)	(3.8)	(1.4)	(1.6)	n/a	n/a
10% mass lapse	5.0	5.2	1.0	(1.0)	n/a	n/a
5% increase in loss ratio	n/a	n/a	n/a	n/a	(1.2)	(1.4)
5% decrease in loss ratio	n/a	n/a	n/a	n/a	1.2	1.4

UK business (CA and CASLP)

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 and CASLP re-run their valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the sensitivity of the estimates to changes in assumptions in respect of its life assurance contracts. The table presented overleaf demonstrates the sensitivity of assets and insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

The above sensitivities are calculated as an expected impact on IFRS-based profits, both gross and net of reinsurance and net of tax and the analysis has been prepared for a change in the stated variable, with all other assumptions remaining constant. The sensitivities to the changes in investment returns are calculated taking into account the consequential changes to valuation assumptions.

The sensitivities to mortality and morbidity (critical illness) rates shown overleaf are calculated on the assumption that there would be no consequential change in rates to policyholders. In practice, group policy is to pass costs on to policyholders where it is contractually permitted and where it considers that the impact of the change is significant and subject to treating customers fairly.

The main expense risk is that of unforeseen changes to third party administration expenses: the impact shown above quantifies a 10% increase in those expenses.

In 2022 the impact of CASLP's sensitivities have been incorporated into the UK result, although this has not had a material effect as CASLP consists primarily of investment contracts, which are not subject to these sensitivities.

The impact of a 100 basis point increase/decrease in investment returns has fallen over 2022 due to the rise in interest rates, which has reduced the convexity of assets and liabilities making them less sensitive to interest rate movements.

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 net of reinsurance at 2022 is £(2.5)m (2021: £(2.5)m).

Dutch business (Scildon)

Similar to Waard, Scildon measures the majority of its insurance contract liabilities using historical assumptions, which usually means that the value of IFRS provisions is fairly stable under many sensitivities. Similarly to CA, the impact of a 100 basis point increase in investment returns has fallen due to the rise in interest rates over 2022, which has reduced the sensitivity of the assets being stressed to a further rise in interest rates. The impact of a 100 basis point increase in credit spreads has fallen for the same reason.

31 Other provisions

	£000
Balance at 1 January 2022	992
Additions – Arising on acquisition	9,809
Charge in the year	174
Amounts utilised during the year	(3,022)
Balance at 31 December 2022	7,953

Prior to the acquisition of CASLP, the other provisions were an immaterial amount. Majority of provisions at the year end relate to mis-selling of £5.2m.

During the year, a provision of £174k was recognised representing interest on claims held within the client money account. These are clients who are either deceased or we have no contact details for them. The provision is recalculated monthly based on the claims held at the end of the month. The interest rate is 1% below the Bank of England base rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32 Investment contracts at fair value through income and amounts deposited with reinsurer

Analysis by operating segment

31 December		2022			2021	
		Investment contract liability £000	Amount deposited with reinsurer £000	Net £000	Investment contract liability £000	Amount deposited with reinsurer £000
UK		3,015,104	32,803	2,982,301	738,458	38,295
Movestic		2,789,765	–	2,789,765	3,382,114	–
Total		5,804,869	32,803	5,772,066	4,120,572	38,295
Current		118,830	32,803	86,027	78,580	38,295
Non-current		5,686,039	–	5,686,039	4,041,992	–
Total		5,804,869	32,803	5,772,066	4,120,572	38,295
						4,082,277

The fair values of the group's investment contract liabilities have been disclosed according to a three-level valuation hierarchy in Note 24.

33 Liabilities relating to policyholders' funds held by the group

Unit-linked		31 December		2022	2021
				£000	£000
Balance at 1 January				990,700	332,117
Deposits received				699,908	603,487
Fees deducted from account balances				(3,242)	(2,775)
Investment yield				(393,037)	197,739
Foreign exchange translation difference				(22,249)	(87,004)
Other movements				(141,604)	(52,864)
Balance at 31 December				1,130,476	990,700
Current				20,370	16,404
Non-current				1,110,106	974,296
Total				1,130,476	990,700

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.

34 Lease liabilities

The group leases several assets including office buildings, office and IT equipment and motor vehicles.

Maturity analysis		31 December 2022						
		Carrying value £000	0-1 year £000	1-2 years £000	2-5 years £000	5-10 years £000	>10 years £000	Total £000
Non-investment property		1,199	562	682	–	–	–	1,244
Property and equipment		10	5	10	–	–	–	15
Motor vehicles		13	18	–	–	–	–	18
Hardware		5	5	–	–	–	–	5
Other		6	5	1	–	–	–	6
Total		1,233	595	693	–	–	–	1,288
Current		635						
Non-current		598						
Total		1,233						

Maturity analysis 31 December 2021		Carrying value £000	0-1 year £000	1-2 years £000	2-5 years £000	5-10 years £000	>10 years £000	Total £000
Non-investment property		1,901	592	609	659	44	–	1,904
Property and equipment		28	19	10	–	–	–	29
Motor vehicles		38	29	11	–	–	–	40
Hardware		40	36	5	–	–	–	41
Other		12	7	5	–	–	–	12
Total		2,019	683	640	659	44	–	2,026
Current		685						
Non-current		1,334						
Total		2,019						

35 Borrowings

Group 31 December		2022 £000	2021 £000
Bank loan		–	31,273
Tier 2 debt		200,356	–
Amount due in relation to financial reinsurance		9,607	15,912
Amount due in relation to financial reinsurance		2,013	–
Total		211,976	47,185
Current		204,327	36,907
Non-current		7,649	10,278
Total		211,976	47,185

Company 31 December		2022 £000	2021 £000
Bank loan		–	31,273
Tier 2 debt		200,356	–
Total		200,356	31,273
Current		200,356	31,273
Non-current		–	–
Total		200,356	31,273

In 2022, the bank loan was fully repaid and replaced by Tier 2 Subordinated Notes Debt. The fair value of amounts due in relation to Tier 2 debt at 31 December 2022 was £148.0m (31 December 2021: £nil).

The bank loan as at 31 December 2021 comprised the following:

- On 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower. During the year, the London Inter-Bank Offer Rate changed to Sterling Overnight Index Average (SONIA) as a reference point. The proceeds of this loan facility were utilised, together with existing group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- On 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten 6-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between 1 and 6 months at the option of the borrower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Borrowings (continued)

– 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 2022 was £nil (31 December 2021: £12.0m).

The fair value of the euro denominated bank loan at 31 December 2022 was £nil (31 December 2021: £18.5m).

The fair value of amounts due in relation to financial reinsurance at 31 December 2022 was £9.0m (31 December 2021: £16.4m).

Bank loans are presented net of unamortised arrangement fees. Arrangement fees are recognised in profit or loss using the effective interest rate method.

36 Deferred tax assets and liabilities**Deferred tax liabilities comprise:**

31 December	2022	2021
	£000	£000
Net deferred tax liabilities:		
CA and other group activities	(29,021)	106
Movestic	(134)	(206)
Waard Group	5,756	921
Scildon	15,304	(16,520)
Total	(8,095)	(15,699)
Current	(82)	(395)
Non-current	(8,013)	(15,304)
Total	(8,095)	(15,699)

CA and other group activities**(a) Recognised deferred tax assets and liabilities**

31 December	2021	Credit/	2022
	Assets/	(charge)	Assets/
	(liabilities)	in year	(liabilities)
	£000	£000	£000
Profit arising on transition to new tax regime	(275)	275	–
Deferred acquisition costs	(233)	189	1,470
Deferred income	496	(79)	–
Acquired value in-force	(614)	4,452	(40,548)
Property, plant and equipment	–	(17)	94
Tax losses on pensions business	–	527	740
Unrealised and deferred investment gains	(15,345)	13,808	(12,210)
Excess expenses of management	15,345	(2,926)	119
Share-based payments	732	144	–
Right of use-assets/lease liabilities	–	78	78
Tax losses	–	4,757	–
Total	106	21,208	(50,335)
Comprising:			
Net deferred tax liabilities	106	21,208	(50,335)
Total	106	21,208	(50,335)

31 December	2020 Assets/ (liabilities) £000	Credit/ (charge) in year £000	2021 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(436)	161	(275)
Deferred acquisition costs	(230)	(3)	(233)
Deferred income	470	26	496
Acquired value in-force	(763)	149	(614)
Unrealised and deferred investment gains	(4,094)	(11,251)	(15,345)
Excess expenses of management	4,094	11,251	15,345
Share-based payments	620	112	732
Right of use-assets/lease liabilities	–	–	–
Total	(339)	445	106
Comprising:			
Net deferred tax liabilities	(339)	445	106
Total	(339)	445	106

The Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year remained at 19%. The future enacted tax rate of 25% has been used in the calculation of UK deferred tax assets and liabilities where relevant, being the rate of corporation tax that is expected to apply when the majority of those deferred tax balances reverse.

Note (i) The deferred tax credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December	2022 £000	2021 £000
Income tax credit	21,208	445

(b) Items for which no deferred tax asset is recognised

31 December	2022 £000	2021 £000
Tax losses on pensions business	17,793	–
Transitional losses on non-pension business	3	479
Unrelieved expenses	94,751	31,532
Realised and unrealised investment losses	9,118	–
BLAGAB trade losses	2,215	–
Total	123,880	32,011

A deferred tax asset has not been recognised in respect of unrelieved expenses, because it is not probable that there will be a sufficient level of taxable income arising from income and gains on financial assets, so that the group can utilise the benefits therefrom. The movement in this balance reflects an increase in deferred deemed gains on Collective Investment Schemes in the period, which has decreased the unrelieved expenses at the balance sheet date.

There are no aggregate temporary differences arising on the acquisition of subsidiaries or associated undertakings, for which deferred tax has not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

CA and other group activities (continued)

Movestic

(c) Recognised deferred tax assets and liabilities

As at the balance sheet date, Movestic had a recognised deferred tax liability of £0.1m (31 December 2021: £0.2m), in respect of fair value adjustments arising upon acquisition. Unrecognised deferred tax assets were nil at the balance sheet date in respect of corporation tax recoverable (31 December 2021: nil).

