Chesnara

Final Results Presentation 2014

Agenda

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- Markets
- 2014 financial highlights

2. BUSINESS REVIEW

- Strategic objectives
- Chesnara culture and values
- Regulatory matters

3. FINANCIAL REVIEW

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- Cash generation
- EEV

4. CONCLUSION & OUTLOOK

- Regulatory backdrop
- Management's focus for 2015

5. QUESTIONS

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- Regulatory backdrop – further detail
- Historic data - headline results
- Historic data – dividend history

1. OVERVIEW

A year of solid delivery on our core strategic objectives

1 Maximise value from the in-force book

£71.1m (2013: £36.7m) of net cash generation including the benefits of the Protection Life Part VII transfer

2 Enhance value through new business

Increasing new business profits in Sweden have significantly added to its franchise value

3 Acquire Life and Pension businesses

Acquisition of the Waard Group in the Netherlands*

*subject to regulatory approval

Chesnara culture and values

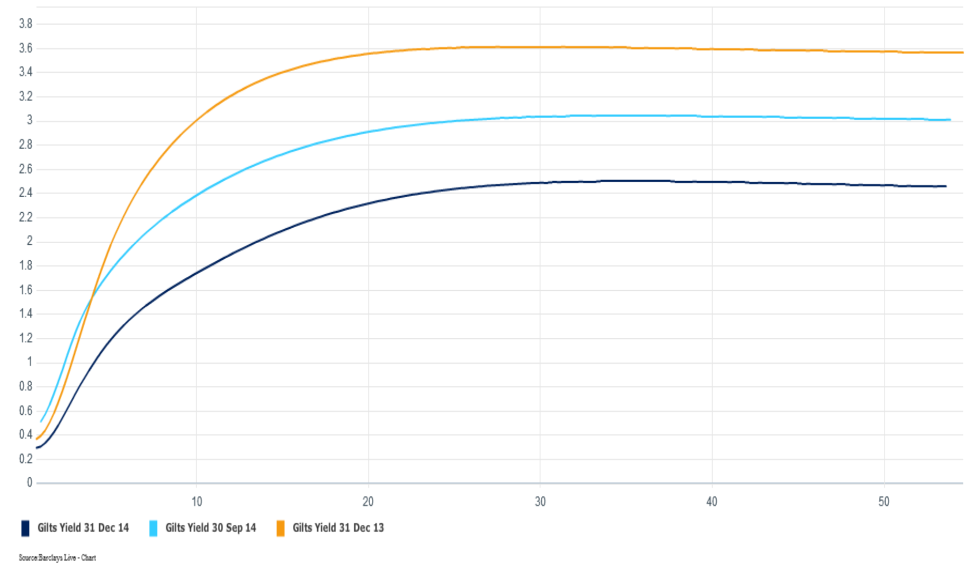
Improved Group solvency of 284% (31 December 2013: 194%) stated after the impact of £34.5m of new equity raised in the year. We expect an element of the increase since last year to reverse on completion of the Waard Group acquisition in 2015. On-going sound regulatory record.

Shareholder return: 2.9% full year dividend increase

Total dividends for the year increased by 2.9% to 18.40p per share (6.42p interim and 11.98p proposed final). This compares with 17.88p per share in 2013 (6.25p interim and 11.63p final).

UK interest rates

- Gilt yields moved downwards
- Cost of guarantees - negative effect of reduced yields partially offset by capital appreciation
- Long term interest rate trend likely to be upwards?



Equity markets

- Down 3% in year (FTSE 100)
- Volatility persists
- As predicted, 2014 equity performance not as good as 2013
- Increase in Swedish OMX30 index of 10% in 2014

1. OVERVIEW: 2014 FINANCIAL HIGHLIGHTS

- **£28.8M IFRS PRE-TAX PROFIT (2013: £60.6M)**
  IFRS pre-tax profit for the year remains strong, although lower than the prior year due to less favourable investment market conditions.

- **£42.6M GROSS CASH GENERATION (2013: £49.7M)**

- **£71.1M NET CASH GENERATION (2013: £36.7M)**
  Capital efficiency benefits from the PL Part VII transfer have generated £27.4m cash.

- **EEV INCREASED TO £417.2M (2013: £376.4M)**
  Increase in EEV of £40.8m stated after dividend distributions of £20.7m in the year. Also includes £34.5m of equity raised to fund the Waard acquisition.

- **EEV EARNINGS AFTER TAX OF £44.2M (2013: £82.7M)**

- **MOVESTIC NEW BUSINESS CONTRIBUTION OF £8.9M (2013: £7.2M)**
  Margins and volumes drive this growth

- **GROUP SOLVENCY 284% (2013: 194%)**
  This includes the benefit from an equity raise. On completion of the Waard acquisition, the Group Solvency position is expected to reduce somewhat from this peak.

- **SUBSIDIARY SOLVENCY RATIOS ALSO STRONG AND ABOVE TARGETS**

- **FULL YEAR DIVIDEND INCREASED BY 2.9%**
  Total dividends for the year increased by 2.9% to 18.40p per share (6.42p interim and 11.98p proposed final). This compares with 17.88p per share in 2013 (6.25p interim and 11.63p final).

