

Good IFRS result and modest EEV growth underpinned by strong operating performance

During the first quarter of 2014 economic conditions have been fairly flat compared with more favourable conditions in the first quarter of 2013. As a result of this the Group results are below those for the equivalent quarter in 2013.

- Profit on an IFRS basis before tax for the quarter ended 31 March 2014 of £7.3m (quarter ended 31 March 2013: £8.7m).
- Protection Life has generated a profit slightly above expectations in its first full quarter of Chesnara ownership.
- Gross cash generation of £4.5m for the quarter ended 31 March 2014 (full year 2013: £49.7m, quarter ended 31 March 2013: £12.2m).
- Increase in EEV to £379.9m at 31 March 2014 from £376.4m at 31 December 2013. A net of tax profit of £6.1m has been offset by a £2.6m loss arising from the depreciation of Swedish Krona in the quarter.
- Shareholder equity on EEV basis of 330.8p per share (31 December 2013: 327.7p per share), before recognising the payment of the 2013 final dividend of 11.63p to be paid on 22 May 2014.
- EEV pre-tax profit (excluding modelling adjustments and exchange rate impacts) for the quarter ended 31 March 2014 of £8.6m (quarter ended 31 March 2013: £28.5m), with economic factors having a significantly lower impact than in the corresponding period in 2013 (2014: £1.9m; 2013: £25.8m).
- Movestic generated £5.1m of EEV pre-tax profit (excluding modelling adjustments and exchange rate impacts) in the quarter ended 31 March 2014 with a strong improvement in the new business contribution (quarter ended 31 March 2013: profit of £8.2m).
- Solvency ratios remain strong, with Group solvency at 200% (31 December 2013: 194%), CA plc at 231% (31 December 2013: 218%), PL at 167% (31 December 2013: 156%) and Movestic at 327% (31 December 2013: 311%).
- A 27% increase in the number of IFAs supporting Movestic compared with the same period in 2013 has resulted in a 42.6% increase in Pensions and Savings new business.
- Good progress has been made on both the planned Part VII transfer of Protection Life due to complete by the end of 2014 and the migration of the Protection Life book to our outsource provider.
- The acquisition outlook remains positive following the acquisition of Protection Life in November 2013.

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 31 March 2014 and to its financial performance during the first three months of the financial 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.

Economic context

The EEV and IFRS results of the Chesnara Group are influenced by economic conditions. During the first quarter of 2014 economic conditions have been relatively flat, as set out below:

- The FTSE 100 index at 31 March 2014 has closed 2.2% lower than at the end of 2013 (8.7% increase in Q1 2013).
- The Swedish OMX 30 has increased by 2.4% in the quarter (8.7% increase in Q1 2013).
- 10 year gilt yields fell in the quarter by circa 20 basis points compared with being broadly flat during Q1 2013.

As a result of this the Group results are less positive when compared with the equivalent quarter in 2013. The S&P segment has been adversely impacted by reducing bond yields in the quarter whereas the Q1 2013 result of S&P benefitted from strong equity market growth.

Since 31 March 2014 10 year gilt yields have remained broadly flat, the FTSE 100 has recovered and now stands above the closing position at the end of 2013 and the Swedish OMX 30 has remained broadly flat.

IFRS earnings

The IFRS result for the quarter ended 31 March 2014 is set out below:

	Quarter ended 31 March 2014	Quarter ended 31 March 2013	Year ended 31 December 2013
	£m	£m	£m
CA	6.5	1.6	25.0
S&P	0.1	9.0	36.4
PL	2.2	-	0.2
Movestic	1.2	(0.2)	2.6
Chesnara	(1.1)	(0.7)	(4.9)
Consolidation adjustments	(1.6)	(1.0)	(1.5)
Total profit before tax and profit on acquisition of Protection Life	7.3	8.7	57.8
Profit on acquisition of Protection Life	-	-	2.8
Total profit before tax	7.3	8.7	60.6
Tax	(1.7)	(2.6)	(11.2)
Total profit after tax	5.6	6.1	49.4

The Group's Q1 2014 pre-tax profit of £7.3m compares with a profit of £8.7m in the equivalent three month period for 2013. Whilst this result is broadly in line with the same period in 2013, the above analysis shows that there is some variability in the constituent parts, as explained below.

