

Strong cash generation continues

- Gross cash generation of £22.3m for the nine months ended 30 September 2014 and £6.3m for Q3 (full year 2013: £49.7m, nine months ended 30 September 2013: £30.2m, Q3 2013: £8.3m).
- Profit on an IFRS basis before tax for the nine months ended 30 September 2014 of £30.3m (nine months ended 30 September 2013: £32.8m).
- Increase in EEV to £405.7m at 30 September 2014 from £376.4m at 31 December 2013. A net of tax profit of £57.0m has been offset by £12.7m arising from the depreciation of Swedish Krona in the year to date and the payment of the year end 2013 dividend of £13.3m.
- Shareholder equity on an EEV basis of 353.2p per share (31 December 2013: 327.7p per share), before recognising the interim dividend of £7.4m paid in October.
- EEV pre-tax profit (excluding modelling adjustments and exchange rate impacts) for the nine months ended 30 September 2014 of £64.0m (nine months ended 30 September 2013: £57.5m).
- Movestic generated £19.5m of EEV pre-tax profit (excluding modelling adjustments and exchange rate impacts) in the nine months ended 30 September 2014. New business profits of £7.2m in the year to date are £3.9m higher than the equivalent period in 2013.
- Solvency ratios remain strong, with Group solvency at 192% (31 December 2013: 194%), CA plc at 234% (31 December 2013: 218%), PL at 183% (31 December 2013: 156%) and Movestic at 361% (31 December 2013: 311%).
- The planned Part VII transfer of Protection Life remains on track to be complete by the end of 2014.
- Acquisition opportunities continue to be examined.

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 30 September 2014 and to its financial performance during the first nine months of the financial year. Where events and transactions have occurred since the end of the nine months, 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.

Economic context

The EEV and IFRS results of the Chesnara Group are influenced by economic conditions. During Q3 2014 investment market conditions have had an influence over the results, in particular a reduction in UK bond yields in the quarter. Equity market movements have been less pronounced, with the indices to which the results are sensitive remaining broadly flat. In addition, the quarter has seen the Swedish Krona weaken further against Sterling, largely driven by the decision for interest rates in Sweden to be reduced to 0.25% in the period. Subsequent to the end of the quarter interest rates in Sweden were reduced again, and set to zero.

As a result of market performance the Group results are less positive when compared with the equivalent quarter in 2013, when investment market performance was particularly positive. In particular the S&P segment has been adversely impacted by reducing bond yields in the quarter, as indicated by the small IFRS loss in this segment.

Since 30 September 2014 10 year gilt yields have fallen slightly further still, and the Swedish Krona exchange rate has weakened slightly further, closing at SEK 11.77 / GBP 1.00 at 12 November 2014.

IFRS earnings

The IFRS results for the quarter ended and nine months ended 30 September 2014 are set out below:

	Quarter ended 30 September 2014 £m	Nine months ended 30 September 2014 £m	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Year ended 31 December 2013 £m
CA	4.2	24.5	7.3	14.1	25.0
S&P	(1.9)	4.8	4.7	21.9	36.4
PL	1.4	5.4	-	-	0.2
Movestic	1.6	3.7	1.2	2.2	2.6
Chesnara	(0.8)	(3.6)	(0.9)	(2.1)	(4.9)
Consolidation adjustments	(1.5)	(4.5)	(1.3)	(3.3)	(1.5)
Total profit before tax and profit on acquisition of Protection Life	3.0	30.3	11.0	32.8	57.8
Profit on acquisition of Protection Life	-	-	-	-	2.8
Total profit before tax	3.0	30.3	11.0	32.8	60.6
Tax	0.8	(3.7)	(0.9)	(5.5)	(11.2)
Total profit after tax	3.8	26.6	10.1	27.3	49.4

Q3 2014

The Group's Q3 2014 pre-tax profit of £3.0m compares with a profit of £11.0m in the equivalent three month period for 2013. This is broadly driven by economic conditions, in particular reducing bond yields this quarter compared to rising bond yields in the same quarter in 2013.