2. BUSINESS REVIEW

2. BUSINESS REVIEW: STRATEGIC OBJECTIVES

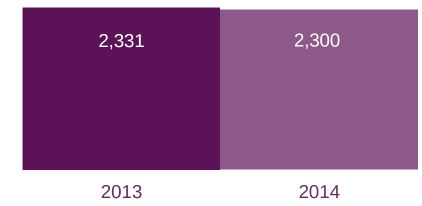
MAXIMISE VALUE FROM THE IN-FORCE BOOK - UK

> Strong cash generation despite adverse investment market conditions. Operational cash complemented by exceptional cash on Part VII transfer of Protection Life.

Highlights

- £50.9m of gross cash generation (excluding Chesnara parent company level cash)
- £27.4m exceptional cash from the PL Part VII transfer
- Funds under management resilient to book run off
- Positive EEV development
- Solid fund performance
- Improved policy attrition levels
- 10 year extension of HCL contract
- Transfer of actuarial services from HCL to Towers Watson

Unit-linked funds under management (£m)



EEV development (pre transfer) (£m)

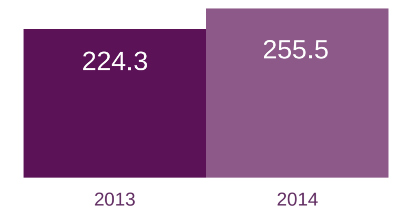
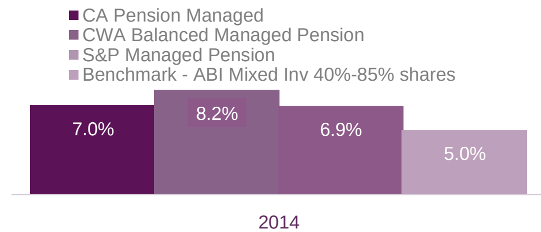


Fig 3: Fund performance



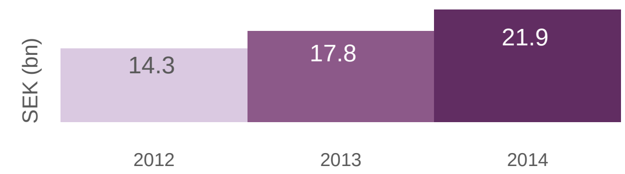
2. BUSINESS REVIEW: STRATEGIC OBJECTIVES
MAXIMISE VALUE FROM THE IN-FORCE BOOK - SWEDEN

Favourable investment market performance, good new business levels and net transfer inflows lead to Movestic's funds under management increasing by 23.0% during 2014.

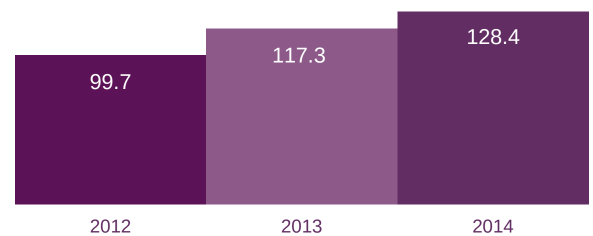
Highlights

- Strong growth in funds under management
- Positive EEV development
- Stable policy attrition levels
- Competitive fund performance
- Transfer-in levels exceed transfer outflows

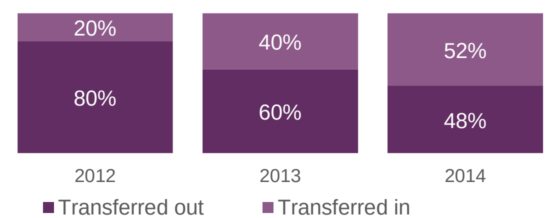
Funds under management



EEV development (£m)



Transfers-in to –transfers out ratio



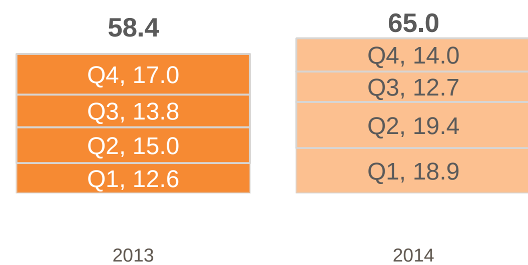
2. BUSINESS REVIEW: STRATEGIC OBJECTIVES
ENHANCE VALUE THROUGH NEW BUSINESS - SWEDEN

> New business profits increase in 2014 due to IFA support and improved margins.

Highlights

- Modest increase in new business volumes
- Reduction in full year market share
- Improved profit margins
- Development of innovative product concepts continues
  - White-labelled funds
  - SICAV launch
  - Sustainability fund launch
- Continued focus on profitability not volume

New business premium income (£m)



Share of new unit-linked company-paid pension business

(excluding 'tick the box' market)

17% Increase in new business gross margins

ACQUIRE LIFE AND PENSION BUSINESSES

> Acquisition of the Waard Group in the Netherlands scores highly on our financial assessment criteria and is expected to be cash generative. Purchase price is a healthy discount to embedded value. Significant opportunity for further deals in the Dutch market.

