



Chesnara

**Interim Results Presentation
2015**

Agenda

1. OVERVIEW

- Strategic delivery
- Markets
- 2015 half year financial highlights

2. BUSINESS REVIEW

- Strategic objectives
- Chesnara culture and values
- Regulatory matters

3. FINANCIAL REVIEW

- IFRS pre-tax profit
- Cash generation
- EEV

4. CONCLUSION & OUTLOOK

- Regulatory backdrop
- Management's focus for 2015

5. QUESTIONS

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- Historic data - headline results
- Historic data – dividend history

I. OVERVIEW

“ A period of solid delivery on our core strategic objectives

1 Maximise value from the in-force book

£15.3m of gross cash generation supports the dividend strategy.

2 Enhance value through new business

Ongoing new business profits in Sweden continue to provide EEV growth, albeit at lower levels than in the prior year and just below our target range.

3 Acquire Life and Pension businesses

Completion of the Waard Group acquisition in the Netherlands has generated an EEV uplift of £21.6m and added £39.9m of cash distribution potential.

Chesnara culture and values

Group solvency of 271% (31 December 2014: 284%). The 2014 year end solvency position benefited from the impact of £34.5m of new equity raised in that year. The reduction in solvency during 2015 is as expected following the completion of the Waard Group acquisition.

Robust regulatory compliance record.

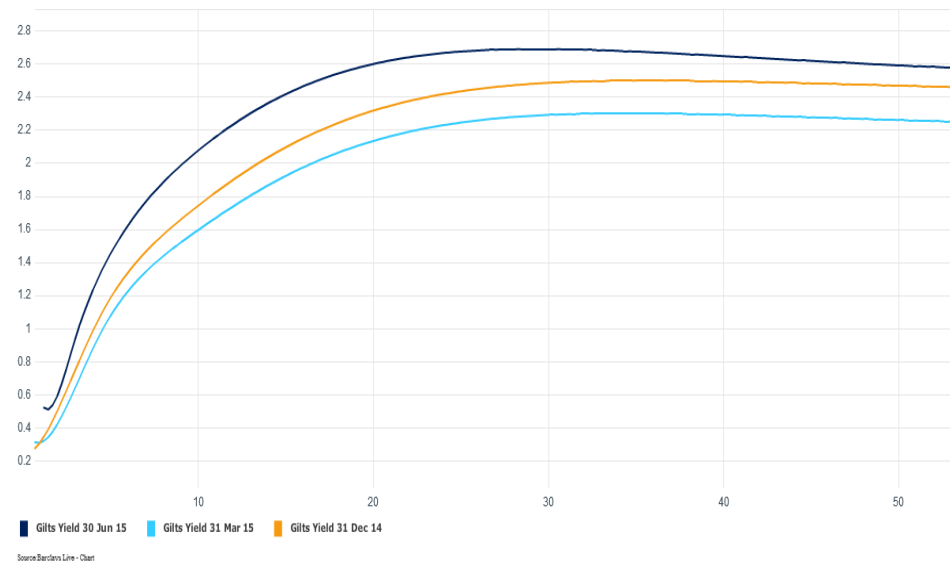
Shareholder return: 3.0% interim dividend increase

Declared interim dividend increase by 3.0% to 6.61p per share (2014: 6.42p per share).

I. OVERVIEW: MARKETS

UK interest rates

- Gilt yields have increased
- Cost of guarantees - positive effect of increased yields partially offset by capital depreciation



Equity markets

- Down 0.5% (FTSE 100) during the first half of 2015
- Volatility continues as shown by recent events
- Increase in Swedish OMX All Share index of 6.5% during the period
- Equity market and yield movements would impact our results broadly in accordance with the sensitivities on slide 19



I. OVERVIEW: 2015 HALF YEAR FINANCIAL HIGHLIGHTS

- **£30.4M IFRS PRE-TAX PROFIT (2014: £27.4M)**
IFRS pre-tax profit for six months to 30 June 2015 of £30.4m (six months to 30 June 2014: £27.4m). This stated after a gain on acquisition of £16.2m and a foreign currency exchange loss of £3.5m.
- **£15.3M GROSS CASH GENERATION (2014: £16.0M)**
- **£56.7M NET CASH GENERATION (2014: £15.6M)**
Net cash generated for six months to 30 June 2015 of £56.7m (six months to 30 June 2014: £15.6m). This is stated after a one-off benefit of £39.9m arising on the acquisition of the Waard Group.
- **EEV INCREASE OF £24.0M TO £441.2M**
£24.0m increase in EEV from £417.2m at 31 December 2014 to £441.2m at 30 June 2015, stated after dividend distributions of £15.1m.
- **EEV EARNINGS AFTER TAX OF £44.9M (2014: £47.3M)**
EEV earnings net of tax of £44.9m for six months to 30 June 2015 (six months to 30 June 2014: £47.3m). This is stated after a gain on acquisition of £21.6m and a foreign currency exchange loss of £3.5m. This excludes positive modelling adjustments of £5.9m
- **MOVESTIC EEV NEW BUSINESS CONTRIBUTION OF £2.4M (2014: £5.8M)**
10% reduction in volumes but margins remain consistent
- **GROUP SOLVENCY 271% (31 DEC 2014: 284%)**
Strong Insurance Group Directive solvency cover of 271% (31 December 2014: 284%).
- **SUBSIDIARY SOLVENCY RATIOS ALSO STRONG AND ABOVE TARGETS**
- **DELIVERY OF GROUP WIDE SOLVENCY II “DRY-RUN”**
As planned we have delivered our first full Group-wide “dry-run” of the Solvency II position of the Group’s insurance subsidiaries. The results reaffirm our previous view that we do not expect Solvency II to impact adversely our overall solvency position.
- **INTERIM DIVIDEND INCREASED BY 3.0%**
Proposed interim dividend increase by 3.0% to 6.61p per share.

