

Chesnara plc Interim Management Statement

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Interim Management Statement for the period from 1 January 2012 to 17 May 2012

18 May 2012

- Increase in EEV to £312.7m (at 31 March 2012) from £294.5m (at year end), predominantly due to positive economic experience and assumption changes of £19.9m, net of tax.
- EEV profit increased to £17.7m (Q1 2011: £6.2m).
- Profit on an IFRS basis before tax for the quarter of £13m (Quarter 1 2011: £3.5m) is underpinned by UK product-based surpluses which remain strong at £10m.
- Solvency ratios remain strong with Group at 201% (31 December 2011: 198%), CA at 213% (31 December 2011: 183%) and Movestic 242% (31 December 2011: 245%).
- Movestic has generated £6m of Embedded Value, with the recovery in Swedish equity markets more than compensating for continuing difficult operating conditions.
- Shareholder equity on EEV basis (pre proposed final dividend payment) at 31 March 2012 £2.72 per share (31 December 2011: £2.56p per share).
- As at 16 May 2012, both UK and Swedish markets have fallen back to levels broadly as at the beginning of the year and hence investment market driven growth in Q1 has reversed.
- Acquisition opportunities continue to be examined.

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 31 March 2012 and to its financial performance during the first quarter of the year. Where events and transactions have occurred since the end of the first quarter, which are estimated to have a material impact on management's core expectation of the financial position and/or financial performance of the Group, then these are identified, together with a broad indication of their impact.

Investment Markets

During the first quarter global investment market performance has continued to have a significant influence on the Group's results. The effects of these influences were generally positive, reflecting improving equity markets, with the leading UK and Swedish indices increasing by 3.5% and 8.5% respectively, and improving bond yields, where there were modest increases over the whole range of the UK yield curve. The impact of these market movements is explained more fully in the EEV and IFRS sections below.

Insofar as equity performance and yield curve movement have had a favourable impact on Group earnings during the first quarter, a note of caution is necessary as continuing nervousness in connection with the Eurozone has subsequently led to a reversal of these beneficial effects.

EEV

Detail of the increase in Group European Embedded Value ('EEV'), since the position last reported in the financial statements for the year ended 31 December 2011, is set out in the following table:

	Quarter ended 31 March 2012 <u>£m</u>	Quarter ended 31 March 2011 <u>£m</u>	Year ended 31 December 2011 <u>£m</u>
EEV at beginning of period	294.5	354.6	354.6
Earnings for the period			
UK Businesses			
Countrywide Assured ('CA'), pre-tax	1.2	3.5	2.8
Save & Prosper ('S&P'), pre-tax	15.8	2.7	(22.7)
Tax	(4.9)	(0.9)	5.6
Swedish Business, net of tax			
Movestic	6.0	1.3	(23.9)
Other Group Activities	(0.4)	(0.4)	(1.9)
Foreign exchange reserve movement	0.5	4.9	(1.0)
Dividends paid	-	-	(19.0)
EEV at end of period	312.7	365.7	294.5

EEV of £312.7m as at 31 March 2012 is stated before appropriation of a dividend of £12.5m, which will be paid on 22 May 2012.

Overall, the net of tax EEV result for the first quarter of 2012 was ahead of expectations due in the main to the increase in UK and Swedish equity markets over the quarter. By comparison, investment markets over the first quarter of 2011 remained broadly flat. In addition, S&P in particular benefited from the gently rising interest rate environment in both swap and gilt markets.

The positive EEV result for the quarter, for all operating segments, has been dominated by the investment market influences referred to above. The pre-tax investment market impacts are analysed by business segment below:

			Net of tax increase/(reduction) in EEV
			<u>£m</u>
CA:	(i)	equity market reflected principally through higher deductions from policyholder funds	1.6
	(ii)	adverse impact of increased bond yields	(1.6)
S&P:	(i)	impact of equity market growth	3.9
	(ii)	increased bond yields	8.6
	(iii)	inflation	(0.4)
Movestic:	(i)	equity market growth	7.8

The adverse impact of increased bond yields within CA arises from the fact that the corresponding fall in the capital value of bonds is not fully matched by an associated reduction in actuarial liabilities.