Protection Life

- Successfully transferred into CA plc
- £27.4m of additional cash available to transfer to Chesnara
- Migration to HCL to be complete during the first half of 2015
- First full year set of results in line with expectations

Waard Group acquisition

CASH GENERATION
High solvency levels will enable material cash distributions

EMBEDDED VALUE Note 1
26% discount to embedded value supports our growth proposition

STRATEGIC OPPORTUNITY
Market intelligence indicates that significant consolidation potential exists. Early indications post announcements are generally supportive of our expectations.

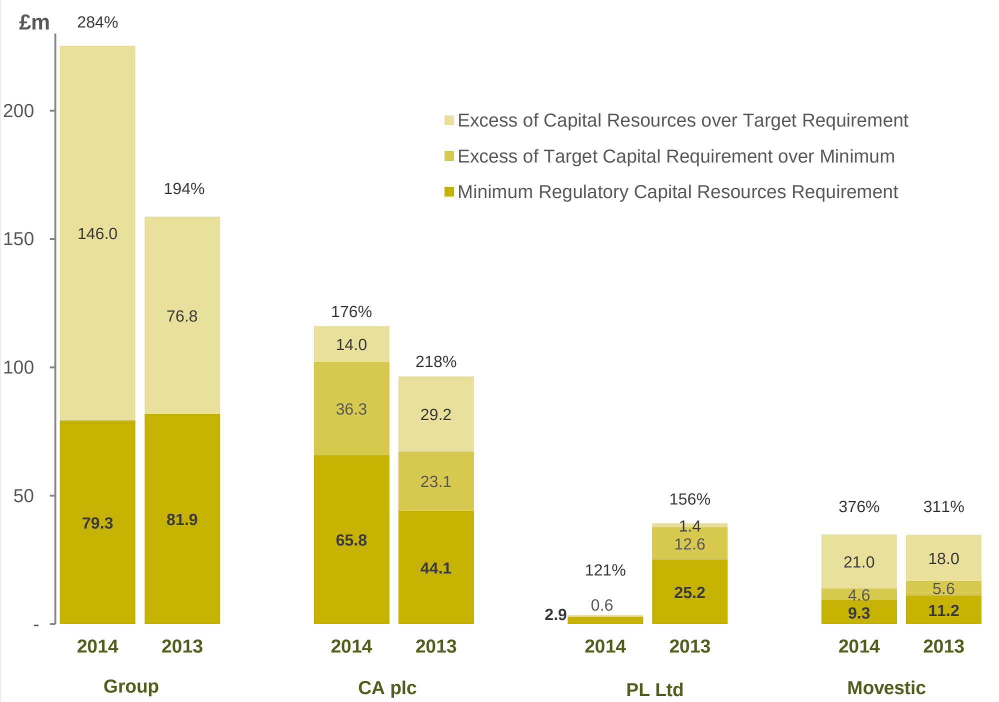
RISK CONSIDERATIONS
The deal has been structured such that residual risks are deemed to be low. The potential impact on the risk profile of the Group going forward is minimal.

Note 1: The discount to embedded value, in terms of the Group balance sheet expressed in Sterling, will have deteriorated compared with the initial deal assessment of 26% as a result of the Euro depreciation during 2015. However, it remains suitably positive and of course would recover should the Euro subsequently recover against Sterling.

Outlook

- Short term challenges in UK
- Commercial and economic drivers remain positive and the UK market should become more active in due course
- Significant potential in the Dutch market
- Strong regulatory and financial foundations

> Good solvency levels continue



> Strong behavioural and cultural practice implemented in the way Chesnara continues to do business.

- Revised Governance procedures
- Cultural continuity was a key aspect to the CEO recruitment criteria
- TCF
- Treatment of employees
- Relationship with Regulators

Conduct Business with professionalism and integrity	Conduct business with due care, skill and attention	Responsible management, with adequate risk management systems
Maintain adequate financial resources		

3. FINANCIAL REVIEW

3. FINANCIAL REVIEW: IFRS PRE-TAX PROFIT

Stable core (CA & PL)

- Strong underlying generation of surplus.
- Includes exceptional items relating to accounting for the revised HCL contract (£4m) and reassessment of bonus unit liabilities (£3m).
- Asset Capital Value growth.

Variable element (S&P)

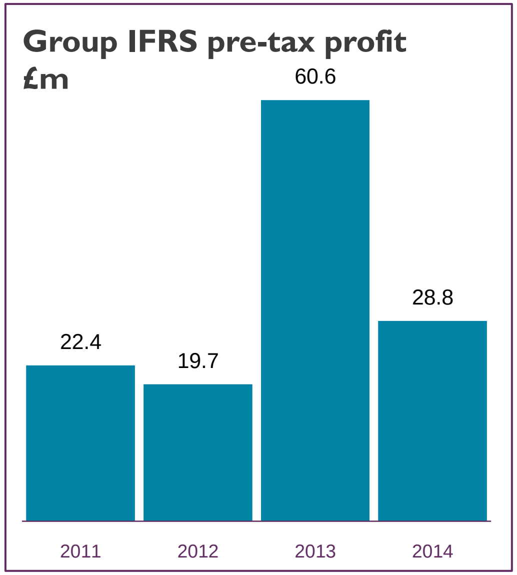
- Underlying product surplus remains resilient.
- Increase in Cost of Guarantees of £17.8m due to the reduction in the yield curve, has contributed to the loss in the year.
- Includes an exceptional one off loss of £4m as result of accounting for the revised HCL contract.