Waard Group

(d) Recognised deferred tax assets and liabilities

31 December	2021 Assets/ (liabilities) £000	Arising on business combinations £000	Credit/ (charge) in year £000	Foreign exchange translation difference £000	2022 Assets/ (liabilities) £000
Intangible assets					
Fair value adjustment on acquisition	(1,071)	–	214	(51)	(908)
Valuation differences	1,992	2,206	2,170	296	6,664
Total	921	2,206	2,384	245	5,756
Comprising:					
Net deferred tax asset	921	2,206	2,384	245	5,756
Total	921	2,206	2,384	245	5,756

Scildon

(e) Recognised deferred tax assets and liabilities

31 December	2021 Assets/ (liabilities) £000	Credit/ (charge) in year £000	Recognised through equity £000	Foreign exchange translation difference £000	2022 Assets/ (liabilities) £000
Fair value adjustment on acquisition					
Deferred acquisition costs	(6,114)	789	–	(305)	(5,630)
LAT reserve	3,552	(186)	–	190	3,556
Defined benefit pension scheme obligations	–	–	–	–	–
Revaluation of buildings and investment properties	(11)	11	–	–	–
Valuation differences on technical provisions	(550)	(189)	–	(39)	(778)
Valuation differences on investments at fair value through profit and loss	(11,825)	(5,856)	–	(909)	(18,590)
Total	(16,520)	31,646	–	178	15,304
Comprising:					
Net deferred tax liabilities	(16,520)	31,646	–	178	15,304
Total	(16,520)	31,646	–	178	15,304

37 Reinsurance payables

Payable to reinsurers 31 December	2022 £000	2021 £000
Payables in respect of insurance contracts	928	3,742
Payables in respect of investment contracts	9	13
Liability for assets withheld	47,756	66,510
Reinsurers' share of deferred acquisition costs and claims deposits	128	149
Total	48,821	70,414
Current	48,821	70,414
Non-current	–	–
Total	48,821	70,414

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	2022			2021		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Accrued claims	97,481	14,125	83,356	82,332	16,340	65,992
Intermediaries' liabilities	1,666	–	1,666	1,452	–	1,452
Policyholder liabilities	20,809	–	20,809	22,338	–	22,338
Other	29,767	–	29,767	23,140	–	23,140
Total	149,723	14,125	135,598	129,262	16,340	112,922
Current	149,723	14,125	135,598	129,262	16,340	112,922
Non-current	–	–	–	–	–	–
Total	149,723	14,125	135,598	129,262	16,340	112,922

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	2022 £000	2021 £000
Balance at 1 January	2,808	3,355
Additions	–	–
Release to income	(453)	(508)
Foreign exchange translation difference	28	(38)
Balance at 31 December	2,383	2,809
Current	719	331
Non-current	1,664	2,478
Total	2,383	2,809

The release to income is included in fees and commission income (see Note 8). These are initial fees that relate to future provision of services that are deferred and amortised over the anticipated period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Other payables

Group 31 December	2022 £000	2021 £000
Accrued expenses	11,572	10,952
VAT	1,309	50
Employee tax	5,459	3,077
Other	16,810	9,912
Total	35,150	23,991
Current	35,150	23,991
Non-current	—	—
Total	35,150	23,991
Company 31 December	2022 £000	2021 £000
Accrued expenses	2,047	3,001
Other	454	323
Total	2,501	3,324
Current	2,501	3,324
Non-current	—	—
Total	2,501	3,324

The carrying value of other payables is a reasonable approximation of fair value.

41 Share capital and share premium

Group 31 December	2022 Number of shares issued	2022 Share capital £000	2021 Number of shares issued	2021 Share capital £000
Share capital	150,369,603	7,502	150,145,602	7,496
		Share premium £000		Share premium £000
		142,332		142,085
		Merger reserve £000		Merger reserve £000
		36,272		36,272

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2021: nil).

Company 31 December	2022		2021	
	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	150,369,603	7,502	150,145,602	7,496
	Share premium £000		Share premium £000	
		142,332		142,085

The number of shares in issue at the balance sheet date included nil shares held in treasury (31 December 2021: nil).

42 Other reserves

Group 31 December	2022 £000	2021 £000
Capital redemption reserve	50	50
Foreign exchange translation reserve	13,671	7,212
Balance at 31 December	13,721	7,262
 Company 31 December		
Capital redemption reserve	2022 £000	2021 £000
	50	50

43 Retained earnings

Group Year ended 31 December	2022 £000	2021 £000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	265,052	270,442
(Loss)/profit for the year	(98,333)	27,294
Share based payment	867	593
Dividends		
Final approved and paid for 2020	–	(21,446)
Interim approved and paid for 2021	–	(11,831)
Final approved and paid for 2021	(22,101)	–
Interim approved and paid for 2022	(12,195)	–
Balance at 31 December	133,290	265,052

The interim dividend in respect of 2021, approved and paid in 2021, was paid at the rate of 7.88p per share. The final dividend in respect of 2021, approved and paid in 2022, was paid at the rate of 14.72p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2021 was made at the rate of 22.60p per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Retained earnings (continued)

The interim dividend in respect of 2022, approved and paid in 2022, was paid at the rate of 8.12p per share to equity shareholders of the parent company registered at the close of business on 21 October 2022, the dividend record date.

A final dividend of 15.16p per share in respect of the year ended 31 December 2022 payable on 26 May 2023 to equity shareholders of the parent company registered at the close of business on 6 April 2023, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £22.8m 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 2021 and 31 December 2022:

Year ended 31 December	2022 P	2021 P
Interim – approved and paid	8.12	7.88
Final – proposed/paid	15.16	14.72
Total	23.28	22.60

Company Year ended 31 December	2022 £000	2021 £000
Balance at 1 January	225,008	228,650
(Loss)/profit for the year	(16,362)	29,042
Share based payment	867	593
Dividends paid		
Final approved and paid for 2020	–	(21,446)
Interim approved and paid for 2021	–	(11,831)
Final approved and paid for 2021	(22,101)	–
Interim approved and paid for 2022	(12,195)	–
Balance at 31 December	175,217	225,008

Details of dividends, approved and paid, are set out in the group section on previous page.

44 Employee benefit expense, including directors

Year ended 31 December	CA £000	CASLP £000	Movestic £000	Waard Group £000	Scildon £000	Other group activities £000	2022 £000	2021 £000
Wages and salaries	2,050	3,853	8,024	2,205	6,743	5,715	28,590	22,723
Social security costs	249	232	2,521	250	1,111	694	5,057	4,930
Pension costs-defined contribution plans	165	163	1,943	303	1,169	460	4,203	3,705
Pension costs-defined benefit plans	–	–	–	–	–	–	–	–
Total	2,464	4,248	12,488	2,758	9,023	6,869	37,850	31,358
Monthly average number of employees								
Company							52	42
Subsidiaries							362	280
Total							414	322

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 213.

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 transferred to another administrator in 2020. Until that point, Scildon continued to bear only the fund administration costs.

Under the company's new defined contribution scheme, Scildon pays a contribution to the scheme and subsequently has no further financial obligations with respect to this part of the scheme. This contribution is recognised as an expense when paid.

Movestic

The Swedish business participates in a combined defined benefit and defined contribution scheme operated by Försäkringsbranschens Pensionskassa, 'FPK'. (the Scheme). The Scheme is a multi-employer scheme with participants including other Swedish insurance companies not related to the group. The Scheme provides, for those born in 1971 or earlier, benefits to employees which are linked to their final salary and to the amount of time working for companies which are members of the Scheme. For those employees born in 1972 or later, the Scheme operates on a defined contribution basis.

Assets and liabilities are held on a pooled basis and are not allocated by the Trustee to any individual company. Consequently, reliable information is not available to account for the Scheme as a defined benefit scheme and therefore, in accordance with IAS 19 Employee Benefits, the Scheme is accounted for as a defined contribution scheme.

Contributions to the Scheme are based on the funding recommendations of the independent qualified actuary: the contributions paid to the Scheme subsequent to the acquisition of the Swedish business on 23 July 2009 and up to 31 December 2021, totalled £5.2m.

During 2022 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 2021.

The Annual Report states that the Scheme's surplus is £408.2m (£250.9m as at 31 December 2020).

As at 31 December 2021, the fund had assets under management of £1.5bn (£1.4bn as at 31 December 2020). During 2021 there have been 97 (103) employer insurance companies participating in the Scheme and 26,000 (26,000 as at 31 December 2020) insured individuals.

From the available information, it cannot be determined with certainty as to whether there would be a change in the required employer funding rate, although there is currently no deficit in the Scheme.

45 Share-based payments

The group issues equity-settled share-based payments to the two executive directors based on the 2014 terms. Equity settled share-based payments are measured at fair value at the date of the grant, and expensed on a straight-line over the vesting period, based on the group's estimate of shares that will eventually vest. The executive bonus scheme consists of two components:

(a) Short-Term Incentive (STI) Scheme

(b) Long-Term Incentive (LTIP) Scheme

The STI Scheme is based upon a 1 year performance period measured against cash generation, EcV earnings and strategic group objectives. In relation to 2022, upon meeting the necessary performance targets, the company granted an award in the form of a right to receive a cash amount of up to 100% of the gross salary. In the event that the gross cash payment due is greater than £20,000, a mandatory 35% of the cash award was deferred into shares, which had a vesting period of 3 years. Therefore the award was 65% settled in cash and 35% settled by a share option award, which cannot be exercised for 3 years.

Under the LTIP 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 LTIP 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Share-based payments (continued)**(a) 2022 award made under the Short-Term Incentive (STI) Scheme**

Details of the short-term incentive awards made in the year are as follows:

2022 Short-Term Incentive Scheme		2022	2021
Awards made in year		£000	£000
Amount paid as cash bonus through the income statement (65%)		355	607
Amount deferred into shares for 3 years and subject to forfeiture (35%)		191	327
Total bonus award for the year		546	934
Amount of deferred expense recorded in the current year		59	236

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) 2022 award made under the Long-Term Incentive (LTIP) Scheme

In April 2022, the group granted 253,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 284.00p, which was the share price as at 28 April 2022, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2022 Long-Term Incentive Scheme		2022
		Weighted average exercise price £
	Options number 000	
Outstanding at the beginning of the year		–
Granted during the year	253	–
Lapsed during the year	–	–
Outstanding at the end of the year	253	–

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)	284.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	162.50
Expected volatility	29.04
Expected life	3 years
Risk free rate	2.24%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £37,000 related to equity-settled share-based payments transactions in 2022.

(c) 2021 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £206,000 with regards to the 35% element that has been deferred over the vesting period.

(d) 2021 award made under the Long-Term Incentive (LTIP) Scheme

In April 2021, the group granted 260,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 278.50p, which was the share price as at 28 April 2021, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2021 Long-Term Incentive Scheme		2022		2021	
		Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year		702	–	–	–
Granted during the year		–	–	794	–
Exercised during the year		(99)	2.66	–	–
Lapsed during the year		–	–	(92)	–
Outstanding at the end of the year		603	–	702	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	278.50
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	160.56
Expected volatility	30.01
Expected life	3 years
Risk free rate	0.48%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £486,000 related to equity-settled share-based payments transactions in 2022.

(e) 2020 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £59,000 with regards to the 35% element that has been deferred over the vesting period.

(f) 2020 award made under the Long-Term Incentive (LTIP) Scheme

In April 2020, the group granted 224,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 323.50p, which was the share price as at 28 April 2020, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2020 Long-Term Incentive Scheme		2022		2021	
		Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year		192	–	224	–
Granted during the year		–	–	–	–
Lapsed during the year		–	–	(32)	–
Outstanding at the end of the year		192	–	192	–

The weighted average contractual life is 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Share-based payments (continued)**(f) 2020 award made under the Long-Term Incentive (LTIP) Scheme (continued)**

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	323.50
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	184.04
Expected volatility	28.51
Expected life	3 years
Risk free rate	0.42%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised total expense of £56,000 related to equity-settled share-based payments transactions in 2022.

(g) 2019 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £57,000 with regards to the 35% element that has been deferred over the vesting period.

(h) 2019 award made under the Long-Term Incentive (LTIP) Scheme

In April 2019, the group granted 196,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 358.50p, which was the share price as at 28 April 2019, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2019 Long-Term Incentive Scheme	2022		2021	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	196	–	196	–
Lapsed 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 £22,000 related to equity-settled share-based payments transactions in 2022.

(i) 2018 award made under the Short-Term Incentive (STI) Scheme

The group has recorded an expense of £4,000 with regards to the 35% element that has been deferred over the vesting period.