The CA pre-tax profit of £6.5m compares with £1.6m in the same period in 2013. The primary driver of this variance is that the Q1 2013 result was impacted by economic-related reserve strengthening and mismatching. These one off items were not a dynamic in the Q1 2014 results.

The S&P pre-tax result in Q1 2014 is significantly influenced by the effect of the movement in interest rates on the product guarantees which are a feature of part of the with-profits S&P book.

This amounted to £3.5m in Q1 2014; the equivalent quarter in 2013 included a credit from the with-profits business of S&P of some £6.2m, representing a swing of £9.7m. The underlying product-derived surpluses of S&P have remained broadly consistent quarter on quarter.

Protection Life has contributed £2.2m of pre-tax profit during the quarter, with Q1 2014 being the first full quarter that Protection Life has been owned by Chesnara. These results are broadly in line with Management's expectations of surplus emergence within this segment, although reflect the benefit of slightly better than expected claims experience.

The Movestic pre-tax result of £1.2m continues to reflect the positive trajectory of this business, with a strong growth in assets under management generating higher income streams within the core Pensions and Savings business.

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 £4.5m for the three months ended 31 March 2014 compared with £12.2m for the quarter ended 31 March 2013. Variability in the Group's cash generation is principally driven by the CA plc regulatory result. The variance between Q1 2014 and Q1 2013 is largely as a result of the Q1 2013 regulatory profit including a large benefit from a reduction in the reserves for S&P policies with guaranteed returns, driven by favourable economic conditions in Q1 2013.

European Embedded Value (EEV)

	Quarter ended 31 March 2014	Quarter ended 31 March 2013	Year ended 31 December 2013
	£m	£m	£m
EEV at beginning of period	376.4	311.1	311.1
Net of tax profit arising in period	6.1	27.1	82.7
Effect of modelling adjustments	-	(0.6)	4.1
Foreign exchange reserve movements	(2.6)	7.2	(1.4)
Dividends paid	-	-	(20.1)
EEV at end of period	379.9	344.8	376.4

Overall the European Embedded Value has increased by £3.5m when compared with 31 December 2013. This is primarily driven by the net of tax profit during the quarter of £6.1m, which is analysed further below.

The EEV has been negatively impacted by a foreign exchange loss of £2.6m in the quarter arising from the effect of translating the SEK-denominated EEV of Movestic into Sterling, which appreciated against Swedish Krona. Subsequent to the quarter end Sterling has further strengthened against Swedish Krona, with an estimated further adverse EEV impact of c. £3.0m.

EEV earnings, net of tax

Analysis of the EEV result by business segment:

	Quarter ended 31 March 2014	Quarter ended 31 March 2013	Year ended 31 December 2013
	£m	£m	£m
CA	3.2	10.0	24.5
S&P	0.1	11.0	42.7
PL	1.3	-	0.1
Movestic	5.1	8.2	15.5
Chesnara	(1.1)	(0.7)	(5.1)
Profit before tax and gain on acquisition	8.6	28.5	77.7
Gain on acquisition of Protection Life	-	-	12.3
Profit before tax	8.6	28.5	90.0
Tax	(2.5)	(1.4)	(7.3)

Profit after tax	6.1	27.1	82.7
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Analysis of the EEV result by earnings source:

	Quarter ended 31 March 2014	Quarter ended 31 March 2013	Year ended 31 December 2013
	£m	£m	£m
New business contribution	2.4	1.0	7.9
Return from in-force business			
Expected return	1.7	1.2	5.5
Experience variances	0.8	(0.5)	5.8
Operating assumption changes	1.0	0.9	(10.0)
Return on shareholder net worth	1.7	0.8	(0.3)
Operating profit on covered business	7.6	3.4	8.9
Variation from longer term investment return	4.8	23.0	54.7
Effect of economic assumption changes	(2.9)	2.8	16.4
Profit on covered business before tax	9.5	29.2	80.0
Tax	(2.6)	(1.3)	(7.6)
Profit on covered business after tax	6.9	27.9	72.4
Gain on acquisition of Protection Life	-	-	12.3
Uncovered business and other Group activities	(0.9)	(0.7)	(2.3)
Tax on uncovered business	0.1	(0.1)	0.3
Profit after tax	6.1	27.1	82.7

Overall, the net of tax EEV result for the first quarter of 2014 was broadly in line with expectations. The Movestic new business result is pleasing and this, coupled with a solid operating surplus from the UK businesses and an overall positive net impact from economic factors, has led to a satisfactory EEV result in the quarter.