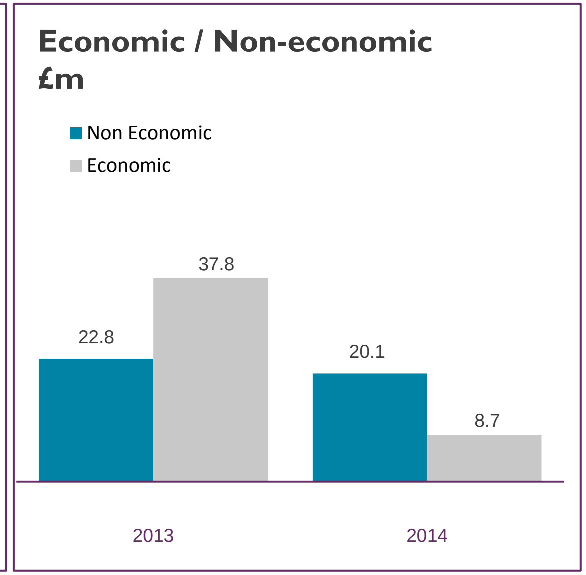
Growth Business (Movestic)

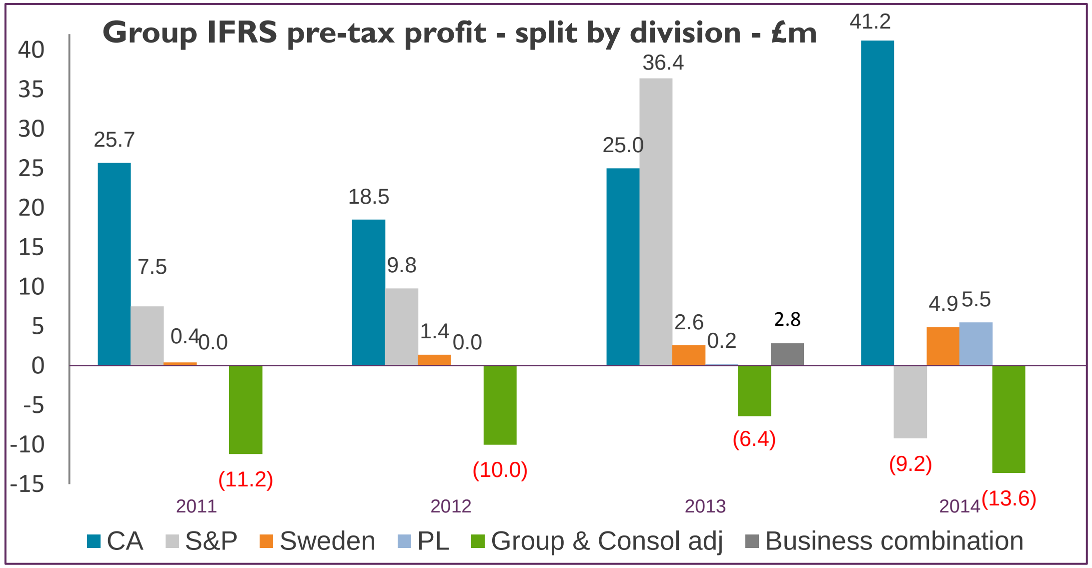
- Continued growth in FUM with increase of 23.5% taking total value to SEK 21.9bn.

Group

- Group costs are higher than the equivalent period in 2013, mainly due to higher administrative expenses in relation to Solvency II, part VII transfer of PL into CA and acquisition of the Waard Group. The 2014 costs also includes amortisation of a PL intangible asset.