The CA pre-tax profit of £4.2m compares with £7.3m in the same period in 2013. The primary drivers of this variance are slightly lower mortality surpluses in the period coupled with a lower investment return on assets held to cover non-linked liabilities.

The S&P pre-tax loss of £1.9m in Q3 2014 is influenced by the effect that reducing bond yields has on the reserves for products with guarantees which are a feature of part of the S&P with-profits book, with the with-profit strain amounting to £4.1m in Q3 2014. This compares with a surplus arising on reserves for policies with guarantees of £1.1m in the equivalent quarter in 2013, this being the primary driver of the variance in the S&P results quarter on quarter. The underlying product-derived surpluses of S&P have remained broadly consistent quarter on quarter.

Protection Life has contributed £1.4m of pre-tax profit during the quarter, continuing to deliver a stable source of income to the Group. These results are a little lower than previous quarters driven by slightly higher than expected claims experience in the quarter.

The Movestic pre-tax result of £1.6m continues the growth trend of this business. Assets under management have continued to grow, thereby providing a higher base on which management fees are earned, this being the core income source for the Pensions and Savings business.

Year to date

The Group has reported a pre-tax profit for the nine months ended 30 September 2014 of £30.3m (£24.9m excluding PL), which compares with a profit of £32.8m for the equivalent period for 2013. The primary driver of this small reduction on a like for like basis relates to the movement in reserves for products with guarantees in the S&P segment. On a year to date basis the S&P surplus has also been impacted by the signing of the new outsourcing contract with HCL, which has reduced profits by £4.2m in this segment. An equal and opposite surplus was reported in the CA segment, with the impact on the Group results being neutral.

Cash Generation

Gross cash generation, representing the change in the excess of regulatory capital resources over target capital resources in respect of CA, S&P and PL, less cash utilised by the Chesnara parent company, was £22.3m for the nine months ended 30 September 2014 compared with £30.2m for the same period in 2013. The principal driver of this reduction in cash generation is the capital requirement of CA plc, which has increased by circa £3.1m in the year to date, compared with a reduction of £2.9m in the same period in 2013.

European Embedded Value (EEV)

	Quarter ended 30 September 2014 £m	Nine months ended 30 September 2014 £m	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Year ended 31 December 2013 £m
EEV at beginning of period	400.3	376.4	337.4	311.1	311.1
Net of tax profit arising in period	9.7	57.0	18.7	54.2	82.7
Effect of modelling adjustments	(1.6)	(1.6)	-	0.8	4.1
Foreign exchange reserve movements	(2.7)	(12.7)	(2.1)	0.8	(1.4)
Dividends paid	-	(13.4)	-	(12.9)	(20.1)
EEV at end of period	405.7	405.7	354.0	354.0	376.4

Overall the European Embedded Value has increased by £29.3m since 31 December 2013. This is primarily driven by the net of tax profit during the year to date of £57.0m, which is analysed further below, offset by dividends of £13.4m paid in the period. In addition the EEV has been negatively impacted by a foreign exchange loss of £12.7m in the year to date from the effect of translating the SEK-denominated EEV of Movestic into Sterling, which appreciated against Swedish Krona. Since the quarter end Sterling has further strengthened against Swedish Krona, with an estimated further adverse EEV impact of c. £1.0m.

EEV earnings, net of tax

Analysis of the EEV result by business segment:

	Quarter ended 30 September 2014 £m	Nine months ended 30 September 2014 £m	Quarter ended 30 September 2013 £m	Nine months ended 30 September 2013 £m	Year ended 31 December 2013 £m
CA	5.3	38.6	7.8	19.9	24.5
S&P	(0.8)	5.9	5.4	24.9	42.7
PL	0.5	3.7	-	-	0.1
Movestic	2.1	19.5	7.5	14.8	15.5
Chesnara	(0.9)	(3.7)	(0.9)	(2.1)	(5.1)
Profit before tax and gain on acquisition	6.2	64.0	19.8	57.5	77.7
Gain on acquisition of Protection Life	-	-	-	-	12.3
Profit before tax	6.2	64.0	19.8	57.5	90.0
Tax	3.5	(7.0)	(1.1)	(3.3)	(7.3)
Profit after tax	9.7	57.0	18.7	54.2	82.7