(j) 2018 award made under the Long-Term Incentive (LTIP) Scheme

In April 2018, the group granted 168,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 410.00p, which was the share price as at 28 April 2018, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2018 Long-Term Incentive Scheme		2022		2021	
		Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year		–	–	168	–
Lapsed during the year		–	–	(168)	–
Outstanding at the end of the year		–	–	–	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	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 no expense related to equity-settled share-based payments transactions in 2022.

(k) 2017 award made under the Long-Term Incentive (LTIP) Scheme

In April 2017, the group granted 174,000 nil priced share options with a vesting period of 3 years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 382.75p, which was the share price as at 28 April 2017, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2017 Long-Term Incentive Scheme		2022		2021	
		Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year		26	–	41	–
Exercised during the year		–	–	(15)	–
Outstanding at the end of the year		26	–	26	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	382.75
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	211.73
Expected volatility	26.97
Expected life	3 years
Risk free rate	0.70%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised no expense related to equity-settled share based payments transactions in 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Share-based payments (continued)**(i) 2016 award made under the Long-Term Incentive (LTIP) Scheme**

In April 2016, the group granted 255,000 nil priced share options with a vesting period of three years. These awards were subject to performance conditions tied to the company's financial performance in respect of growth in Economic Value and Total Shareholder Return (TSR).

The fair value of the non-market base condition was determined to be 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	2022		2021	
	Options number 000	Weighted average exercise price £	Options number 000	Weighted average exercise price £
Outstanding at the beginning of the year	90	–	90	–
Exercised during the year	–	–	–	–
Outstanding at the end of the year	90	–	90	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	312.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	179.72
Expected volatility	28.07
Expected life	3 years
Risk free rate	0.86%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 10 years.

The group recognised no expense related to equity-settled share based payments transactions in 2022 and 2021.

46 Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2022	2021
(Loss)/profit for the year attributable to shareholders (£000)	(98,333)	27,294
Weighted average number of ordinary shares	150,239,599	150,118,548
Basic earnings per share	(65.45)p	18.18p
Diluted earnings per share	(64.67)p	18.00p

The weighted average number of ordinary shares in respect of the year ended 31 December 2022 is based upon 150,369,603 shares. No shares were held in treasury.

There were 1,815,601 share options outstanding at 31 December 2022 (2021: 1,501,566). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2021 and 2022.

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.

In CA £0.2m is held in respect of endowment mis-selling and £0.25m is held in respect of pension mis-selling. In CASLP £4.8m is held in respect of non-pension mis-selling, of which £4.3m is expected to be recoverable under a pecuniary loss cover with Allianz, and £0.4m is held in respect of pension mis-selling, all of which is expected to be recoverable from Allianz. A further £0.2m is held in respect of ongoing pension complaints with the Financial Ombudsman Service. No complaints reserves are held in Movestic, Scildon or the Waard Group.

48 Capital commitments

There were no capital commitments as at 31 December 2022 or as at 31 December 2021.

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 (including non-executive directors) of the company;
- (ii) its subsidiary companies;
- (iii) other companies over which the directors have significant influence; and
- (iv) transactions with persons related to key management personnel.

(b) Related party transactions*(i) Transactions with key management personnel.*

Key management personnel comprise of the directors of the company. This is on the basis that the group's governance map requires all strategically significant decisions to be approved by the group board. As such, they have the authority and responsibility for planning, directing and controlling the activities of the group. Key management compensation is as follows:

	2022 £000	2021 £000
Short-term employee benefits	1,204	2,342
Post-employment benefits	65	85
Share-based payments	869	593
Total	2,138	3,020

The share-based payments charge comprises £0.3m (2021: £0.2m) of Short-Term Incentive (STI) Scheme, and £0.2m (2021: £0.2m) related to Long-Term Incentive (LTIP) Scheme, which is determined in accordance with IFRS 2 'Share-based Payment'. Further details on the share-based payment are disclosed in Note 45.

In addition, to their salaries the company also provides non-cash benefits to directors and contributes to a post-employment defined contribution pension plan on their behalf, or where regulatory contribution limits are reached, pay an equivalent amount as an addition to base salary.

The following amounts were payable to directors in respect of bonuses and incentives:

	2022 £000	2021 £000
Annual bonus scheme (included in the short-term employee benefits above)	546	934

These amounts have been included in Accrued Expenses as disclosed in Note 35. The amounts payable under the annual bonus scheme were payable within 1 year. The terms and conditions attached to the annual bonus scheme can be found in the remuneration section of these accounts on page 100.

(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	2022 £000	2021 £000
Recovery of expenses	4,762	4,771

(iii) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel (31 December 2021: £nil).

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 2022	Ownership interest 31 December 2021	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				
CASLP	United Kingdom	100% of all share capital (4)	–	Sterling
Registered address				
Third Floor One Temple Quay, 1 Temple Back East, Bristol, England, BS1 6DZ				
Movestic Livförsäkring AB	Sweden	100% of all share capital	100% of all share capital	Swedish krona
Movestic Balanserad	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Försiktig	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Global ESG	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Offensiv	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Global	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Avancera 75	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Avancera 85	Sweden	100% of all share capital (6)	100% of all share capital (6)	Swedish krona
Movestic Fonder AB	Sweden	100% of all share capital (2)	100% of all share capital (2)	Swedish krona
Registered address				
Box 7853, S-103 99 Stockholm, Sweden				
Movestic Fund Management S.A.	Luxembourg	–	100% of all share capital (5)	Swedish krona
Registered address				
12 Rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg				
Chesnara Holdings B.V.	Netherlands	100% of all share capital (3)	100% of all share capital (3)	Euro
Waard Leven N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Waard Schade N.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Waard Verzekering	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro
Robein Leven N.V.	Netherlands	100% of all share capital (7)	–	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) Company formed in March 2017. It has been put into liquidation.

(6) Investment funds held indirectly by Movestic Livförsäkring AB.

(7) Held directly by Waard Leven, from 27 December 2022.

51 Business combination and portfolio acquisition

On 13 September 2021, Chesnara had entered into an agreement with Sanlam UK Limited to acquire Sanlam Life & Pensions UK (now CASLP), a specialist provider of insurance and long-term savings products in the UK. The acquisition was completed on 28 April 2022. CASLP is a specialist provider of insurance and long-term savings products in the UK, with approximately £2.9bn of assets under administration and 80,000 policies. The acquisition of CASLP was initially announced in September 2021.

The acquisition has given rise to an immediate profit of £9.6m, calculated as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Assets			
Intangible assets			
Acquired value of in-force business	–	59,579	59,579
Property and equipment	46	–	46
Investment properties	102,974	–	102,974
Reinsurers' share of insurance contract provisions	1,014	–	1,014
Financial assets	2,612,574	–	2,612,574
Other assets and receivables	15,084	–	15,084
Cash and cash equivalents	93,407	–	93,407
Total assets	2,825,099	59,579	2,884,678
Liabilities			
Insurance contract provisions	209,640	–	209,640
Other provisions	9,809	–	9,809
Investment contracts at fair value through profit and loss	2,547,789	–	2,547,789
Deferred tax liabilities	9,787	40,548	50,335
Other payables	19,690	–	19,690
Total liabilities	2,796,715	40,548	2,837,263
Net assets	28,384	19,031	47,415
Net liabilities acquired			47,415
Total consideration, paid in cash			(37,850)
Profit arising on business combination			9,565

The assets and liabilities at the acquisition date have been amended compared with what was reported in the group's Half Year Report for the 6 months ended 30 June 2022.

There has been a change in the profit arising on business combination in valuation of the profit arising on business combination from the reported half year position. Under IFRS 3 Business Combination, it allows a period of 12 months from the acquisition date to refresh our estimates. At half year reporting, our valuation was based on 31 March 2022. This was refined post half year and at the year end the valuation was based on the actual acquisition date, 28 April 2022.

The Acquired Value of In-Force Business (AVIF) has materially changed since the half year reporting. This was due to the change in discount rate used in the calculation of the AVIF business, to take into account the weighted average cost of capital in Chesnara plc. The discount rate used was 5.75% at the half year and 8.0% in the final AVIF calculation. The run-off profile for the AVIF is over a 30 year period.

The other material changes were related to the financial assets and cash and cash equivalents, which takes into account an additional month of transactions and market fluctuations.

Acquired value of in-force business: The acquisition has resulted in the recognition of net of a tax intangible asset amounting to £19.0m, which represents the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business. The model factors in a number of variables, of which the most influential are; the policyholders' ages, mortality rates, expected policy lapses, expenses that are expected to be incurred to manage the policies and future investment growth, as well as the discount rate that has been applied. This asset will be amortised over its expected useful life.

Gain on acquisition: As shown above, a gain of £9.6m has been recognised on acquisition. Under IFRS 3, a gain on acquisition is defined as being a 'bargain purchase'. A day one gain has arisen on business combination, as by applying the pricing model that we generally adopt, we offered a purchase price which was at a discount to our own assessment of the value of the net assets to be acquired.

Acquisition-related costs: Chesnara concluded the deal and obtained control of CASLP as of 28 April 2022. The consideration transferred by Chesnara for the acquisition of CASLP consisted of cash totalling £37.9m. There was also a capital contribution made by Chesnara to CASLP amounting to £25.0m immediately following completion. The costs in respect of the transaction amounted to £1.7m which have been included within the 'Administrative Expenses' on the Consolidated Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Business combination and portfolio acquisition (continued)

Results of CASLP: The results of CASLP have been included in the consolidated financial statements of the group with effect from 28 April 2022. Net insurance premium revenue for the period was £1.2m, with contribution to overall consolidated loss before tax of £11.2m, before the amortisation of the AVIF and deferred acquisition cost intangible assets. Had CASLP been consolidated from 1 January 2022, the Consolidated Statement of Comprehensive Income would have included net insurance premium revenue of £1.9m and would have contributed £25.7m to the overall consolidated loss before tax.

On 25 November 2021, the Waard Group agreed to acquire 100% of the shares of Robein Leven N.V. and its subsidiary, a specialist provider of traditional and linked savings products, mortgages and annuities in the Netherlands, from Monument Re Group. The completion took place on 28 April 2022. The consideration transferred by Waard Leven for the acquisition of Robein consisted of cash amounting to £14.5m.

The transaction has given rise to a post completion profit on acquisition of £5.8m calculated as follows:

	Fair value £000
Assets	
Financial assets	202,908
Investment in subsidiaries*	1,461
Other assets and receivables	4,784
Cash and cash equivalents	7,301
Total assets	216,454
Liabilities	
Insurance contract provisions	188,279
Value of business acquired	1,645
Investment contracts at fair value through income	6,244
Total liabilities	196,168
Net assets	20,286
Net assets acquired	20,286
Total consideration, paid in cash	(14,490)
Post completion profit on portfolio acquisition	5,796

*The investment in subsidiaries relates to Robein Effecten Dienstverlening, which is a subsidiary of Robein Leven.

There has been a change in the profit arising on business combination from the reported half year position. Under, IFRS 3 Business Combination, it allows a period of 12 months from the acquisition date to refresh our estimates. There was a material increase in financial assets reported at half year compared to year end.

The insurance portfolio and the related assets were transferred from Robein Leven into Waard Leven on 27 December 2022. Robein Leven remains a separate legal entity within the group structure of Waard and its insurance license will be forfeited. Over the course of 2023, most of the owns funds will be paid out as a dividend to Waard Leven.

