

CORPORATE & SOCIAL RESPONSIBILITY

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

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

PROGRESSION OF OUR ESG STRATEGY

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

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

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

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



Find out more at globalgoals.org

3 GOOD HEALTH AND WELL-BEING



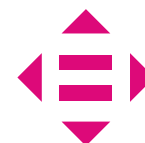
5 GENDER EQUALITY



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



13 CLIMATE ACTION



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

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

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

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

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

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

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

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

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

UNDERSTANDING THE NEEDS OF OUR CUSTOMERS

Our products and services

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

Reuniting customers with their policies

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

Digitalisation

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

Regulatory compliance

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

OUR COLLEAGUES

Health, safety and welfare at work

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

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

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

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

Equal opportunities and diversity

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

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

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

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

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

Senior management includes employees other than group directors who have the responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the business. Chesnara has only three members of staff who meet the Companies Act definition of senior management. Therefore, we have provided additional disclosures, including an analysis of diversity, which show 'Heads of business units and group functions' separately from the remainder of employees within the group.

Disabled employees

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

Staff training and development

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

Fair pay

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

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

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

Employee engagement

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

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

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

Our operations in Sweden and the Netherlands make similar use of Employee Forums, staff surveys, formal and informal employee engagement both at the individual, team and whole company level. In the Netherlands (Scildon), this is formalised through the operation of a Works Council and in Sweden, staff representation is via a Working Environment Committee and a trade union. During 2021, staff surveys covered a range of subjects such as engagement, trust, alignment, leadership, inclusion, change management, company culture, and returning to office-based working. It is pleasing to note that responses to the surveys were high and staff comments have been encouraging.

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

Whistleblowing

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

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

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

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

SUPPLIERS AND BUSINESS PARTNERS

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

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

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

HUMAN RIGHTS

Human Rights and the Modern Slavery Act 2015

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

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

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

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

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

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

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

ANTI-BRIBERY AND CORRUPTION

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

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

TAXATION

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

OUR COMMUNITIES

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

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

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

CLIMATE-RELATED FINANCIAL DISCLOSURES

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

CONTEXT

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

COMPLIANCE STATEMENT

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

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

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

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

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

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

GOVERNANCE

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

Chesnara's governance arrangements

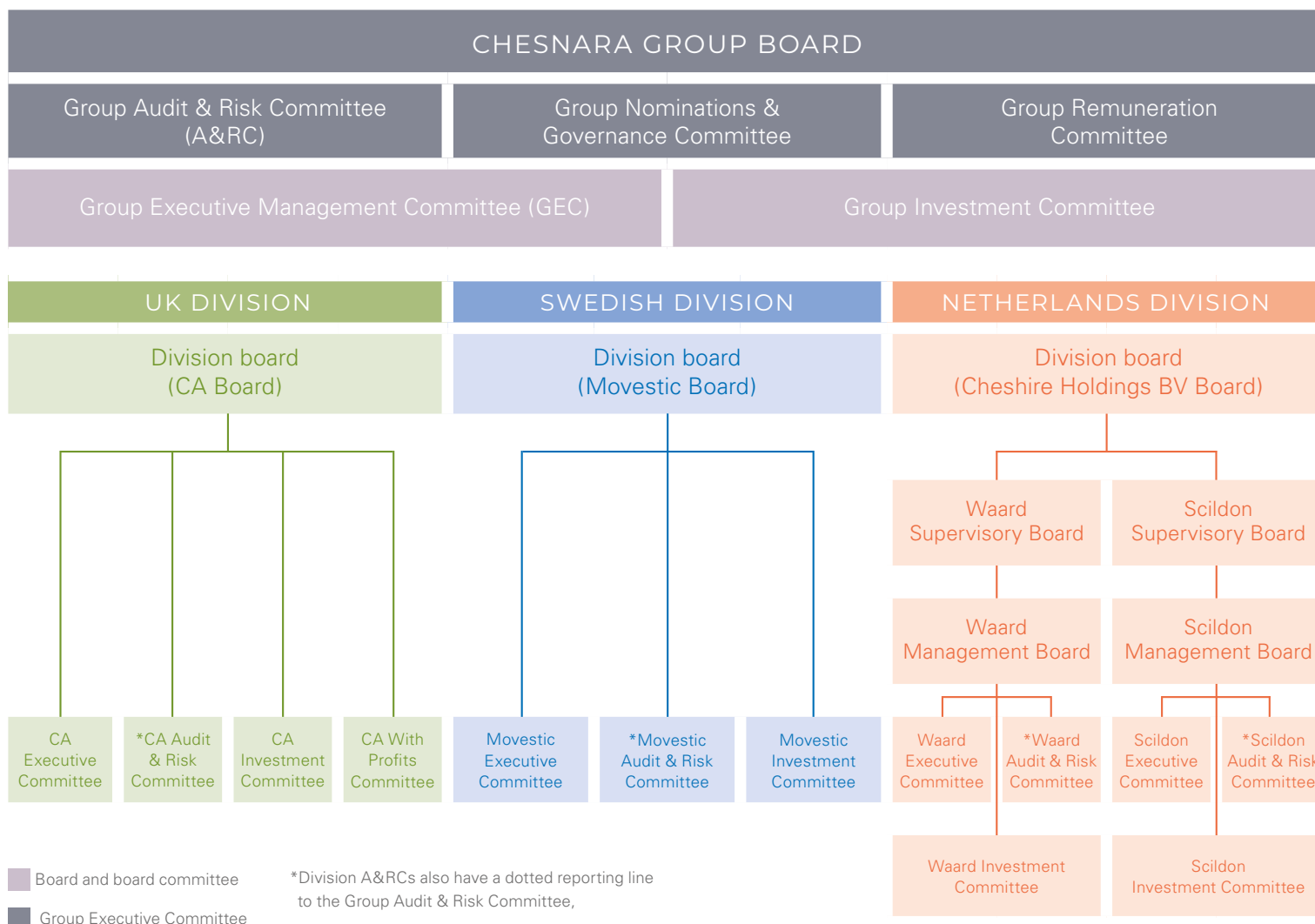
The board defines the group's strategic aims, ensures that the necessary financial and human resources are in place to meet corporate objectives and sets the criteria against which to review management performance. The board also ensures that its obligations to its employees, customers, shareholders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