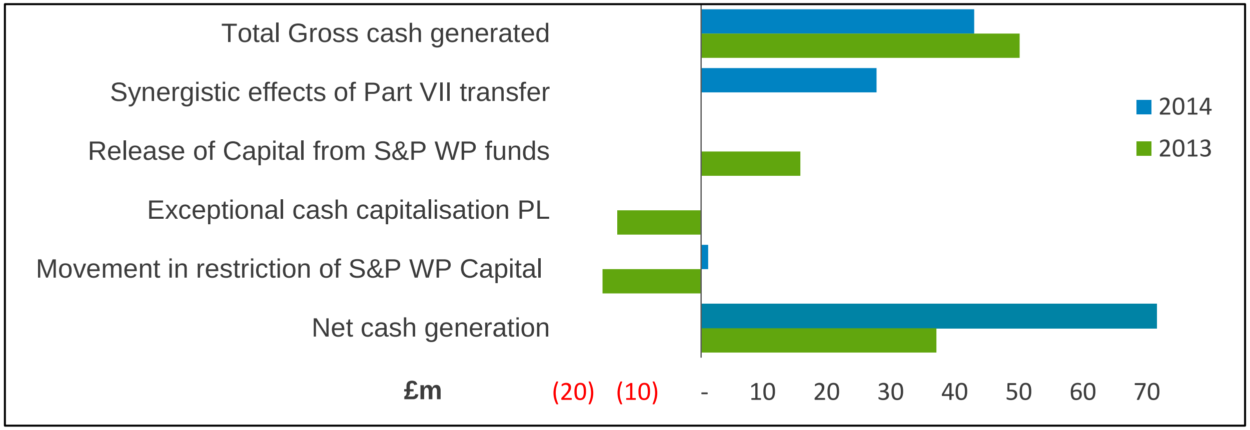


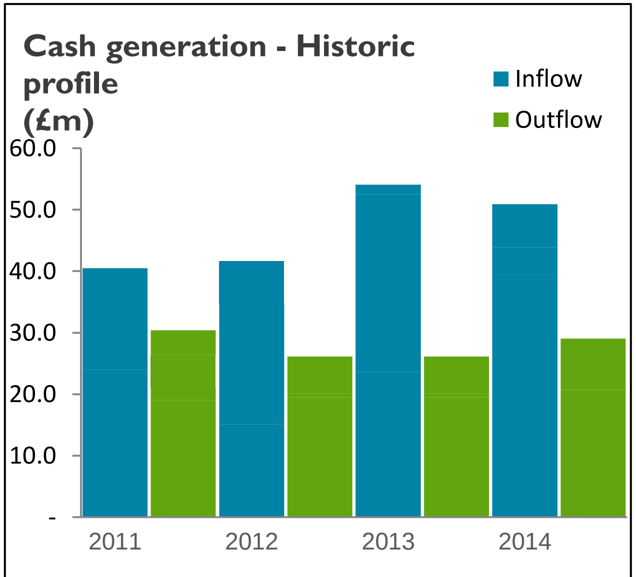


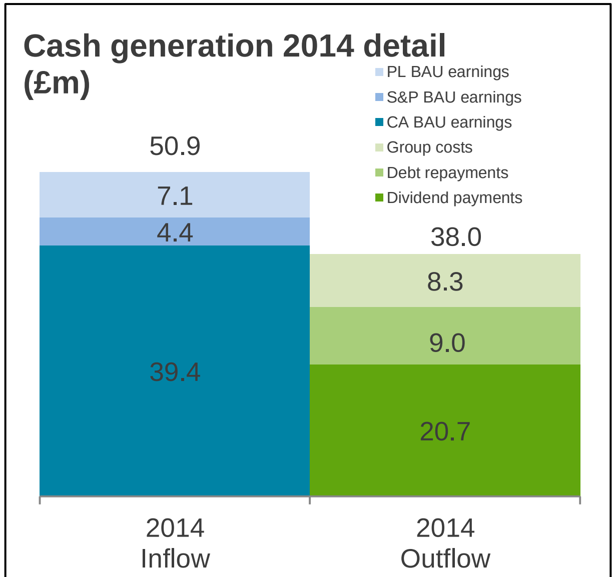


> Cash reserves and resilient cash generation of closed books gives comfort regarding funding future acquisitions and dividends.

- Strong gross results driven by strong and stable UK cash generation
- Levels of cash generated significantly exceed debt and equity servicing requirements.
- Chesnara plc has a cash of £80.1m at 31 December 2014 and will receive £65.0m from CA plc in April. Short term future outflows include payment of the year end dividends (£15.1m), purchase of the Waard Group (c£53m) and next debt repayment (£12m).
- Continued pause in Movestic Funding
- PL contributed £7.1m of gross cash
- The total cash available to transfer to the Chesnara parent Company is enhanced by the PL Part VII transfer (£27.4m)