Profit on acquisition: A profit of £5.8m has been recognised on acquisition. This profit on acquisition has been recorded as a 'post completion gains on portfolio acquisition' on the face of the Statement of Comprehensive Income. A day one gain has arisen as by applying the pricing model that we generally adopt, we offered a purchase price which was at a discount to our own assessment of the value of the net assets to be acquired.

Acquisition-related costs: Waard Leven incurred costs of around £0.2m in relation to the acquisition.

The assets and liabilities acquired are included within changes in insurance provisions and financial assets within operating cash flows on the face of the cash flow statement.

Results of Robein Leven: The results of Robein Leven have been included in the consolidated financial statements of the group with effect from 28 April 2022, within Waard Group. Had Robein Leven been consolidated from 1 January 2022, the Consolidated Statement of Comprehensive Income would have contributed £0.2m to the overall consolidated profit before tax.

During the year, Waard also acquired 3,000 policies in August 2022 from SRLEV N.V. in the Netherlands. As Waard was already administering these policies as Proxy Agent on behalf of the vendor, the integration of the policies was completed in a short time frame.

52 Post balance sheet event

On 1 January 2023, Chesnara's Dutch closed-book subsidiary Waard Leven N.V. complete the acquisition of the insurance portfolio of Nederlandse Algemeene Maatschappij van Levensverzekering Conservatrix N.V. (Conservatrix), following Court and Regulatory approvals. The cash consideration for the acquisition was €1.

In accordance with IFRS 3 Business Combinations, certain disclosures are required should a business combination complete after the end of the reporting period but before the financial statements are authorised for issue. At the point of authorising these financial statements, the initial accounting for this business combination is incomplete.

A summary of the acquisition, covering the business rationale along with some of the key impacts on the Chesnara group, were disclosed in an announcement by Chesnara on 22 July 2022, which has been summarised below.

- In December 2020, the Dutch Central Bank, De Nederlandse Bank (DNB), filed for bankruptcy of Conservatrix following a deterioration of the Solvency II capital position and limited feasibility of recovering this in the short term. The court declared Conservatrix bankrupt on 8 December 2020 and appointed two trustees (the Trustees) who were authorised to administer the estate. Conservatrix customers will benefit from becoming part of a well-capitalised group, after a significant period of uncertainty.
- Conservatrix's savings, annuity and funeral plan products are well aligned with Chesnara's existing life and pension liability mix in the Netherlands. The acquisition adds approximately 70,000 additional policies and increases group Assets Under Management (AuM) by c£0.5bn.
- The acquisition has been effected through the transfer of the insurance portfolio (together with certain other assets and liabilities) into Waard. In order to support the solvency position of the Conservatrix insurance portfolio, a capital contribution of £35m has been provided by Chesnara, consisting of a £21m contribution from Chesnara and £14m of existing Waard resources.
- Future cash generation from the acquisition under steady state conditions is expected to be c£4m per annum, supporting Chesnara's dividend strategy.
- The acquisition is expected to increase the group's EcV by c£18m and provides further EcV accretion potential from future real world investment returns and the run-off of the risk margin.
- Conservatrix's employees are expected to remain with the business following completion of the acquisition.

A detailed assessment of the fair value of the assets and liabilities acquired is incomplete at this stage and will be included in the group's interim financial statements for the period ending 30 June 2023.

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Stockholm Royal Palace, Stockholm



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FINANCIAL CALENDAR

30 March 2023

Results for the year ended
31 December 2022 announced

6 April 2023

Ex-dividend date

11 April 2023

Dividend record date

27 April 2023

Last date for dividend reinvestment
plan elections

16 May 2023

Annual General Meeting

26 May 2023

Dividend payment date

21 September 2023

Half year results for the 6 months
ending 30 June 2023 announced

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NOTICE OF THE ANNUAL GENERAL MEETING

This document is important and requires your immediate attention

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional advisor authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial advisor.

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.

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.

Company No. 4947166

Notice is given that the 2023 Annual General Meeting of Chesnara plc will be held at the offices of Panmure Gordon, 40 Gracechurch Street, London, EC3V 0BT on 16 May 2023 at 11am, for the business set out below. Shareholders will be kept informed via the Regulatory News System (RNS) should arrangements need to be changed for any reason.

Resolutions 1 to 18 inclusive will be proposed as ordinary resolutions and resolutions 19 to 23 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2022, together with the reports of the directors and auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2022.
3. To approve the Directors' Remuneration Policy (as contained in the Directors' Remuneration Report for the year ended 31 December 2022).
4. To declare a final dividend of 15.16 pence per ordinary share for the financial year ended 31 December 2022.
5. To re-elect Steve Murray as a director.
6. To re-elect Carol Hagh as a director.
7. To re-elect Karin Bergstein as a director.
8. To re-elect David Rimmington as a director.
9. To re-elect Jane Dale as a director.
10. To re-elect Luke Savage as a director.
11. To re-elect Mark Hesketh as a director.
12. To re-elect Eamonn Flanagan as a director.
13. 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.
14. To authorise the directors to determine the auditor's remuneration.

15. That, from the passing of this resolution 15 until the earlier of the close of business on 30 June 2024 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.

16. That:

- (a) the rules of the Chesnara 2023 Short-Term Incentive Scheme (the 2023 STI Scheme), the principal terms of which are summarised in Appendix 1 to this Notice of Annual General Meeting and a copy of which is produced to the meeting and initialled by the Chair of the meeting for the purposes of identification, be and are hereby approved and adopted and the directors of the company be and are hereby authorised to do all such things in accordance with applicable law as may be necessary or desirable to carry the 2023 STI Scheme into effect; and
- (b) the directors of the company be and are hereby also authorised to adopt further schemes based on the 2023 STI Scheme but modified to take account of local tax, exchange control or securities law in overseas territories, provided that any shares made available under such further schemes are treated as counting against any limits on individual or overall participation in the 2023 STI Scheme.

17. That:

- (a) the rules of the Chesnara 2023 Long-Term Incentive Plan (the 2023 LTIP), the principal terms of which are summarised in Appendix 2 to this Notice of Annual General Meeting and a copy of which is produced to the meeting and initialled by the Chair of the meeting for the purposes of identification, be and are hereby approved and adopted and the directors of the company be and are hereby authorised to do all such things in accordance with applicable law as may be necessary or desirable to carry the 2023 LTIP into effect; and
- (b) the directors of the company be and are hereby also authorised to adopt further schemes based on the 2023 LTIP but modified to take account of local tax, exchange control or securities law in overseas territories, provided that any shares made available under such further schemes are treated as counting against any limits on individual or overall participation in the 2023 LTIP.

NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

18. 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 £2,506,480 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 £2,506,480; and
- (b) up to an aggregate nominal amount of £5,012,959 (such amount to be reduced by the aggregate nominal amount of any shares allotted or rights granted pursuant to the authority in paragraph (a) above) in connection with an offer by way of a rights issue:
 - i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
 - ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the company, expire at the conclusion of the company's next Annual General Meeting (or, if earlier, at the close of business on 30 June 2024) 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.

19. That, subject to the passing of resolution 18 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 18 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 £375,972,

and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the directors by resolution 18 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.

20. That, subject to the passing of resolution 18 of this notice and, in addition to the power contained in resolution 19 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 18 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 £375,972; 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 Disapply 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 18 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.

21. 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 15,038,877;
- (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 2024); 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.

22. That with effect from the conclusion of the AGM, the Articles of Association produced to the meeting and initialled by the Chair for the purpose of identification be adopted as the Articles of Association of the company in substitution for, and to the exclusion of, the company's current Articles of Association.

23. 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



Amanda Wright

Group General Counsel and Company Secretary

2nd Floor, Building 4
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY

29 March 2023

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

Arrangements for the 2023 AGM

The company is pleased to be able to invite members to attend the AGM in person in May. It is the company's intention to give a presentation on business progress at this year's AGM should a physical meeting be held. A results presentation will also be recorded on 30 March 2023 and made available on the corporate website.

The company continues to strongly encourage shareholders to vote electronically. Instructions on voting are attached to the Notice of AGM sent out to shareholders and can also be found on the company's website. Shareholders may also wish to submit questions in advance via e-mail to info@chesnara.co.uk. We will endeavour to respond to questions raised directly, or by publishing responses on our website.

1. Any member who is entitled to attend and vote at this Annual General Meeting is entitled to appoint another person, or two or more persons in respect of different shares held by the shareholder, as their proxy to exercise all or any of their rights to attend and to speak and to vote at the Annual General Meeting. Members who wish to appoint a proxy are encouraged to appoint the Chair of the meeting as their proxy and give your instructions on how you wish the Chair of the meeting to vote on the proposed resolutions. Appointing the Chair as your proxy will not prevent you from attending and voting in person at the AGM should we be able to proceed with a physical meeting as intended, but will ensure that your vote is able to be cast in accordance with your wishes should you (or any other person who you might otherwise choose to appoint as your proxy) be unable to attend for any reason. Members are strongly encouraged to vote electronically.
2. You will not receive a form of proxy for the AGM in the post. Instead, you will receive instructions to enable you to vote electronically and how to register to do so. You may request a physical copy proxy form directly from the registrars, Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL (telephone number: 0371 664 0300). If you request a physical copy proxy form, it must be completed in accordance with the instructions that accompany it and then delivered (together with any power of attorney or other authority under which it is signed, or a certified copy of such item) to Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL so as to be received by 11am on Friday 12 May 2023.
3. Any member wishing to vote at the Annual General Meeting without attending in person or (in the case of a corporation) through its duly appointed representative, must appoint a proxy to do so. A proxy need not be a member of the company, but as noted above members should appoint the Chair of the meeting as their proxy to ensure that their vote is able to be cast in accordance with their wishes should they (or any other persons who members might otherwise choose to appoint as their proxy) be unable to attend for any reason. Members may appoint a proxy online by following the instructions for the electronic appointment of a proxy at www.signalshares.com by entering the company name 'Chesnara plc' and following the on-screen instructions. To be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by 11am on Friday 12 May 2023. Members who hold their shares in uncertificated form may also use the 'CREST' voting service to appoint a proxy electronically, as explained below.
4. Proxymity Voting – if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the company and approved by the registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 11am on Friday 12 May 2023 in order to be considered valid or, if the meeting is adjourned, by the time which is 48 hours before the time of the adjourned meeting. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy. An electronic proxy appointment via the Proxymity platform may be revoked completely by sending an authenticated message via the platform instructing the removal of your proxy vote.
5. CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in 'the CREST voting service' section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a 'CREST proxy appointment instruction') must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited ('Euroclear'), and must contain all the relevant information required by the CREST Manual. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Link Group (ID RA10), by 11am on Friday 12 May 2023, which is acting as the company's 'issuer's agent'. After this time, any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) the issuer's agent is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service providers should take into account the provisions of the CREST Manual concerning timings as well as its section on 'Practical limitations of the system'. In certain circumstances, the company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