The impact of investment markets on S&P arise from both equity market growth and increases in bond yields. An increase in bond yields increases both the assumed future investment return and the discount rate when assessing market-consistent costs of guarantees within the S&P with-profits funds. To the extent that the impact of rising bond yields is favourable, this provides a natural hedge against the adverse impact within CA.

In summary, equity market growth and increasing bond yields in the first quarter have given rise to net of tax improvement in Group EEV of £19.9m.

Other significant influences on the EEV result for the quarter are:

UK Businesses

CA

- (i) £0.7m (£0.5m net of tax) expected return from the unwind of the risk discount rate;
- (ii) £0.7m (£0.5m net of tax) favourable mortality and morbidity experience; and
- (iii) £0.6m (£0.4m net of tax) favourable persistency experience. It is worthy of note that the favourable persistency experience has continued, despite the year end assumptions having been positively adjusted to reflect recent experience.

S&P

- (i) £(0.5)m (£(0.4)m net of tax) adverse with-profit mortality experience;

The total EEV movement is net of a UK charge of £4.9m which relates to a £4.1m current tax charge and a £0.8m increase in deferred tax liabilities.

Swedish Business

Movestic

(all amounts stated are pre-tax, tax effects for the period being immaterial)

- (i) £0.9m expected return from the unwind of the risk discount rate; and
- (ii) £0.4m value added by new business.

offset by:

- (i) adverse persistency experience of £2.8m.

The foreign exchange gain of £0.5m, set out in the EEV table above, arises from the effect of translating the SEK-denominated EEV of the Swedish Business into Sterling, which depreciated slightly against the Swedish Krona over the first quarter of 2012. Subsequent to the quarter end Sterling has strengthened against the Swedish Krona with an estimated adverse EEV impact of £3m.

IFRS

The IFRS result for the quarter ended 31 March 2012 is set out in the following table:

	Quarter ended 31 March 2012 <u>£m</u>	Quarter ended 31 March 2011 <u>£m</u>	Year ended 31 December 2011 <u>£m</u>
Pre-tax earnings			
UK Businesses			
Countrywide Assured ('CA')	1.1	4.4	22.2
Save & Prosper ('S&P')	13.5	0.7	6.5
Swedish Business			
Movestic	(1.0)	(1.0)	(0.7)
Other Group Activities	(0.6)	(0.6)	(5.6)
Total pre-tax earnings	13.0	3.5	22.4
Tax	(4.7)	(1.4)	3.3
Post-tax earnings	8.3	2.1	25.7

The underlying product-based surpluses from which the core earnings arise have remained strong during the first quarter. However, as indicated in the EEV analysis above, the CA result for the first quarter is adversely affected by investment market movements whereby bond capital value reductions are greater than the corresponding reduction in actuarial liabilities. The value of this mismatch shortfall is c£2m, which accounts for the majority of the first quarter year-on-year decline.

The S&P result has had a significant positive impact on the overall Group result, predominantly due to £10m of favourable investment market effects arising as a result of improving bond yields and equity values reducing the cost of guarantees within the with-profits funds. As with the CA book, the underlying product-based surplus remains strong in comparison to the prior year figure.

The Movestic result has benefited to the extent of £0.8m from the recovery in Swedish equity markets. The benefits derive from both direct investment income items and from the impact on asset-based fees within the core Pensions and Savings business. These positive investment

market-related items are offset by an adverse underwriting result in the Risk and Health business and by the adverse impact of additional financial reinsurance costs of £0.5m.

The following key performance indicators relate to Movestic:

	Quarter Ended 31 March 2012 £m	Quarter Ended 31 March 2011 £m	Year Ended 31 December 2011 £m
Total premium income*			
Pensions and savings	47.5	61.6	225.7
Risk insurance	9.4	9.7	38.3
Total	56.9	71.3	263.9
New business premium income*			
Pensions and savings	9.7	13.6	46.0
Risk insurance	0.4	0.6	1.9
Total	10.2	14.2	47.9

*Translated into £ at constant rate of SEK10.6079 = £ (Quarter1 2012 average rate)

The decline in new business premium income, compared with the first quarter of 2011, largely reflects the general decline in total market size. This decline in new business premiums, together with policy attrition, results in the reduction in total premium income reported above. That said, new business premium income increased from the final quarter of 2011 which, together with the successful launch of a new product during April, reinforces new business prospects for 2012.