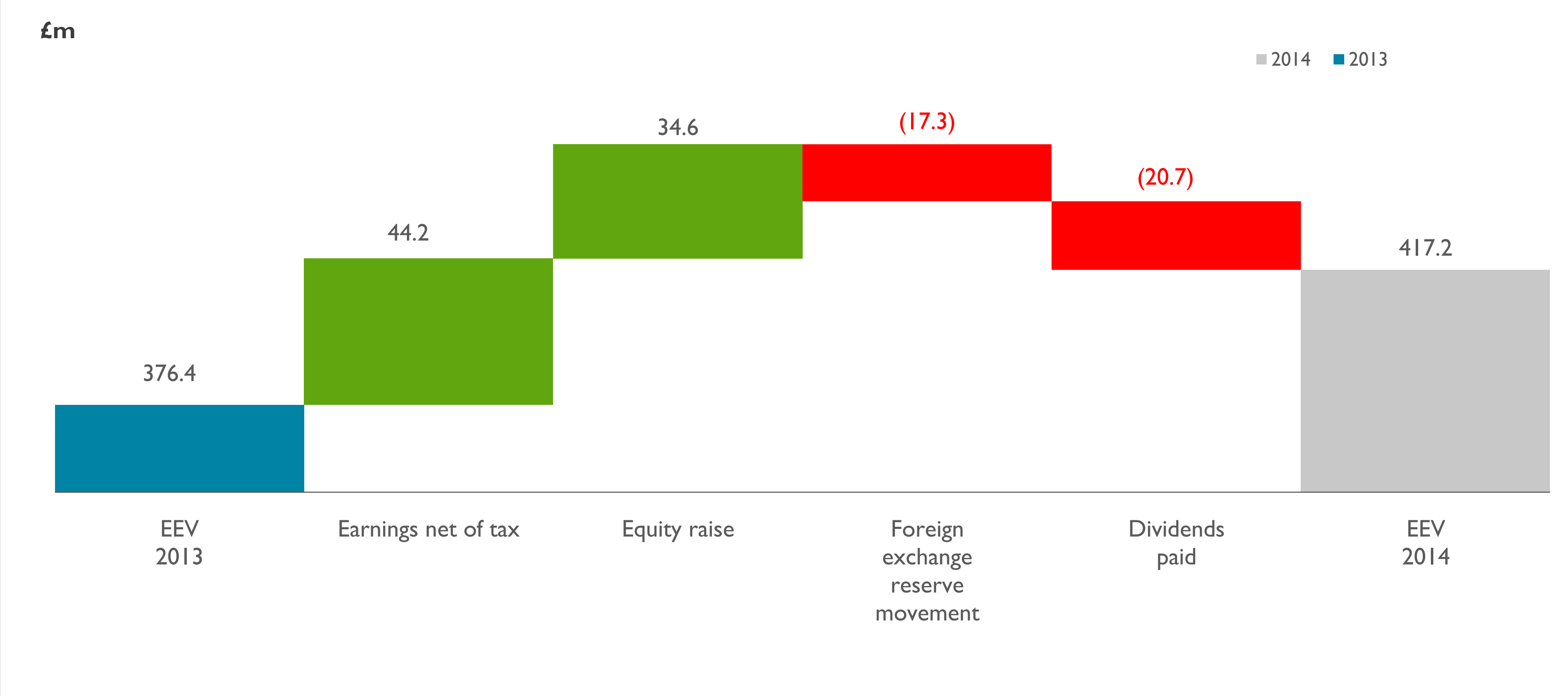






3. FINANCIAL REVIEW: EEV - MOVEMENT DURING 2014

- EEV earnings continue to exceed dividend payments.
- Completion of Waard acquisition expected to further enhance EEV.



3. FINANCIAL REVIEW: EEV - EARNINGS NET OF TAX

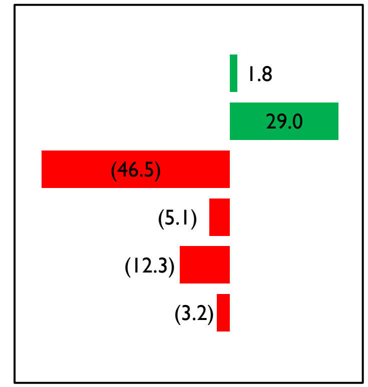
- Improvement in "New business contribution" driven by a 23% increase in Movestic new business volumes and a 17% increase in gross margins.
- Increase in Return on in force book includes:
  - £17m relating to changing both practice and models with regards to allocation of bonus units.
  - positive persistency and mortality variances.
- Economic profits remain significant, although investment market condition were less favourable than in 2013.
- Economic profits have emerged predominantly in CA and Movestic, offset in part by an economic loss in S&P.
- The CA result benefits from the bonus unit exceptional item.
- Accounting for the revised HCL contract has resulting in a c£4m profit in CA with an offsetting £4m loss in S&P.
- The S&P loss is predominantly the result of bond yield reductions driving up the Cost of Guarantee reserves.
- The strong Movestic result reflects both the continued improvement in new business profitability and the impact of FUM growth.

Analysis of the EEV Earnings in the year by source and by segment

- by source

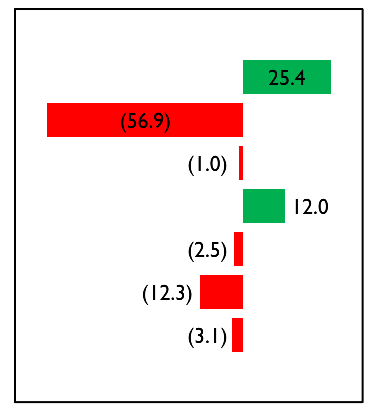
EEV 2014 vs. 2013 variances

£m	2014	2013
New business contribution	9.7	7.9
Operating profit - existing business	27.8	1.0
Economic effects	24.6	71.1
Uncovered business & other group	(7.4)	(2.3)
Exceptional gain on acquisition	-	12.3
Tax	(10.5)	(7.3)
	44.2	82.7



- by segment

£m	2014	2013
CA	49.9	24.5
S&P	(14.2)	42.7
PL	(0.9)	0.1
Movestic	27.5	15.5
Chesnara	(7.6)	(5.1)
Exceptional	-	12.3
Tax	(10.5)	(7.3)
	44.2	82.7



Sensitivities are independent, other than where they are directly affected by revised economic conditions.

Other than in respect of the yield curve, changes in the opposite direction will result in changes of similar magnitude.