6. Copies of (i) directors' service contracts and letters of appointment; and (ii) a copy of the company's current articles of association together with a copy of the proposed new articles of association that are proposed to be adopted pursuant to resolution 22, are available for inspection at the registered office of the company during normal business hours each business day subject to prevailing public health measures. They will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.
7. The time by which a person must be entered on the register of members in order to have the right to vote at the Annual General Meeting (and for the purpose of the determination by the company of the votes they may cast) is close of business on Friday 12 May 2023. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Annual General Meeting.
8. The right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006; as such rights can only be exercised by the member concerned. Any person nominated to enjoy information rights under Section 146 of the Companies Act 2006 who has been sent a copy of this notice of Annual General Meeting is hereby informed, in accordance with Section 149(2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Annual General Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
9. As at 24 March 2023 (being the last practicable date prior to the publication of this document), the company's issued share capital consisted of 150,388,770 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 24 March 2023 (being the last practicable date prior to the publication of this document) were 150,388,770.
10. Information regarding this Annual General Meeting, including information required by Section 311A of the Companies Act 2006, is available at www.chesnara.co.uk. Any electronic address provided either in this notice or any related documents may not be used to communicate with the company for any purposes other than those expressly stated.
11. In accordance with Section 319A of the Companies Act 2006, any member attending the Annual General Meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the Annual General Meeting, but no such answer need be given if (a) to do so would interfere unduly with the preparations for the Annual General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the company or the good order of the Annual General Meeting that the question be answered. The company encourages shareholders to submit their questions electronically in advance of the meeting via info@chesnara.co.uk.
12. Under Section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement in accordance with Section 528 of the Companies Act 2006 setting out any matter relating to (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or (ii) any circumstances connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the company has been required under Section 527 of the Companies Act 2006 to publish on a website.
13. Members meeting the threshold requirements in Sections 338 and 338A of the Companies Act 2006 have the right to require the company (i) to give to members entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or (as applicable) the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the company not later than 11am on Tuesday 4 April 2023, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The notes on the following pages give an explanation of the proposed resolutions:

Resolution 1**Report and Accounts**

The Companies Act 2006 requires the directors of a public company to lay its Annual Report and Accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The Annual Report and Accounts comprise the audited Financial Statements, the Auditor's Report, the Directors' Report, the Directors' Remuneration Report, and the Directors' Strategic Report.

Resolutions 2 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 2022. The Directors' Remuneration Report can be found on pages 98 to 118 of the 2022 Report and Accounts and, for the purposes of this resolution, does not include the parts of the Directors' Remuneration Report containing the Directors' Remuneration Policy as set out on pages 112 to 118. The vote on this resolution is advisory only and the directors' entitlement to remuneration is not conditional on it being passed. The Companies Act 2006 requires the Directors' Remuneration Policy to be put to shareholders for approval annually unless the approved Policy remains unchanged, in which case it need only be put to shareholders for approval at least every 3 years.

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. The company is proposing the following changes to the Policy which was last approved at the Annual General Meeting in 2020:

Following consultation with shareholders:

- To increase the maximum LTIP opportunity that may be granted to the Group CEO from 100% of salary to 125% of salary;
- To provide greater flexibility to change the performance measures for the LTIP from year to year to ensure that these remain aligned to strategy and business priorities whilst retaining the commitment that a minimum of 50% of the assessment would be based on financial metrics; and
- To enhance malus and clawback provisions in line with the new Short-Term Incentive Scheme and Long-Term Incentive Scheme presented for approval as resolutions 16 and 17.

The revised Policy is therefore presented for approval as resolution 3 at the Annual General Meeting. The Policy can be found on pages 112 to 118 of the Annual Report and 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 2020, 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 amendment 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 2023 Annual General Meeting approves resolution 4, the final dividend of 15.16 pence per share will be paid on 26 May 2023 to ordinary shareholders who are on the register of members at the close of business on 11 April 2023 in respect of each ordinary share.

Resolutions 5 – 12 inclusive**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 88 and 89 of this document. The Chair confirms that each of the directors proposed continues to make an effective and valuable contribution and demonstrates commitment to their responsibilities. This is supported by the annual performance evaluation that was undertaken recently. The board unanimously recommend that each of these directors be re-elected as a director of the company.

In accordance with the Code, the board has reviewed the independence of its non-executive directors and has determined that they remain fully independent of management.

Resolutions 13 and 14**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 13, 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 14 authorises the directors to determine the auditor's remuneration.

Resolution 15**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.

EXPLANATORY NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING (CONTINUED)

Resolutions 16 and 17

These resolutions seek shareholder approval to the introduction of the Chesnara 2023 Short-Term Incentive Scheme (the 2023 STI Scheme) and the Chesnara 2023 Long-Term Incentive Plan (the 2023 LTIP) (together, the 2023 Schemes), which are intended to replace the Chesnara 2014 Short-Term Incentive Scheme and the Chesnara 2014 Long-Term Incentive Scheme (together, the 2014 Schemes).

Shareholder approval is sought for the approval of the 2023 Schemes at the AGM to ensure that the company has the appropriate share incentives and that they operate consistently with the proposed Directors' Remuneration Policy (see resolution 3, the Directors' Remuneration Policy). No new awards will be made under the 2014 Schemes after the date of the AGM, provided shareholder approval is obtained for the approval of the 2023 Schemes.

The principal terms of the 2023 Schemes are set out in Appendix 1 and 2 of this document on pages 234 to 237.

A summary of the background to the 2023 STI Scheme and the 2023 LTIP and the key terms of initial awards which are intended to be made under those schemes shortly following the AGM (which are also described in the Directors' Remuneration Policy, subject to the approval of the 2023 Schemes by shareholders) is set out below:

- The Remuneration Committee of the board (the Committee) has reviewed the current schemes and is satisfied that in terms of their core structure and terms, these remain fit for purpose for the company. However, given the existing schemes are due to expire in 2024, the Committee was of the view that now was the appropriate time to renew them, given that a new Directors' Remuneration Policy will also be presented at the 2023 AGM.
- The 2023 STI Scheme is intended to replace the 2014 STI Scheme. It will continue to provide for the mandatory deferral of a proportion of payments into shares which will vest after a deferral period, which will typically be 3 years. For the initial awards under the 2023 STI Scheme, provided that the amount due is at least £20,000, this proportion will be a minimum of 35%.
- The initial awards under the 2023 STI Scheme will be subject to a combination of stretching performance targets which will be assessed over the 2023 financial year, being 35% cash generation, 35% EcV earnings and 30% group strategic objectives. The Committee believes that the combination of performance targets will provide a balanced measure of performance that continues to be aligned to the company's strategy. The exact performance targets are commercially sensitive and therefore will only be disclosed, along with the extent of vesting, in the year that the cash element of awards is paid. These measures will be reviewed by the Committee each year to ensure that they remain appropriate and aligned to the company's priorities.
- The 2023 LTIP is intended to replace the 2014 LTI Plan and will provide for awards to be made over shares in the company, which will vest subject to performance over a performance period which will typically be 3 years.
- The individual limits for the initial awards made to executive directors under each of the new schemes will be aligned to the maximum limit within the Directors' Remuneration Policy (125% of salary for the 2023 LTIP and 100% for the 2023 STI Scheme under the Directors' Remuneration Policy which is being put to shareholders as Resolution 3). Awards granted to participants below board level will be subject to a maximum award limit equal to the maximum value that may be granted to the highest paid executive director under the Directors' Remuneration Policy.
- Awards under the 2023 STI Scheme and the 2023 LTIP may be subject to malus provisions which will reduce the number of shares or cash amounts payable on vesting in circumstances including a material misstatement of the company's results, regulatory breach, gross misconduct on the part of the participant, reputational damage to the company, a material failure of risk management, insolvency or corporate failure.
- Awards under the 2023 STI Scheme and the 2023 LTIP may be subject to clawback provisions which will permit the recovery of amounts in substantially the same circumstances as for malus.

Resolution 18**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 2023 Annual General Meeting. The board is, therefore, seeking to renew its authority over shares having an aggregate nominal amount of £2,506,480, representing approximately one-third of the issued ordinary share capital of the company (excluding treasury shares) as at 24 March 2023 (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 £5,012,959, representing approximately two-thirds of the issued share capital of the company (excluding treasury shares) as at 24 March 2023 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 £5,012,959.

As at 24 March 2023, 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 2024.

Passing resolution 18 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 19 and 20**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 2023 Annual General Meeting and, in accordance with the Statement of Principles issued by the Pre-Emption Group, resolutions 19 and 20 (which will be proposed as special resolutions) seek to renew the directors' authority to disapply pre-emption rights as referenced below.

Resolution 19, 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 £375,924, 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 24 March 2023 (being the latest practicable date prior to the publication of this notice of Annual General Meeting).

Resolution 20 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 21

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 24 March 2023, 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 2024.

The company has options and awards outstanding under existing share schemes over an aggregate of 1,501,566 ordinary 5p shares, representing 1.00% of the company's issued ordinary share capital (excluding treasury shares) as at 24 March 2023 (the latest practicable date prior to the publication of this document). This would represent approximately 1.11% of the company's issued share capital (excluding treasury shares) if the proposed authority being sought at the Annual General Meeting to buy back 15,038,877 ordinary shares was exercised in full (and all the repurchased ordinary shares were cancelled).

Resolution 22

Amendment to articles

The adoption of new articles of association (the New Articles) provide for the following key amendments:

Share warrant to bearers: The New Articles remove provisions relating to the issue of share warrants to bearers in relation to any entitlement to shares due to abolition of bearer shares from May 2015.

Retirement of directors (Article 67): The New Articles amend the provisions setting out the rules around the retirement of directors. Whilst directors are currently required to retire on the year following the third anniversary of their appointment, all directors shall now retire and be eligible for re-election at each Annual General Meeting of the company.

Hybrid meetings (Article 46): The New Articles give the directors the power to convene a hybrid general meeting, being a meeting, which has the facilities for shareholders to attend both in a physical place and via electronic platforms. The New Articles do not give the directors the power to hold a solely electronic general meeting. The provisions in the New Articles include, for example, the details that need to be provided to shareholders if such a meeting is to be held and a requirement that all resolutions must be taken on a poll in the event of a hybrid meeting. The directors consider that the company should properly have the ability to convene hybrid meetings should the circumstances require this.

Nomination notices (Article 131): The New Articles include provisions setting out the form and content of nomination notices under the information rights regime in sections 146 to 151 of the Companies Act 2006, which gives members of traded companies who hold shares as nominees the right to allow the underlying owners to receive information about the company. While this right exists as a matter of law, it is usual practice to include specific provision in a company's articles of association to provide greater certainty regard the process.

Untraced members (Articles 29 and 30): In line with market practice, the New Articles provide additional flexibility in relation to the sale of shares owned by shareholders who are untraced after a period of at least 12 years. Under the current articles of association, the company is required to give notice to untraced shareholders of an intention to sell their shares by way of an advertisement in a widely available daily newspaper circulating in the country in which the shareholder's last known postal address is. Under the New Articles, the company must instead send a notice to the last registered or known address of the shareholder and use reasonable steps to trace the shareholder including, if considered appropriate, using a professional asset reunification company or other tracing agent. Additionally, under the New Articles, the proceeds of shares sold on behalf of an untraced member will belong to the company.

Method of voting and demand for poll (Article 51): The New Articles amend the provisions relating to the method of voting and demand for poll to allow for voting at hybrid meetings.