Market share of unit-linked pensions business	<u>Q1 11</u>	<u>Q2 11</u>	<u>Q3 11</u>	<u>Q4 11</u>	<u>Q1 12</u>
	%	%	%	%	%
Total business	4.7	5.6	6.5	7.2	4.6
Company-paid contribution business	12.5	11.3	9.1	10.7	7.6

Policy attrition	<u>Quarter Ended 31 March 2012</u>	<u>Quarter Ended 31 March 2011</u>	<u>Year Ended 31 December 2011</u>
	%	%	%
Surrenders	16.2	13.8	14.7
Transfers	5.1	5.3	5.3
Lapses	24.2	17.5	16.2

It can be seen from the new business figures above that market conditions in Sweden continue to be challenging. Our market share and retention (despite the recently introduced retention measures), have been negatively affected by the impact on administration performance of a significant system migration. Recent system fixes and further training will lead to improved performance and support renewed sales initiatives.

On a more positive note, assets under management, the main driver of profitability, continue to grow despite the decline of some 8.5% in Swedish equity markets over the year to 31 March 2012. Furthermore, fund performance has begun to show some improvement since the end of the year.

	<u>31 March 2012</u>	<u>31 March 2011</u>	<u>31 December 2011</u>
Assets under management*	£1,308.7m	£1,289.9m	£1,220.2m

*Translated at a constant rate of SEK10.6653 = £ (31 March 2012 closing rate).

Fund performance	<u>Quarter Ended</u> <u>31 March 2012</u> No of Funds	<u>Quarter Ended</u> <u>31 March 2011</u> No of Funds	<u>Year Ended</u> <u>31 December 2011</u> No of Funds
Outperformed against relevant index	26	22	17
Underperformed against relevant index	25	11	30
No relevant index	2	3	9

Solvency

The underlying emergence of surplus in the UK businesses, and hence the capacity of the Group to continue to pursue its dividend policy, remains strong. This is reflected in the ratio of regulatory capital resources to regulatory capital requirements in CA, which has improved from 183% at 31 December 2011 to 213% at the end of the first quarter. The Swedish life business solvency ratio as at 31 March 2012 is estimated to be 242%, compared with 245% as at 31 December 2011. As at the quarter end, the corresponding Group (IGD) position remains strong at an estimated 201% compared with 198% as at 31 December 2011.

Market Opportunity

We continue to see a number of potential acquisition opportunities and we will readily progress these if we see value and a clear strategic fit. While we remain open-minded as to location in the UK and Western Europe, we will continue to apply strict financial and risk criteria in assessing them.

Enquiries

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Notes to Editors

Chesnara plc, which listed on the London Stock Exchange in May 2004, is the owner of Countrywide Assured plc ("CA"), Save & Prosper Insurance Ltd and its subsidiary Save & Prosper Pensions Ltd (together 'S&P') and Movestic Livförsäkringar AB ('Movestic').

CA is a UK life assurance subsidiary that is substantially closed to new business. In June 2005 Chesnara acquired a further closed life insurance company - City of Westminster Assurance ('CWA') and with effect from 30 June 2006, CWA's policies and assets were transferred into CA. S&P was acquired on 20th December 2010. S&P was closed to new business prior to acquisition

and it operated an outsourced business model which is complementary to Chesnara's existing UK operations. With effect from 31 December 2011, the business of S&P was transferred into CA.

Movestic, a Swedish life assurance company which originally focused on pensions and savings, was acquired on 23 July 2009. The company is open to new business and seeks to grow its position in the Swedish unit-linked market. Its proposition was strengthened in February 2010 with the acquisition of the operations of Aspis Försäkringar Liv AB which has a risk and health product bias.