

Another strong quarter. Good operational profits build upon strong investment market performance.

- Recently announced acquisition of Direct Line Life received shareholder approval on 7 November 2013 and is expected, subject to regulatory approval, to complete by the end of the year.
- Increase in EEV to £354.0m at 30 September 2013 from £311.1m at 31 December 2012. This increase includes net of tax profit of £55.0m less dividends paid of £12.9m in the period.
- EEV pre-tax profit of £57.5m (excluding modelling adjustments and exchange rate impacts) for the nine months ended 30 September 2013 (nine months ended 30 September 2012: £29.5m), of which £44.8m has emerged as a direct result of investment market performance.
- Shareholder equity on an EEV basis of 308.2p per share. This represents an increase of 37.4p per share (after recognising dividend payments of 11.25p per share) since the start of the year.
- Strong net cash generation of £30.2m for the nine months ended 30 September 2013 (nine months ended 30 September 2012: £35.1m). The 2012 cash generation included a £7.0m one-off benefit arising from the deregulation of the S&P businesses.
- IFRS pre-tax profit of £32.8m for the nine months ended 30 September 2013 (nine months ended 30 September 2012: £20.1m) is underpinned by strong UK product-based deductions amounting to £33.5m in the period (nine months to 30 September 2012: £32.4m).
- A £12.9m release in the provision for S&P policy guarantees has contributed to the IFRS result, reflecting the positive impact of equity market growth and increases in bond yields in the period.
- Solvency ratios as at 30 September 2013 remain strong, with Group at 240% (31 December 2012: 244%), CA at 272% (31 December 2012: 199%) and Movestic at 320% (31 December 2012: 280%).
- Movestic generated £14.8m of EEV pre-tax profit (excluding modelling adjustments and exchange rate impacts) in the nine months ended 30 September 2013 (nine months ended 30 September 2012: profit of £7.9m), primarily due to growth in Swedish equity markets.
- Improving IFA support for Movestic has resulted in a 55% increase in Pensions and Savings new business premium income compared with the first nine months of 2012.
- Movestic generated £3.3m of new business profit in the nine month period to 30 September 2013 (nine months ended 30 September 2012: £1.3m).
- Additional acquisition opportunities continue to be examined.

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 30 September 2013 and to its financial performance during the first nine months of the financial year.

Where events and transactions have occurred since 30 September 2013, 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.

Market Opportunities

On 8 October 2013 it was announced that we had entered into a binding agreement with Direct Line Insurance Group plc to purchase the entire share capital of Direct Line Life for a total consideration of £39.3m. The purchase will be funded by a combination of debt and existing cash resources and is expected to complete by the end of the financial year. The acquisition fits with the Group's clear objective of making strategic acquisitions in the life assurance sector and in particular in its core UK life operations, and Direct Line Life will be an attractive and complementary addition. The acquisition, which remains subject to regulatory approval, is expected to have a positive impact on the embedded value and cash generation ability of Chesnara in the medium term once integrated.

Direct Line Life became substantially closed to new business on 5 July 2011 and has been focused since then on managing the existing portfolio in line with the run-off plan agreed at the time with the then FSA. Prior to closure to new business, Direct Line Life offered non-linked products including mortgage life cover, fixed term life cover (both with and without critical illness cover) and over 50's life cover to UK customers. These were distributed under both the Direct Line brand and also, in recent years, on a white label basis.

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

Results and position

Investment Markets

During the first nine months of the year 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 9.6% and 14% respectively. Investment market performance has continued to positively influence the result during the third quarter, albeit at a reduced level as there have been marginal movements in UK bond yields during the quarter. In addition, equity market growth was not as marked as during the first half of the year. The impact of these market movements is explained more fully in the EEV and IFRS sections below.

Insofar as investment market performance has had a favourable impact on Group earnings during the period to 30 September 2013, a note of caution is necessary as markets clearly have the potential to continue to be volatile.