	Embedded Value						New business
	UK business					Swedish business	Swedish business
	CA Pre-tax £m	S&P Pre-tax £m	PL Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	£m
Published value as at 31 December 2014	**170.7**	**61.3**	**62.6**	**(22.8)**	**271.8**	**126.5**	**7.6**
Economic sensitivities							
100 basis point increase in yield curve	(1.2)	9.7	(3.0)	(1.1)	4.4	1.0	(0.2)
100 basis point reduction in yield curve	2.5	(9.8)	3.3	0.4	(3.6)	(1.0)	0.2
10% decrease in equity and property values	(10.3)	(12.6)	-	2.5	(20.3)	(13.2)	(0.2)
Operating sensitivities							
10% decrease in maintenance costs	1.9	4.8	1.4	(1.0)	7.1	7.0	0.8
10% decrease in lapse rates	2.6	(1.0)	0.1	-	1.7	9.0	1.5
5% decrease in mortality/morbidity rates:							
Assurances	0.9	0.5	1.6	(0.2)	2.8	0.1	-
Annuities	(2.1)	(0.3)	n/a	-	(2.4)	n/a	n/a
Reduction in the required capital to statutory minimum	0.4	0.4	1.3	-	2.2	-	-

There is a natural hedge within the different components of the UK business against yield curve movements.

Equity market movements are the dominant variable

Potential value from Swedish maintenance expense reductions and persistency improvements is material

Results remain materially sensitive to UK maintenance expense movements

3. FINANCIAL REVIEW: EEV – GROWTH AND SHAREHOLDER EQUITY

'04 £126M
Chesnara lists on the London Stock Exchange, following its acquisition of CA plc.

'05 £176M
Chesnara acquired CWA from Irish Life and Permanent plc. EEV gain of £30.3m arising on acquisition and £22.0m new share capital issued.

'06 £189M
The long-term business of CWA was transferred to CA plc.

'07 £187M
Steady operating profit on covered business to support dividend payment.

'08 £183M
Steady operating profit on covered business supports dividend payment in year.

'09 £263M
Chesnara acquired Movestic Liv, an open Swedish Life and Pensions business, resulting in an EEV gain of £54.2m on acquisition.

'10 £355M
Chesnara acquired SPI and its subsidiary, SPP, from JPMorgan and Movestic acquired the business of Aspis Liv, a small Swedish life and health insurer. These purchases resulte in a combined gain on acquisition of £41.0m. £25.7m new share capital issued in the yea

'11 £295M
The long-term business of SPI and SPP were transferred to CA plc under the provisions of Part VII of FSMA. Falls in both equity markets and bond yields result in a reduction in EEV in the year.

'12 £311M
SPI and SPP were de-authorised from conducting activities regulated under the provisions of FSMA 2000. Investment market factors support the increase in EEV in the year.

'13 £376M
Chesnara acquire Protection Life (form Direct Line Life Insuranc Company Limited) from Direct Group plc, with a EEV gain on acquisi of £12.3m. Strong investment markets drive EEV growth.

'14 £417M
The long-term business of Protection Life was transferred into CA plc under the provisions of Part VII of FSMA. £34.5m of new equity raised for the pending acquisition of the Waard Group.

Shareholder Equity Split - £m

	CA	S&P	PL	Movestic	Other Group	Debt	Total
31 Dec 2014	147.9	61.3	62.6	128.4	81.3	(64.3)	417.2
31 Dec 2013	126.0	106.6	64.7	117.3	34.8	(73.0)	376.4

- CA dividend paid of £17m in period is exceeded by earnings in the year
- Reduction S&P due to dividend paid in period of £31m and EV loss in the year
- Increase in Other Group equity due to receipt of £48m internal dividend offset, plus £34.5m of equity raised, offset by dividend payment during the year and foreign exchange losses

4. CONCLUSION & OUTLOOK

4. CONCLUSION & OUTLOOK: REGULATORY BACKDROP

1 Maximise value from the in-force book

- Solvency II
- Pension Freedom
- FCA legacy review

2 Enhance value through new business

- Commission ban
- SICAV

3 Acquire Life and Pension businesses

- Solvency II
- Woekerpolise

Chesnara culture and values

- Solvency II

1 Maximise value from the in-force book

- Integration of Waard Group
- Solvency II implementation

2 Enhance value through new business

- Consolidate recent improvements

3 Acquire Life and Pension businesses

- Market opportunity
- Implementation of group-wide acquisition process
- Solvency II

Chesnara culture and values

- Implementation of the revised Governance map will ensure positive interaction with subsidiaries, regulators, investors and employees