Increase in the maximum aggregate directors' fees payable (Article 87):

To ensure sufficient flexibility for non-executive director remuneration in the future, the New Articles contain an amendment to the maximum amount of the aggregate remuneration of the non-executive directors, which was set at £500,000 and will now be set at £650,000. The company's current Articles provide for the total aggregate fees payable to all non-executive directors to not exceed £500,000 per annum but fees for 2023 are estimated to be very close to this limit at £477,500 after increases since last the Articles were approved at the 2017 AGM and with the number of non-executive directors increasing. The board is proposing to increase the limit by special resolution to £650,000 to allow the board, as and when required, to appoint non-executive directors to replace existing directors, with appropriate handover arrangements, and to add additional non-executive directors or to increase the time commitment of existing directors as required to perform the expanding regulatory duties of the board.

The New Articles showing all the changes to the current Articles of Association of the company are available for inspection, as noted on page 230 of the Notice of Annual General Meeting.

Resolution 23

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 23 seeks such approval. The approval will be effective until the company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The company will also need to meet the statutory requirements for electronic voting before it can call a general meeting on less than 21 days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Directors' recommendation

The directors recommend all shareholders to vote in favour of all of the above resolutions, as the directors intend to do in respect of their own shares (save in respect of those matters in which they are interested), and consider that all resolutions are in the best interests of the company and its shareholders as a whole.

APPENDIX TO AGM NOTICE

Appendix 1 – Summary of the principal features of the Chesnara plc 2023 Short-Term Incentive Scheme (the 2023 STI Scheme)

Overview and administration

It is proposed that the company will adopt the 2023 STI Scheme, subject to the approval of shareholders. For completeness, a summary of the principal terms of the 2023 STI Scheme is set out below.

The 2023 STI Scheme comprises a discretionary annual incentive scheme together with provisions for the mandatory deferral of a proportion of the cash amounts payable into shares, under which awards may be made to selected employees or directors of the company or any of its subsidiaries (the group).

The Remuneration Committee of the board (the Committee) will be responsible for the operation of the 2023 STI Scheme. Awards to receive a cash amount, subject to the achievement of a performance target (which may comprise a combination of separate targets) measured over a financial year (Cash Awards) will be made to participants. Following the determination of the extent to which the performance target has been met, a proportion of the cash amount due under a Cash Award is deferred into shares (a Deferred Share Award) which will vest at the end of a deferral period (which will typically be 3 years), subject to the participant's continued employment.

Deferred Share Awards made under the 2023 STI Scheme will normally be nil-cost options to acquire shares at no cost to the participant, although Deferred Share Awards may also be made as conditional share awards.

Deferred Share Awards may be satisfied by the issue of new shares or by the transfer of shares held in treasury or by the trustee of an employee benefit trust.

Awards under the 2023 STI Scheme are not pensionable.

Eligibility

A participant must be an employee or director of the group at the time a Cash Award is made.

Participation in the 2023 STI Scheme will be at the discretion of the Committee.

Individual limits

As stated in the Directors' Remuneration Policy report which is being put to shareholders as resolution 3, the maximum cash amount which may be payable under any Cash Award made to an executive director during 2023 may not exceed 100% of that participant's salary. The Committee may specify another limit from time to time, subject (in the case of a higher limit) to the approval of a revised Directors' Remuneration Policy by the company's shareholders.

A participant who is not an executive director may not be granted a Cash Award with a maximum cash amount in excess of the maximum cash amount which may be paid to an executive director under a Cash Award as stated in the Directors' Remuneration Policy from time to time.

A Cash Award may be granted under the 2023 STI Scheme with a maximum cash amount in excess of these limits, in the event that the Cash Award is made to a new joiner in recognition of an award or bonus which they are losing in respect of their former employment.

Performance targets

A Cash Award will be subject to a performance target which will be set by the Committee at the time the Cash Award is made and which must be satisfied before the Cash Award can vest.

The Committee may vary or waive the performance target applying to a Cash Award if an event occurs which causes the Committee to consider that the performance target is no longer appropriate, provided that such variation or waiver is reasonable in the circumstances and, except in the case of a waiver, produces a fairer measure of performance and is not materially less difficult to satisfy.

Leaving employment before a Cash Award vests

If a participant ceases to be employed within the group for any reason before a Cash Award made to them vests then that Cash Award will lapse unless the Committee in its discretion determines that the participant may retain a time pro-rated proportion of the Cash Award (according to the proportion of the performance period which has then elapsed) and it shall continue to vest, if at all, in accordance with its original terms.

Alternatively, the Committee may determine that a time pro-rated proportion of the Cash Award will vest immediately upon the cessation of employment, subject to the Committee's assessment of the extent to which the applicable performance target shall be deemed to be met at that time.

The Committee may vary the time pro-rating applied to allow a greater proportion of the Cash Award to vest. Where a participant's Cash Award vests following their cessation of employment, the whole of the amount due shall be paid in cash, with no deferral into a Deferred Share Award.

Deferral into shares

The Committee will determine the extent to which the performance target applicable to a Cash Award has been met following the end of the relevant financial year, and accordingly the cash amount payable under the Cash Award. Subject to any applicable minimum cash payment under the Cash Award, a proportion of the cash amount shall be deferred into a Deferred Share Award, with the number of shares subject to the Deferred Share Award being determined by reference to the share price on the dealing day preceding the day on which the Deferred Share Award is made. For Cash Awards made in 2023, unless the cash amount payable is £20,000 or less, a minimum of 35% of the cash amount shall be deferred into a Deferred Share Award, as set out in the Directors' Remuneration Policy report.

Grant of Deferred Share Awards

Deferred Share Awards will be granted as soon as practicable following the determination of the extent to which the performance target applicable to the relevant Cash Award has been met, subject to the company not being prevented from granting awards over shares by restrictions on dealings in shares by directors or employees of the group imposed by statute, order, regulation, Government directive or the company's own code on dealings in its securities by directors and employees. No payment will be required for the grant of a Deferred Share Award and Deferred Share Awards are not transferable (except on death).

Dilution limits

A Deferred Share Award may not be made under the 2023 STI Scheme if it would cause the number of shares issued or issuable under any employee share scheme operated by the company in the preceding 10 years to exceed 10% of the company's issued ordinary share capital at that time.

In addition, a Deferred Share Award may not be made under the 2023 STI Scheme if it would cause the number of shares issued or issuable under any discretionary employee share scheme adopted by the company in the preceding 10 years to exceed 5% of the company's issued ordinary share capital at that time.

The above limits exclude any share awards which lapse, as well as any share awards which are satisfied by the transfer of existing shares. However, for as long as is required by guidelines issued by the Investment Association, the transfer of treasury shares will be treated as an issue of new shares.

Vesting of Deferred Share Awards

Deferred Share Awards will normally vest 3 years after the date on which they are made. A Deferred Share Award which is a nil-cost option will lapse 10 years after the date on which it is granted.

Malus

At any time before a Cash Award or Deferred Share Award or an award under the 2023 STI Scheme (a Relevant Award) has vested the Committee may reduce the number of shares subject to the Relevant Award if any of the following events occur:

- the discovery of a material misstatement in the accounts of the company or another member of the group;
- a regulatory breach by the group resulting in material financial or reputational harm;
- the discovery of an error in the assessment of the extent to which a performance target applicable to a participant's Cash Award has been satisfied;
- action or conduct of the participant amounting to fraud or gross misconduct;
- events or behaviour of the participant leading to the censure or reputational damage to a group member;
- a material failure of risk management of the company, a group member or a business unit of the group; or
- insolvency or corporate failure of the company or any group member or business of the group for which the participant is wholly or partly responsible.

Clawback

Where a Cash Award or Deferred Share Award has vested (or, in the case of a Deferred Share Award which is an option, been exercised), the Committee may require the participant to transfer all or a proportion of the value received under the Cash Award or Deferred Share Award in substantially the same circumstances as apply to malus (as described above) for a period of 2 years after the vesting of the Cash Award. Clawback may be effected, among other means, by requiring the transfer of shares back to the company or as it directs, or by a cash payment.

Leaving employment during the deferral period

If a participant ceases to be employed within the group during the deferral period, a Deferred Share Award granted to them will normally lapse.

If the reason for cessation of the participant's employment is death, injury or disability, redundancy, retirement, the sale of their employing business or company, or if the Committee in its discretion determines in any other particular case, the participant may retain the Deferred Share Award and it shall continue to vest in accordance with its original terms.

Alternatively, the Committee may determine that the Deferred Share Award will vest immediately upon the cessation of employment. An award which is a nil-cost option will ordinarily lapse if it has not been exercised within 6 months of cessation of employment or, if later, when it becomes exercisable.

Takeover, etc.

In the event of a takeover, scheme of arrangement or winding up of the company or, if the Committee determines, where the company is affected by a demerger or similar other event, a Deferred Share Award will vest immediately. The Deferred Share Award may be exchanged for an award over shares in an acquiring company if an offer to exchange is made and accepted by the participant or if the Committee, with consent of the acquiring company, determines that Deferred Share Awards should automatically be exchanged.

If the Committee is aware that an event described above is likely to occur and will result in Deferred Share Awards vesting in circumstances where the company's entitlement to a corporation tax deduction may be lost, the Committee may determine that the time that Deferred Share Awards vest shall be immediately before such event takes place.

Variations of share capital

In the event of a variation of the share capital of the company, including by way of a capitalisation issue, rights issue, demerger or other distribution, a special dividend or distribution, rights offer or bonus issue or any sub-division, consolidation, or reduction in the company's share capital, either or both of the number of shares and the description of the shares subject to a Deferred Share Award may be adjusted in such manner as the Committee determines.

Rights attaching to shares

A Deferred Share Award will not confer any shareholder rights, such as the right to vote or to receive any dividend, where the record date is prior to the allotment or transfer of shares to the participant following the vesting of the Deferred Share Award.

A participant will be entitled to receive a payment in cash or shares upon his acquisition of the shares subject to his Deferred Share Award in respect of dividends on those shares. The payment will be of an amount equal to any dividends paid on the number of shares acquired pursuant to the Deferred Share Award during the period from the date that the Deferred Share Award was made to the date that the participant acquires the shares.

A further payment may also be made in respect of interest on any such dividends from the date the dividend was paid to the date that the participant acquires the shares, at a rate determined by the Committee.

Share ownership requirement

A participant will be required to retain the shares they acquire following the vesting of a Deferred Share Award, subject to being permitted to sell sufficient of those shares to meet income tax and national insurance contributions liabilities arising on such acquisition, until they have met any share ownership requirements which apply to them.

Amendments

The Committee may amend the rules of the 2023 STI Scheme at any time. However, the provisions relating to eligibility requirements, individual participation limits, dilution limits, the basis for determining a participant's entitlement to benefits under the 2023 STI Scheme, the adjustments that may be made in the event of a variation of share capital and the amendment provisions themselves may not be made to the advantage of existing or future participants without the prior approval of shareholders of the company in general meeting.

There are exceptions for minor amendments to benefit the administration of the 2023 STI Scheme or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the company or another member of the group. Additionally, no amendment can normally be made which would adversely affect the rights of existing participants without their consent.

APPENDIX TO AGM NOTICE (CONTINUED)

Appendix 2 – Summary of the principal features of the Chesnara plc 2023 Long-Term Incentive Plan (2023 LTIP)**Overview and administration**

It is proposed that the company will adopt the 2023 LTIP, subject to the approval of shareholders. The 2023 LTIP will allow awards over shares in the company (Awards) to be made to selected employees or executive directors of the group.

For completeness, a summary of the principal terms of the 2023 LTIP is set out below.

The Committee will be responsible for the operation of the 2023 LTIP.