European Embedded Value (EEV)

	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Quarter ended 30 September 2012 £m	Nine months ended 30 September 2012 £m	Year ended 31 December 2012 £m
EEV at beginning of period	337.4	311.1	296.3	294.5	294.5
Net of tax profit arising in period	18.7	54.2	7.2	23.1	31.2
Effect of modelling adjustments	-	0.8	-	-	3.6
Foreign exchange reserve movements	(2.1)	0.8	2.3	0.7	1.3

Dividends paid	-	(12.9)	-	(12.5)	(19.5)
EEV at end of period	354.0	354.0	305.8	305.8	311.1

Overall the European Embedded Value has increased by £42.9m when compared with 31 December 2012. This is primarily driven by the net of tax profit during the nine months of £57.5m, which is analysed further below.

The Group EEV is exposed to the impact of foreign exchange movements between Sterling and the Swedish Krona. The EEV at 30 September includes a year to date gain of £0.8m. This is inclusive of a £2.1m exchange loss in Q3, substantially reversing the foreign exchange gains reported in previous quarters. Since 30 September 2013 the Swedish Krona has weakened further against Sterling, being SEK 10.65 / £1 on 18 November. At this date Sterling is therefore slightly stronger against the Swedish Krona than at the start of 2013, thereby reversing the cumulative exchange gains that have been recognised in the year to 30 September 2013.

The EEV at 30 September 2013 does not reflect the impact of the interim dividend of £7.2m, which was paid on 14 October 2013.

EEV earnings

Analysis of the EEV result by business segment

	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Quarter ended 30 September 2012 £m	Nine months ended 30 September 2012 £m	Year ended 31 December 2012 £m
CA	7.8	19.9	3.1	9.9	13.1
S&P	5.4	24.9	5.8	13.9	15.7
Movestic	7.5	14.8	2.1	7.9	13.0
Other group activities	(0.9)	(2.1)	(1.7)	(2.2)	(5.7)
Total pre-tax profit	19.8	57.5	9.3	29.5	36.1
Tax	(1.1)	(3.3)	(2.1)	(6.4)	(4.9)
Profit after tax	18.7	54.2	7.2	23.1	31.2

Analysis of the EEV result by earnings source

	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Quarter ended 30 September 2012 £m	Nine months ended 30 September 2012 £m	Year ended 31 December 2012 £m
New business contribution	1.0	3.7	0.9	1.7	2.9
Return from in-force business:					
Expected return	1.4	4.0	1.5	4.6	5.8
Experience variances	4.9	6.5	(0.1)	1.7	0.4
Operating assumption changes	(1.0)	(0.9)	(0.5)	4.4	2.0
Return on shareholder net worth	1.4	(0.9)	3.0	6.6	7.9
Operating profit on covered business	7.7	12.4	4.8	19.0	19.0
Variation from longer term investment return	12.4	33.2	7.6	14.6	28.0
Effect of economic assumption changes	0.1	12.5	(2.0)	(2.8)	(6.5)
Profit on covered business before tax	20.2	58.1	10.4	30.8	40.5
Tax	(1.1)	(3.5)	(2.2)	(6.5)	(6.0)

Profit on covered business after tax	19.1	54.6	8.2	24.3	34.5
Uncovered business and other Group activities	(0.5)	(0.6)	(1.1)	(1.2)	(4.4)
Tax on uncovered business	0.1	0.2	0.1	-	1.1
Profit after tax	18.7	54.2	7.2	23.1	31.2

Overall, the net of tax EEV result for the nine months ended 30 September 2013 was ahead of expectations due in the main to the impact of the increase in UK and Swedish equity markets over the period. Investment market impacts of £44.8m compare with equivalent investment market impact of £18.4m for the first nine months of 2012.

Investment market impacts by business unit are analysed as follows:

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
	£m	£m
CA	11.9	4.4
S&P	18.7	10.0
Movestic	14.2	4.0

Other significant pre-tax influences on the EEV result are:

UK Business

Despite a general weakening of lapse assumptions at the 2012 year end, actual experience continues to be better than the levels assumed, resulting in significant positive lapse experience variance of £4.1m.