> Another year of solid delivery on our core strategic objectives

5. QUESTIONS?

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6. APPENDICES

6. APPENDICES: REGULATORY BACKDROP – FURTHER DETAIL

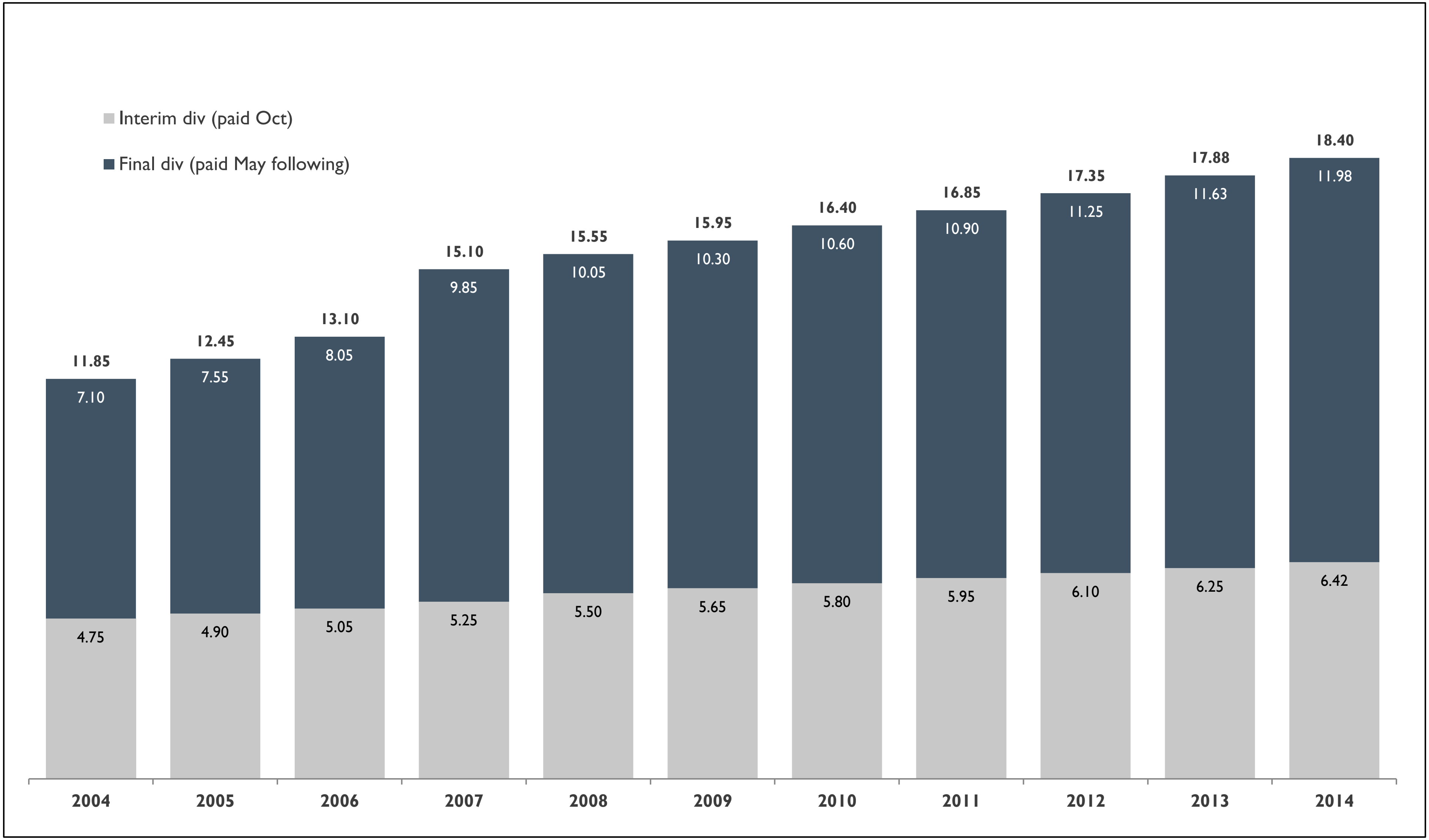
Solvency II	• We continue to progress the programme and are confident regarding our state of readiness. Our confidence is supported by the findings from an independent review of our project instigated by the Chesnara Board. • As we are getting close to the "go live" date we have produced detailed granular plans and have increased the level of resource dedicated to the work. • All our analysis continues to suggest no material impact on the solvency position of the Group • Dry runs are planned for Q2 and Q3. These will prove process capabilities and also clarify the impact of Solvency II.
FCA Legacy Review	• Our early assessment of the potential impact of the legacy review was that Chesnara would not be materially affected given the issues the regulator appeared to be concerned about did not resonate as being issues for Chesnara. • We have worked to support the FCA legacy review and our assessment of the issue remains unchanged. • The fact is however that until the FCA concludes on the scope of the review a degree of uncertainty of impact remains and management will manage the risk through the general governance and risk management framework.
Pension Freedom	• Last year's news regarding not being obliged to buy an annuity remains of limit concerns given we are not actively provide annuity contracts. • The more current issue regarding creating a secondary market for annuities enabling "cash in" optionality is assessed as low impact given our small in force annuity book.
Commission ban in Sweden	• Some form of commission ban in Sweden is expected. Details are not yet confirmed. Impact analysis suggests Movestic expects no competitive disadvantage.

6. APPENDICES: HISTORIC DATA - HEADLINE RESULTS

	Dec-14	Dec-13	Dec-12	Dec-11
IFRS profit £m (pre-tax and exceptionals)	28.8	57.8	24.5	22.4
EEV profit/loss £m (pre-tax and exceptionals)	54.7	77.2	36.1	(36.9)
EEV shareholder equity £m	417.2	376.4	311.1	294.5
Capital adequacy ratio (CA)	176%	218%	199%	183%
Capital adequacy ratio (PL)	128%	156%	193% *	-
Capital adequacy ratio (Movestic)	376%	311%	280%	245%
Capital adequacy ratio (Group)	284%	194%	244%	197%

* Information in relation to PL for 2012 has been provided for illustrative purposes.

6. APPENDICES: HISTORIC DATA - DIVIDEND HISTORY



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