Awards made under the 2023 LTIP will normally be nil-cost options to acquire shares at no cost to the participant, although Awards may also be made as conditional share awards.

The vesting of Awards will be subject to the achievement of a performance target (which may comprise a combination of separate targets) measured over a specified period. Awards may be satisfied by the issue of new shares or by the transfer of shares held in treasury or by the trustee of an employee benefit trust.

Eligibility

A participant must be an employee or executive director of the group at the time an Award is made.

Participation in the 2023 LTIP will be at the discretion of the Committee.

Individual limits

As stated in the Directors' Remuneration Policy, the total market value of shares over which Awards may be made to a participant who is an executive director during 2023 may not exceed 125% of that participant's salary. The Committee may specify another limit from time to time, subject (in the case of a higher limit) to the approval of a revised Directors' Remuneration Policy by the company's shareholders.

A participant who is not an executive director may not be granted an Award with a value in excess of the total market value of shares over which an Award may be granted to an executive director, applying the limit above (or such other limit as may be specified in the Directors' Remuneration Policy from time to time).

An Award may be granted under the 2023 LTIP over shares with a market value in excess of these limits, in the event that the Award is made to a new joiner in recognition of an award or bonus which they are losing in respect of their former employment.

Dilution limits

An Award may not be made under the 2023 LTIP if it would cause the number of shares issued or issuable under any employee share scheme operated by the company in the preceding 10 years to exceed 10% of the company's issued ordinary share capital at that time.

In addition, an Award may not be made under the 2023 LTIP if it would cause the number of shares issued or issuable under any discretionary employee share scheme adopted by the company in the preceding 10 years to exceed 5% of the company's issued ordinary share capital at that time.

The above limits exclude any share awards which lapse, as well as any share awards which are satisfied by the transfer of existing shares. However, for as long as is required by guidelines issued by the Investment Association, the transfer of treasury shares will be treated as an issue of new shares.

Grant of Awards

Awards may only be granted during the period of 42 days beginning with the date of approval of the 2023 LTIP by the shareholders of the company, or during the period of 42 days beginning with the day after the announcement of the company's results for any period, or at such other times that the Committee considers that exceptional circumstances exist.

An Award may not be granted when prevented by restrictions on dealings in shares by directors or employees of the group imposed by statute, order, regulation, Government directive or the company's own code on dealings in its securities by directors and employees.

An Award may not be made more than 10 years after the date of adoption of the 2023 LTIP.

No payment will be required for the grant of an Award and Awards are not transferable (except on death). Awards are not pensionable.

Vesting of Awards

Awards will normally vest 3 years after the date on which they are made, subject to the satisfaction of the applicable performance target. An Award which is a nil-cost option will lapse 10 years after the date on which it is granted.

Performance targets

An Award will be subject to a performance target which will be set by the Committee at the time the Award is granted and which must be satisfied before the Award can vest.

The Committee may vary or waive the performance target applying to an Award if an event occurs which causes the Committee to consider that the performance target is no longer appropriate, provided that such variation or waiver is reasonable in the circumstances and, except in the case of a waiver, produces a fairer measure of performance and is not materially less difficult to satisfy.

Details of the performance target which is intended to apply to Awards made in 2023 are set out in the Directors' Remuneration Policy report.

Malus

At any time before an Award or an Award under the 2023 STI Scheme (a Relevant Award) has vested the Committee may reduce the number of shares subject to the Relevant Award if any of the following events occur:

- the discovery of a material misstatement in the accounts of the company or another member of the group;
- a regulatory breach by the group resulting in material financial or reputational harm;
- the discovery of an error in the assessment of the extent to which a performance target applicable to any of the participant's Awards has been satisfied;
- action or conduct of the participant amounting to fraud or gross misconduct;
- events or behaviour of the participant leading to the censure or reputational damage to a group member;
- a material failure of risk management of the company, a group member or a business unit of the group; or
- insolvency or corporate failure of the company or any group member or business of the group for which the participant is wholly or partly responsible.

Clawback

Where an Award has vested (or, in the case of an Award which is an option, been exercised), the Committee may require the participant to transfer all or a proportion of the value received under the Award in substantially the same circumstances as apply to malus (as described above) for a period of 2 years after vesting. Clawback may be effected, among other means, by requiring the transfer of shares back to the company or as it directs, or by a cash payment.

Leaving employment

If a participant ceases to be employed within the group for any reason granted an Award made to them vests, then that award will lapse unless the Committee in its discretion determines that the participant may retain a time pro-rated proportion of the Award (according to the proportion of the performance period which has then elapsed) and it shall continue to vest, if at all, in accordance with its original terms. Alternatively, the Committee may determine that a time pro-rated proportion of the Award will vest immediately upon the cessation of employment, subject to the Committee's assessment of the extent to which the applicable performance target shall be deemed to be met at that time.

The Committee may vary the time pro-rating applied to allow a greater proportion of the Award to vest.

An Award which is a nil-cost option will ordinarily lapse if it has not been exercised within 6 months of cessation of employment or, if later, when it becomes exercisable.

Takeover, etc.

In the event of a takeover, scheme of arrangement or winding up of the company or if the Committee determines where the company is affected by a demerger or similar other event, a time pro-rated proportion of an Award (according to the part of the performance period which has then elapsed) will vest immediately, subject to the Committee's assessment of the extent to which the applicable performance target shall be deemed to be met at that time. The Committee may vary the time pro-rating applied to allow a greater proportion of the Award to vest.

The Award may be exchanged for an award over shares in an acquiring company if an offer to exchange is made and accepted by the participant or if the Committee, with consent of the acquiring company, determines that Awards should automatically be exchanged.

If the Committee is aware that an event described above is likely to occur and will result in Awards vesting in circumstances where the company's entitlement to a corporation tax deduction may be lost, the Committee may determine that the time that Awards vest shall be immediately before such event takes place.

Variations of share capital

In the event of a variation of the share capital of the company, including by way of a capitalisation issue, rights issue, demerger or other distribution, a special dividend or distribution, rights offer or bonus issue or any sub-division, consolidation, or reduction in the company's share capital, either or both of the number of shares and the description of the shares subject to an Award may be adjusted in such manner as the Committee determines.

Rights attaching to shares

An Award will not confer any shareholder rights, such as the right to vote or to receive any dividend, where the record date is prior to the allotment or transfer of shares to the participant following the vesting of the Award.

A participant will be entitled to receive a payment in cash or shares upon his acquisition of the shares subject to their Award in respect of dividends on those shares. The payment will be of an amount equal to any dividends paid on the number of shares acquired pursuant to the Award during the period from the date that the Award was made to the date that the participant acquires the shares.

A further payment may also be made in respect of interest on any such dividends from the date the dividend was paid to the date that the participant acquires the shares, at a rate determined by the Committee.

Share ownership requirements

A participant will be required to retain the shares he acquires following the vesting of an Award, subject to being permitted to sell sufficient of those shares to meet income tax and national insurance contributions liabilities arising on such acquisition, until they have met any share ownership requirements which apply to them.

Amendments

The Committee may amend the rules of the 2023 LTIP at any time. However, the provisions relating to eligibility requirements, individual participation limits, dilution limits, the basis for determining a participant's entitlement to benefits under the 2023 LTIP, the adjustments that may be made in the event of a variation of share capital and the amendment provisions themselves may not be made to the advantage of existing or future participants without the prior approval of shareholders of the company in general meeting.

There are exceptions for minor amendments to benefit the administration of the 2023 LTIP or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the company or another member of the group. Additionally, no amendment can normally be made which would adversely affect the rights of existing participants without their consent.

The draft rules of the Chesnara 2023 Short-Term Incentive Scheme and the Chesnara 2023 Long-Term Incentive Plan (the Schemes) will be available for inspection on the National Storage Mechanism at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism> from the date of sending this document. The draft rules of the Schemes will also be on display at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.

ALTERNATIVE PERFORMANCE MEASURES

Throughout our Report and Accounts we use Alternative Performance Measures (APMs) to supplement the assessment and reporting of the performance of the group. These measures are those that are not defined by statutory reporting frameworks, such as IFRS or Solvency II.

The APMs aim to assess performance from the perspective of all stakeholders, providing additional insight into the financial position and performance of the group and should be considered in conjunction with the statutory reporting measures such as IFRS and Solvency II.

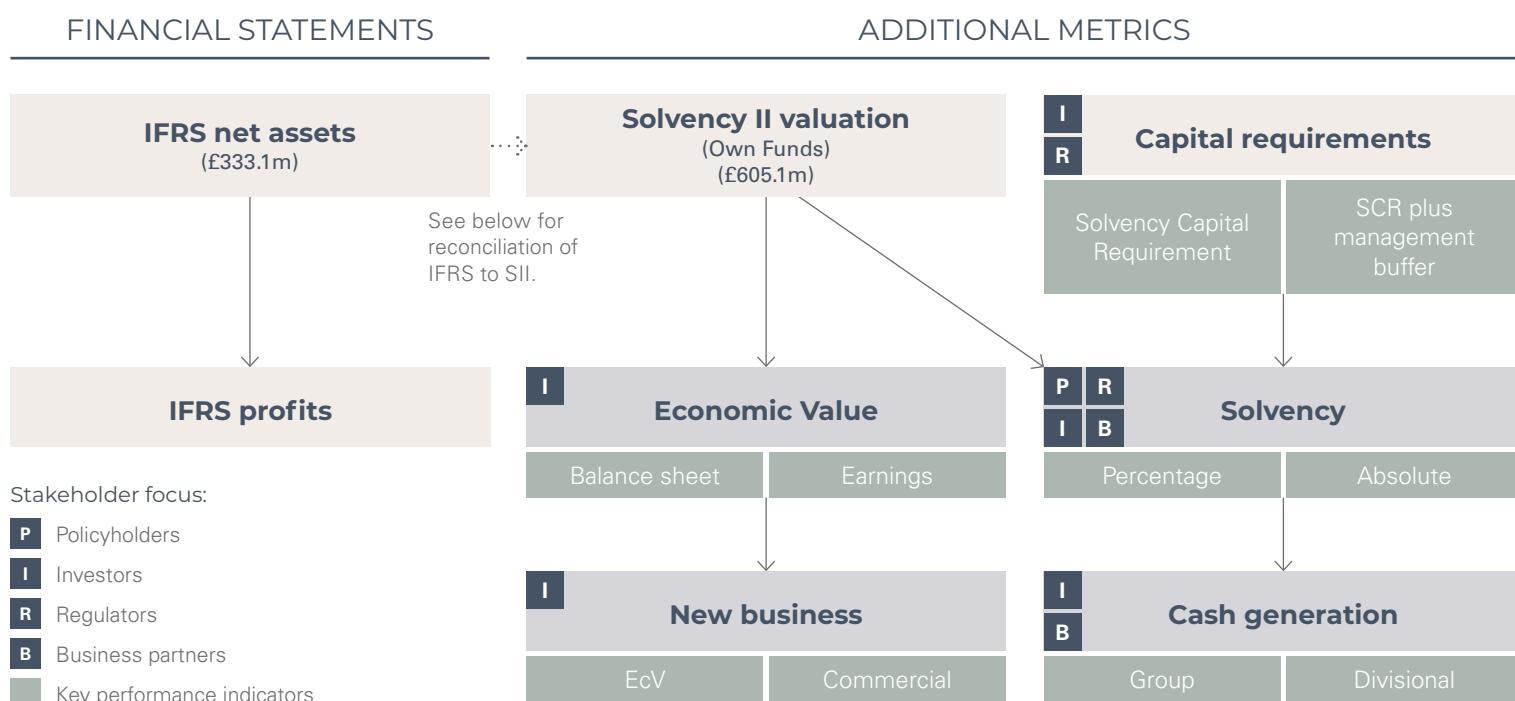
The following table identifies the key APMs used in this report, how each is defined and why we use them. Further information can be found throughout the Overview (Section A), with detailed reference within the Financial Review (Section B) on pages 48 to 54.