Swedish Business

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

- (i) Movestic has posted a new business profit of £3.3m for the 9 months to 30 September 2013 compared to a profit of £1.3m for 9 months to 30 September 2012. The new business result has benefited from a significant increase in new contract volumes achieved without a corresponding increase in the cost base.
- (ii) In general on a cumulative basis lapse experience remains marginally adverse and the total variance of £(0.3)m for the period compares favourably with the adverse variance of £(5.3)m for the 9 months to 30 September 2012. For the third quarter in isolation there is a £0.7m positive persistency experience variance which indicates that the recent strengthening of assumptions adequately reflects actual levels of lapses and transfers.
- (iii) Changes to policyholder asset allocations have resulted in a £1.7m adverse experience variance.

IFRS earnings

The IFRS result for the nine month period ended 30 September 2013 is set out in the following table:

Quarter ended 30 September	Nine months ended 30 September	Quarter ended 30 September	Nine months ended 30 September	Year ended 31 December
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	2013 £m	2013 £m	2012 £m	2012 £m	2012 £m
Pre-tax earnings:					
UK Business					
Countrywide Assured ('CA')	7.3	14.1	5.4	12.9	18.5
Save & Prosper ('S&P')	4.7	21.9	7.7	12.8	14.6
Swedish Business					
Movestic	1.2	2.2	0.4	0.5	1.4
Chesnara	(0.9)	(2.1)	(1.8)	(2.8)	(5.8)
Consolidation adjustments	(1.3)	(3.3)	(0.9)	(3.3)	(4.2)
Total profit before tax and exceptional item	11.0	32.8	10.8	20.1	24.5
Exceptional item	-	-	-	(4.8)	(4.8)
Total profit before tax	11.0	32.8	10.8	15.3	19.7
Tax	(0.9)	(5.5)	(1.4)	1.2	8.2
Total profit after tax	10.1	27.3	9.4	16.5	27.9

The pre-tax profit for the nine months ended 30 September 2013 of £32.8m compares with a profit of £20.1 (pre exceptional item) in the equivalent period for 2012. This is primarily driven by the increase in pre-tax earnings of the S&P segment, which has benefited from a £12.9m reduction in its reserves for policies with minimum guaranteed returns, principally driven by improved equity market performance and increases in bond yields over the period.

The underlying UK product-based surpluses from which the core earnings arise have remained strong during the first nine months of the year, continuing the experience of 2012 and highlighting the relative stability of this earnings stream.

The Movestic result has benefited from the continued recovery in Swedish equity markets. The positive impact on profits arises from both direct investment income and from the impact of an increased investment asset base on asset-based fees within the core Pensions and Savings business. The Movestic operating profits of £3.5m are offset by a £1.3m increase in the valuation of financial reinsurance arrangements which are sensitive to the interest rate environment.

Movestic KPIs

The following key performance indicators relate to Movestic:

	Quarter ended 30 Sep 2013 £m	Quarter ended 30 Jun 2013 £m	Quarter ended 31 Mar 2013 £m	Nine months ended 30 Sep 2013 £m	Quarter ended 30 Sep 2012 £m	Nine months ended 30 Sep 2012 £m	Year ended 31 Dec 2012 £m
Total premium income*							
Pensions and savings	60.9	76.6	58.0	195.5	48.7	149.4	207.6
Risk insurance	9.9	9.1	10.8	29.8	8.6	29.2	40.0
Total	70.8	85.7	68.8	225.3	57.3	178.6	247.6

	Quarter ended 30 Sep 2013 £m	Quarter ended 30 Jun 2013 £m	Quarter ended 31 Mar 2013 £m	Nine months ended 30 Sep 2013 £m	Quarter ended 30 Sep 2012 £m	Nine months ended 30 Sep 2012 £m	Year ended 31 Dec 2012 £m
New business premium income*							
Pensions and savings	15.0	16.0	13.6	44.6	7.4	28.8	38.9
Risk insurance	0.5	0.8	0.4	1.7	0.3	1.0	1.4
Total	15.5	16.8	14.0	46.3	7.7	29.8	40.3

*Translated into £ at constant rate of SEK 10.074 = £1 (Average from 1 January 2013 to 30 September 2013)

New business premium income for the nine months ended 30 September 2013 of £46.3m compares favourably with the £29.8m of new business premiums reported for the same period in 2012. This reflects the on-going recovery in IFA support to Movestic, with the number of brokers being used increasing significantly compared with the same time in 2012. This increase in new business premiums is a primary driver of the increase in total premium income reported above.