The investment market factors referred to above have contributed £1.9m to the EEV result, compared with £25.8m for the first quarter of 2013. This can be analysed by business unit as follows:

	Quarter ended 31 March 2014	Quarter ended 31 March 2013
	£m	£m
CA	1.1	8.8
S&P	(2.5)	10.4
PL	0.9	-
Movestic	2.4	6.6

The negative result for the S&P segment in the above table is driven by lower bond yields giving rise to a strain on with-profits business of £2.3m on an EEV basis (Q1 2013: profit of £5.2m).

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

- (i) Movestic has posted a new business profit of £2.2m in the quarter compared to a profit of £0.9m for quarter ended 31 March 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) Movestic lapse experience has been marginally positive for the quarter, compared with an adverse variance of £1.9m for the first quarter of 2013.
- (iii) The prior year Movestic result was enhanced by the effect of non-recurring improvements in rebate levels.

Movestic KPIs

The following key performance indicators relate to Movestic:

Premiums

	Quarter ended 31 March 2014 £m	Quarter ended 31 March 2013 £m	Year ended 31 December 2013 £m
Total premium income*			
Pensions and savings	84.9	54.7	264.2
Risk insurance	9.5	10.2	37.5
Total	94.4	64.9	301.7

	Quarter ended 31 March 2014 £m	Quarter ended 31 March 2013 £m	Year ended 31 December 2013 £m
New business premium income*			
Pensions and savings	18.4	12.9	59.5
Risk insurance	0.6	0.4	2.1
Total	19.0	13.3	61.6

*Translated into £ at constant rate of SEK 10.70 = £1 (Average from 1 January 2014 to 31 March 2014)

As seen above there has been a significant improvement in new business premium income compared with the first quarter of 2013, reflecting the increased IFA support of the Movestic business. 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

	Q1 2013 %	Q2 2013 %	Q3 2013 %	Q4 2013 %
Total business	6.2	7.9	9.3	8.5
Company-paid contribution business	11.7	13.0	15.4	14.8

Market share data for Q1 2014 is not available at the date of the IMS release.

Policy attrition

	Quarter ended 31 March 2014 %	Quarter ended 31 March 2013 %	Year ended 31 December 2013 %
Transfers	4.8	5.6	4.9
Lapses	19.4	21.1	15.0

Policy attrition continues to be an area of significant management focus. 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. Having said this, both transfers and lapses have shown a slight improvement as compared with the same quarter in 2013, albeit management continues to focus on reducing this further.

Assets under management

Assets under management, the main driver of profitability, continue to grow, increasing by 4.7% since 31 December 2013.

	31 March 2014 £m	31 March 2013 £m	31 December 2013 £m
Assets under management*	1,722.0	1,396.3	1,644.4

*Translated at a constant rate of SEK 10.81 = £1 (31 March 2014 closing rate).

Fund performance

Fund performance continues to be monitored closely. Q1 2014 shows that Movestic's relative performance has reduced slightly compared 2013.

	Quarter ended 31 March 2014 No. of funds	Quarter ended 31 March 2013 No. of funds	Year ended 31 December 2013 No. of funds
Outperformed against relevant index	32	38	39
Underperformed against relevant index	34	24	26
No relevant index	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 231% at 31 March 2014. PL solvency has increased from 156% at 31 December 2013 to an estimated 167% at 31 March 2014. The Movestic solvency ratio as at 31 March 2014 is estimated to be 327%, compared with 311% at 31 December 2013. As at 31 March 2014, the corresponding Group (IGD) position remains strong at an estimated 200% 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.

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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.