Analysis of the EEV result by earnings source:

Nine

Nine

	Quarter ended 30 September 2014 £m	months ended 30 September 2014 £m	Quarter ended 30 September 2013 £m	months ended 30 September 2013 £m	Year ended 31 December 2013 £m
New business contribution	1.6	7.8	1.0	3.7	7.9
Return from in-force business					
Expected return	1.8	5.8	1.4	4.0	5.5
Experience variances	(0.4)	5.5	4.9	6.5	5.8
Operating assumption changes	3.3	20.4	(1.0)	(0.9)	(10.0)
Return on shareholder net worth	0.7	4.7	1.4	(0.9)	(0.3)
Operating profit on covered business	7.0	44.2	7.7	12.4	8.9
Variation from longer term investment return	6.0	29.1	12.4	33.2	54.7
Effect of economic assumption changes	(4.3)	(6.1)	0.1	12.5	16.4
Profit on covered business before tax	8.7	67.2	20.2	58.1	80.0
Tax	1.7	(8.6)	(1.1)	(3.5)	(7.6)
Profit on covered business after tax	10.4	58.6	19.1	54.6	72.4
Gain on acquisition of Protection Life	-	-	-	-	12.3
Uncovered business and other Group activities	(2.5)	(3.2)	(0.5)	(0.6)	(2.3)
Tax on uncovered business	1.8	1.6	0.1	0.2	0.3
Profit after tax	9.7	57.0	18.7	54.2	82.7

The EEV result for Q3 2014 of £9.7m is driven by the operating result of £7.0m, which is broadly in line with the same period in 2013. Economic factors have contributed a further £1.7m to the result, which is £10.8m lower than the same period in 2013, largely as a result of the swing in bond yields, and less positive equity markets. On a year to date basis the EEV post tax result of £57.0m is slightly higher than in the same period in 2013. This is driven by the strong half year 2014 results.

The investment market factors referred to above have contributed £22.9m to the EEV result, compared with £45.6m for the nine months of 2013. This can be analysed by business unit as follows:

	Nine months ended 30 September 2014 £m	Nine months ended 30 September 2013 £m
CA	10.3	11.5
S&P	1.9	19.9
PL	0.5	-
Movestic	10.2	14.2
	22.9	45.6

The result for the S&P segment in the above table is lower than the same period in 2013 driven by lower bond yields giving rise to a strain on with-profits business.

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

- (i) Movestic has posted a new business profit of £7.2m in the year to date compared to a profit of £3.7m for the same period in 2013. The new business result has benefited from a significant increase in new contract volumes achieved without a corresponding increase in the cost base.
- (ii) The Movestic segment was impacted by adverse persistency results in 2013. During 2014 such persistency losses have not been evident.

- (iii) The operating assumption changes of £20.4m in the year to date are largely driven by the modelling impact of changes in practices in the UK business associated with policies that accrue bonus units, as reported in the half year 2014 accounts.

Movestic KPIs

The following key performance indicators relate to Movestic:

Premiums

	Quarter ended 30 Sep 2014 £m	Quarter ended 30 Jun 2014 £m	Quarter ended 31 Mar 2014 £m	Nine months ended 30 Sep 2014 £m	Quarter ended 30 Sep 2013 £m	Nine months ended 30 Sep 2013 £m	Year ended 31 Dec 2013 £m
Total premium income*							
Pensions and savings	70.1	82.1	81.5	233.6	55.1	176.8	253.7
Risk insurance	9.0	9.2	9.1	27.3	9.0	27.1	36.0
Total	79.1	91.3	90.6	260.9	64.1	203.9	289.7