APM	WHAT IS IT?	WHY DO WE USE IT?	REF
Group cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Group cash generation is calculated as the movement in the group's surplus Own Funds above the group's internally required capital, as determined by applying the group's Capital Management Policy, which has Solvency II rules at its heart.</p>	<p>Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy.</p> <p>Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'.</p>	See cash generation on page 50 and reconciliation on page 241
Divisional cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Divisional cash generation represents the movement in surplus Own Funds above local capital management policies within the three operating divisions of Chesnara.</p> <p>Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.</p>	<p>It is an important indicator of the operating performance of the business before the impact of group level operations and consolidation adjustments.</p>	See cash generation on page 50
Commercial cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the inherent commercial cash generated by the business.</p>	<p>Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to technical complexities or exceptional items. The result is deemed to better reflect the group's view of commercial performance, showing key drivers within that.</p>	See cash generation on page 51
Economic Value (EcV)	<p>EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.</p> <p>We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.</p>	<p>EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time. The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives.</p>	See EcV analysis on page 53

APM	WHAT IS IT?	WHY DO WE USE IT?	REF
Economic Value (EcV) earnings	<p>The principal underlying components of the EcV earnings are:</p> <ul style="list-style-type: none"> – The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force); – Value added by the writing of new business; – Variations in actual experience from that assumed in the opening valuation; – The impact of restating assumptions underlying the determination of expected cash flows; and – The impact of acquisitions. 	<p>By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. EcV earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The EcV earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives.</p>	See EcV earnings analysis on page 52
EcV operating earnings	<p>This is the element of EcV earnings (see above) that are generated from the company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.</p>	<p>EcV operating earnings are important as they provide an indication of the underlying value generated by the business. It can help identify profitable activities and also inefficient processes and potential management actions.</p>	See EcV earnings analysis on page 52
EcV economic earnings	<p>This is the element of EcV earnings (see above) that are derived from investment market conditions in the period and any economic assumption changes in the future.</p>	<p>EcV economic earnings are important in order to measure the additional value generated from investment market factors.</p>	See EcV earnings analysis on page 52
Commercial new business profit	<p>A more commercially relevant measure of new business profit than that recognised directly under the Solvency II regime, allowing for a modest level of return, over and above risk-free, and exclusion of the incremental risk margin Solvency II assigns to new business.</p>	<p>This provides a fair commercial reflection of the value added by new business operations and is more comparable with how new business is reported by our peers, improving market consistency.</p>	See business review section on pages 38 to 43
Funds Under Management (FuM)	<p>FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.</p>	<p>FuM is important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.</p>	See Consolidated Balance Sheet on page 141
Operating profit, excluding AVIF impairment	<p>A measure of the pre-tax profit earned from the company's ongoing business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.</p>	<p>Operating earnings are important as they provide an indication of the underlying profitability of the business. It can help identify profitable activities and also inefficient processes and potential management actions.</p>	Reconciliation to pre-tax profit can be found on page 54
Economic profit, excluding AVIF impairment	<p>A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.</p>	<p>Economic earnings are important in order to measure the surplus generated from investment market factors.</p>	Reconciliation to pre-tax profit can be found on page 54
Acquisition value gain (incremental value)	<p>Acquisition value gains reflect the incremental Economic Value added by a transaction, exclusive of any additional risk margin associated with absorbing the additional business.</p>	<p>The EcV gain from acquisition will be net of any associated increase in risk margin. The risk margin is a temporary Solvency II dynamic which will run off over time.</p>	See EcV analysis on page 53
Leverage/gearing	<p>A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as debt divided by debt plus equity, as measured under IFRS.</p>	<p>It is an important measure as it indicates the overall level of indebtedness of Chesnara, and it is also a key component of the bank covenant arrangements held by Chesnara.</p>	See Financial Management on page 55

RECONCILIATION OF METRICS

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



As shown above, the key interaction between our statutory reporting rules under IFRS and the Alternative Performance Measures is with the Solvency II valuation and the Own Funds balance. A reconciliation from IFRS net assets to Solvency II Own Funds is shown below:

£m	31 Dec 2022	31 Dec 2021	Rationale
Group IFRS net assets	333.1	458.2	
Removal of intangible assets; AVIF, DAC and DIL	(166.3)	(119.9)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	10,316.0	8,643.9	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II technical provisions. The main differences in methodology are discussed further below.
Inclusion of SII technical provisions, net of reinsurance	(10,020.3)	(8,394.6)	
Other valuation differences	2.2	1.4	Other immaterial valuation differences.
Deferred tax valuation differences	9.9	(1.5)	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(22.8)	(22.1)	Under Solvency II rules, future 'foreseeable dividends' are required to be recognised within Own Funds. Under IFRS rules, dividends are recognised when paid.
Tier 2 debt	200.0	–	Tier 2 capital plus the restriction placed on the subordinated debt within Own Funds under Solvency II requirements.
Tier 2 restrictions	(46.7)	–	
Ring-fenced surpluses	–	(7.9)	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	605.1	557.5	

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

- IFRS reserves continue to be largely based on the Solvency I regimes in place in each of the divisions. The main difference between IFRS and Solvency I is the inclusion of an additional cost of guarantee reserve in each of the with-profits funds in CA plc.
- IFRS assumptions contain prudence margins, whereas the Solvency II assumptions are best estimate.
- Solvency II requires the establishment of contract boundaries to determine whether an insurance obligation or reinsurance obligation is to be treated as existing or future business, with only existing business considered in scope for the calculation of technical provisions.
- Solvency II requires the inclusion of a risk margin to reflect inherent uncertainties within the estimated liabilities.
- Other valuation differences, such as IFRS future liability cash flows are discounted using a valuation rate of interest based on the risk-adjusted yield on held assets, whereas Solvency II uses a swaps-based risk-free discount curve, as prescribed by EIOPA.

Solvency II position

Solvency II is the solvency regime that applies to the group. Over and above IFRS, Solvency II imposes a capital requirement on the group.

A summary of the solvency position of the group at 31 December 2022 and 31 December 2021 is as follows:

£m	31 Dec 2022	31 Dec 2021
Group SII Own Funds (OF)	605.1	557.5
Solvency Capital Requirement (SCR)	306.7	366.8
Solvency surplus	298.4	190.7
Solvency ratio	197%	152%

Cash generation

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Group cash generation is calculated as the movement in the group's surplus Own Funds above the group's internally required capital, as determined by applying the group's Capital Management Policy, which has Solvency II rules at its heart. For further information on cash generation please refer to page 238 and the financial review section.

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

£m
Opening Solvency II surplus:
Own Funds – 31 Dec 2021
SCR – 31 Dec 2021
Additional capital to meet normal internal operating range (40% of SCR)
Surplus available for distribution – 31 Dec 2021
44.0
Closing Solvency II surplus:
Own Funds – 31 Dec 2022
Remove Tier 2 impact on Own Funds
SCR – 31 Dec 2022
Remove Tier 2 impact on SCR
Additional capital to meet normal internal operating range (40% of SCR)
Surplus available for distribution – 31 Dec 2022
34.5

The closing Solvency II position at 31 December 2022 reflects the payment of an interim dividend of £12.2m paid during the year and reflects a foreseeable dividend of £22.8m due to be paid in 2023. As these are distributions to shareholders, akin to IFRS profit reporting, these do not form part of the cash generation metric and should be excluded. Consequently, group cash generation can be derived as follows:

£m
Closing surplus available for distribution less opening available surplus for distribution
Add back: Interim dividend paid
Add back: Foreseeable year end dividend
Add back: acquisition impact
Group cash generation
82.7

GLOSSARY

AGM	Annual General Meeting.	Leverage (gearing)	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, usually presented as a ratio, defined as debt divided by debt plus equity, as measured under IFRS.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	London Stock Exchange	London Stock Exchange plc.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	LTIP	Long-Term Incentive Plan – A reward system designed to incentivise executive directors' long-term performance.
BAU cash generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Movestic	Movestic Livförsäkring AB.
BLAGAB	Basic life assurance and general annuity business.	Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
CA	Countrywide Assured plc.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	Official List	The Official List of the Financial Conduct Authority.
CASLP	Sanlam Life & Pensions UK Limited	Operating profit	A measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance metric – APM).
Cash generation	This represents the operational cash that has been generated in the period. The cash generating capacity of the group is largely a function of the movement in the solvency position of the insurance subsidiaries within the group and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators. Cash generation is reported at a group level and also at an underlying divisional level reflective of the collective performance of each of the divisions prior to any group level activity.	Ordinary shares	Ordinary shares of 5 pence each in the capital of the company.
Commercial cash generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the inherent commercial cash generated by the business.	ORSA	Own Risk and Solvency Assessment.
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.	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.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	PRA	Prudential Regulation Authority.
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.	QRT	Quantitative Reporting Template.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	RCF	3 year Revolving Credit Facility of £100m (currently unutilised) put in place in July 2021.
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).	Resolution	The resolution set out in the notice of General Meeting set out in this document.
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.	RMF	Risk Management Framework.
FCA	Financial Conduct Authority.	Robein Leven	Robein Leven N.V.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	Scildon	Scildon N.V.
Form of proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	Shareholder(s)	Holder(s) of ordinary shares.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	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	The company and its existing subsidiary undertakings.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
Group cash generation	This represents the absolute cash generation for the period at total group level, comprising divisional cash generation as well as both exceptional and non-exceptional group activity.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors' short-term performance.
Group Own Funds	In accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the group in those capital resources.	SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.	Swedish business	Movestic and its subsidiaries and associated companies.
Group solvency	Group solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold in accordance with Solvency II regulations.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
HCL	HCL Insurance BPO Services Limited.	TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
IFRS	International Financial Reporting Standards.	Tier 2	Term debt capital (Tier 2 Subordinated Notes) issued in February 2022 with a 10.5 year maturity and 4.75% coupon rate.
IFA	Independent Financial Advisor.	Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
KPI	Key Performance Indicator.	TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
LACDT	Loss Absorbing Capacity of Deferred Tax.	UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
		UK business	CA and S&P.
		UNSDG	United Nations Sustainable Development Group.
		VA	The Volatility Adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.
		Waard	The Waard Group.

NOTE ON TERMINOLOGY

As explained in Note 7 to the IFRS financial statements, the principal reporting segments of the group are:

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; S&P which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December; and Protection Life Company Limited which was acquired by the group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
CASLP – 'SLP'	Sanlam Life & Pensions UK Limited which was acquired 28 April 2022 and includes subsidiaries CASFS Limited and CASLPTS Limited;
Movestic	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	which was acquired on 19 May 2015 and comprises two insurance companies; Waard Leven N.V. and Waard Schade N.V.; and a service company, Waard Verzekeringen; and Robein Leven NV acquired on 28 April 2022;
Scildon	which was acquired on 5 April 2017; and
Other group activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

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