Market share of unit-linked pensions business	Q2 2013	Q1 2013	Q4 2012	Q3 2012
	%	%	%	%
Total business	7.9	6.2	5.5	5.7
Company-paid contribution business	13.0	11.7	8.2	9.1

Market share data for Q3 2013 is not available at the date of the IMS release.

Policy attrition	Quarter ended 30 September 2013	Quarter ended 30 June 2013	Quarter ended 31 March 2013	Quarter ended 30 September 2012	Year ended 31 December 2012
	%	%	%	%	%
Transfers	4.5	5.8	5.6	6.9	5.4
Lapses	13.0	15.5	21.1	11.8	17.6

The improved level of IFA sentiment towards Movestic evident in the new business results has not resulted in a corresponding reduction in policy attrition, although transfer rates in particular have improved compared with the prior quarter and the same period in 2012. That said, policy transfers and switching remain prevalent in the Swedish IFA market and whilst this is the case the level of attrition remains a general dynamic of the industry. It should be noted that EEV assumptions as at 30 September 2013 better recognise current levels of attrition following a strengthening in assumptions that was made during Q2 2013.

On a positive note, as illustrated by the table below, assets under management, the main driver of profitability, continue to grow, increasing by 15.0% since 31 December 2012.

	30 September 2013	30 June 2013	31 March 2013	30 September 2012	31 December 2012
	£m	£m	£m	£m	£m
Assets under management*	1,584	1,494	1,451	1,336	1,377

*Translated at a constant rate of SEK 10.40 = £1 (30 September 2013 closing rate).

Furthermore, the below analysis shows that fund performance has demonstrated some improvement since the turn of the year.

Fund performance	Quarter ended 30 September 2013	Quarter ended 30 June 2013	Quarter ended 31 March 2013	Quarter ended 30 September 2012	Year ended 31 December 2012
	No. of funds	No. of funds	No. of funds	No. of funds	No. of funds
Outperformed against relevant index	33	33	38	29	26
Underperformed against relevant index	31	30	24	27	30
No relevant index	2	2	2	5	5

Cash Generation

Net cash generation, representing the net change in funds to service debt and equity, for the nine months ended 30 September 2013 was £30.2m compared with £35.1m for the nine months to 30

September 2012. The 2012 cash generation benefited from a one off £7.0m positive item arising from the deregulation of the S&P entities.

Solvency

The underlying emergence of surplus in the UK businesses remains strong. This is reflected in the ratio of regulatory capital resources to regulatory capital requirements in CA, which has improved from 199% at 31 December 2012 to 272% at 30 September 2013. The Swedish life business solvency ratio as at 30 September 2013 is estimated to be 320%, compared with 280% as at 31 December 2012. As at 30 September 2013, the corresponding Group (IGD) position remains strong at an estimated 240% compared with 244% as at 31 December 2012.

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Notes to Editors

Chesnara plc ('Chesnara'), which listed on the London Stock Exchange in May 2004, is the owner of Countrywide Assured plc ('CA') and Movestic Livförsäkringar AB ('Movestic').

CA is a UK life assurance subsidiary that is closed to new business. In June 2005 Chesnara acquired a further closed life insurance company - City of Westminster Assurance - for £47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA plc. Save & Prosper Insurance Limited and its subsidiary, Save & Prosper Pensions Limited, were acquired on 20th December 2010 for £63.5 million. With effect from 31 December 2011, the business of Save & Prosper was transferred into CA. CA operates an outsourced business model.

Movestic, a Swedish life assurance company which originally focused on pensions and savings, was acquired on 23 July 2009 for £20 million. 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.