	Quarter ended 30 Sep 2014 £m	Quarter ended 30 Jun 2014 £m	Quarter ended 31 Mar 2014 £m	Nine months ended 30 Sep 2014 £m	Quarter ended 30 Sep 2013 £m	Nine months ended 30 Sep 2013 £m	Year ended 31 Dec 2013 £m
New business premium income*							
Pensions and savings	10.5	17.0	17.7	45.2	13.5	40.4	57.1
Risk insurance	0.4	0.5	0.6	1.5	0.4	1.5	2.0
Total	10.9	17.5	18.3	46.7	13.9	41.9	59.1

*Translated into £ at constant rate of SEK 11.14 = £1 (Average from 1 January 2014 to 30 September 2014)

The tables above show that Movestic continues to write improved levels of new business. Although Q3 is slightly behind the same quarter in 2013, the year to date result remains ahead of the same period in 2013, continuing to reflect the IFA support it receives in the market place. Q3 is traditionally a quiet period in the Swedish market.

Market share of new unit-linked pensions business

	Q2 2014 %	Q1 2014 %	Q4 2013 %	Q3 2013 %
Total business	8.9	8.0	8.5	9.3
Company-paid contribution business	14.4	14.0	14.8	15.4

Market share data for Q3 2014 is not available at the date of the IMS release.

Policy attrition

	Quarter ended 30 September 2014 %	Quarter ended 30 June 2014 %	Quarter ended 31 March 2014 %	Year ended 31 December 2013 %	Quarter ended 30 September 2013 %
Transfers	4.8	4.5	4.8	4.9	4.5
Lapses	15.9	17.9	19.4	15.0	13.0

Policy attrition continues to be an area of significant management focus. As can be seen above lapses have trended downwards over the year to date, closing in line with the previous year. Transfers have remained broadly flat over the same period.

Assets under management

Assets under management, the main driver of profitability, continue to grow, having increased by 2.6% since the end of Q2 2014 and 17.0% since the start of the year.

	30 September 2014 £m	30 June 2014 £m	31 March 2014 £m	31 December 2013 £m	30 September 2013 £m
Assets under management*	1,778.5	1,733.3	1,592.5	1,520.7	1,409.8

*Translated at a constant rate of SEK 11.69 = £1 (30 September 2014 closing rate).

Fund performance

The fund performance KPI recognises neither the level of over or under performance nor the relative weighting of investment mix and as such despite the apparently adverse KPI performance the underlying unit linked policies continue to perform at a competitive level.

Fund performance	Quarter ended 30 September 2014 No. of funds	Quarter ended 30 June 2014 No. of funds	Quarter ended 31 March 2014 No. of funds	Year ended 31 December 2013 No. of funds	Quarter ended 30 September 2013 No. of funds
Outperformed against relevant index	31	35	32	39	33
Underperformed against relevant index	39	31	34	26	31
No relevant index	2	1	1	2	2

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 both CA plc and PL. The CA plc solvency ratio has improved from 218% at 31 December 2013 to an estimated 253% at 30 September 2014. PL solvency has increased from 156% at 31 December 2013 to an estimated 183% at 30 September 2014. The Movestic solvency ratio at 30 September 2014 is estimated to be 361%, compared with 311% at 31 December 2013. As at 30 September 2014, the corresponding Group (IGD) position remains strong at an estimated 193% compared with 194% as at 31 December 2013.

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.

Removal of requirement for Interim Management Statements

During early November the Financial Conduct Authority issued Policy Statement PS 14/15 entitled "Removing the Transparency Directive's requirement to publish interim management statements". As a result of this policy statement, and after taking account of feedback received from our investors, we are currently reviewing our options regarding the production of Interim Management Statements going forward.

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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 plc'), Protection Life Company Limited ('PL') and Movestic Livförsäkringar AB ('Movestic').

CA plc 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 20 December 2010 for £63.5 million. With effect from 31 December 2011, the business of Save & Prosper was transferred into CA plc. On 28 November 2013 Chesnara acquired Direct Line Life Insurance Company Limited (subsequently renamed Protection Life Company Limited) from Direct Line Group plc for £39.3m. A process to transfer the PL business into CA plc is underway. CA plc 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.