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

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

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

CHESNARA GOVERNANCE STRUCTURE



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

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

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

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

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

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

The role of our management teams

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

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

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

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

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

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

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

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

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

STRATEGY

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

Identification of climate-related risks

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

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

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

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

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

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

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

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

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

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

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

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

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

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

Impact of climate change risks

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

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

Insurance underwriting risks

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

Regulatory risk

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

Strategic risk

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

Market and credit risks

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

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

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

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

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

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

Opportunities

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

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

Resilience of the organisation

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

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

RISK MANAGEMENT

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

Processes for identifying, assessing and managing climate-related risks

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

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

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

METRICS AND TARGETS

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

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

Greenhouse gas emissions

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

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

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

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

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

CORPORATE AND SOCIAL RESPONSIBILITY (CONTINUED)

CLIMATE-RELATED FINANCIAL DISCLOSURES (CONTINUED)

There are 8 (2020: 11) company-leased vehicles in total across the group which are used primarily for commuting and not business-related activities.

Scope 1 – there are no emissions that fall under the category of scope 1 for the group, which is activities controlled by the organisation that release emissions into the atmosphere such as from combustion on owned controlled boilers and furnaces.

Scope 2 – the emissions that fall within this category are related to the energy usage for the group's offices. This excludes the usage of the outsourcers as they do not work exclusively for the group and therefore, we have not been able to estimate the impact. The government set conversion factors are used to calculate the carbon emissions based on the kWh of gas and electricity used during the course of the year. We believe this is a prudent approach in estimating the emissions for the European divisions.

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

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

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

Carbon offsetting

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

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

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

Energy consumption

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

Energy consumption in the group is reported on an actual basis where the records are kept in the business (scope 2 – office use and scope 3 – business travel) and converted to emission measures using standard conversion factors from the UK government website. For commuting and home working, where detailed records are not kept, estimates have been agreed for each division regarding the average daily mileage and the average proportion of homeworking during 2021. These estimates have then had the standard conversion factors applied. Our energy consumption over the last two years is shown in the table below.

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

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

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

Water usage

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

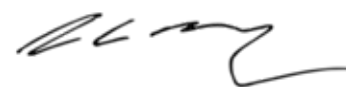
	UK offshore	Global (exc UK & offshore)	Total
2021: cubic meters (m ³)	145.0	1,309.5	1,454.5
2020: cubic meters (m ³)	183.0	1,568.3	1,751.3

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

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



Luke Savage
Chair



Steve Murray
Chief Executive Officer