2. BUSINESS REVIEW

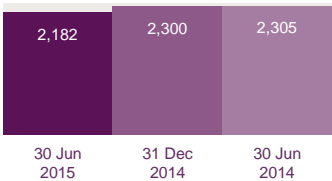
2. BUSINESS REVIEW: **STRATEGIC OBJECTIVES**
MAXIMISE VALUE FROM THE IN-FORCE BOOK - UK

“ The UK books continue to generate cash in line with expectations. Despite relatively flat investment market conditions the level of cash generated is sufficient to fund the Chesnara dividend strategy.

Highlights

- £18.9m of gross cash generation.
- Funds under management resilient to book run off, despite an increase in pension policy attrition in Q2 following “Pension Freedom” changes.
- Positive EEV development.
- In July 2015 HM Treasury issued a consultation on “Pension transfers and early exit charges”. This consultation includes consideration of any fees and charges that policyholders might incur when leaving their scheme early.
- We await conclusions from the FCA Legacy Review.

Unit-linked funds under management (£m)



EEV development (pre transfer) (£m)

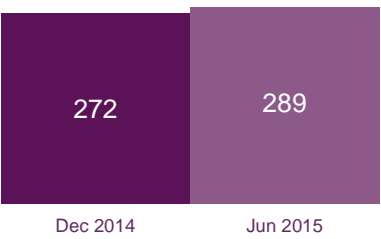
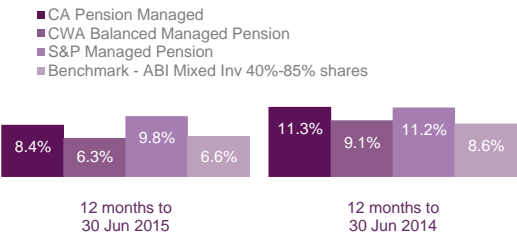


Fig 3: Fund performance



2. BUSINESS REVIEW: STRATEGIC OBJECTIVES

MAXIMISE VALUE FROM THE IN-FORCE BOOK - SWEDEN

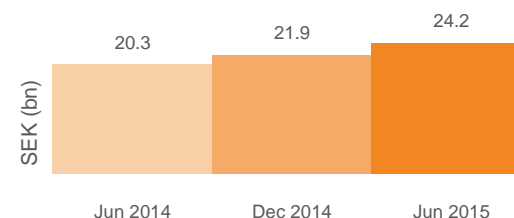


Continued growth in funds under management together with a general improvement in fees and rebates levels from those funds has resulted in a significant increase in value emerging from the in-force book.

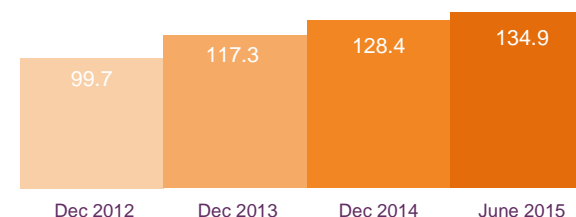
Highlights

- Continued growth in funds under management; increase of 10.5% during 2015.
- £3.3m of cash generation in the period.
- Positive EEV development.
- Stable policy attrition levels.
- Competitive fund performance.
- Lower new business has resulted in the transfer-in to transfer-out ratio deteriorating such that it has reverted to being in a net outflow position, albeit the level is significantly improved from levels reported in 2012 and 2013.
- Krona depreciation against Sterling in the period reduces reported results.

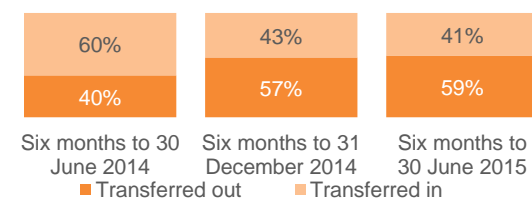
Funds under management



EEV development (£m)



Transfers-in to transfers-out ratio



2. BUSINESS REVIEW: STRATEGIC OBJECTIVES

MAXIMISE VALUE FROM THE IN-FORCE BOOK - NETHERLANDS



The newly acquired Waard Group adds a new, albeit small, source of in-force book value. Whilst the Waard Group acquisition was primarily based upon the value of existing net worth rather than future cash generation expectations, it remains important that cash emerges in line with the cash flow projections.

Highlights

- £1.6m of IFRS pre-tax profit has emerged during the six months to 30 June 2015.
- The total recurring profit of £3.2m on an annualised basis is in line with expectations within the deal valuation assessment and, subject to book run-off, provides a useful estimate of future in-force book profit expectations.
- The EEV of the acquired Waard business is £73.3m at 30 June 2015, of which only £10.9m relates to future profits.
- The Waard Group book consists of c84,000 policies, the majority of which are term assurance contracts (c54,700), with the balance relating to unemployment and disability cover (c24,500) and unit-linked savings contracts (c4,300).



The Waard Group book relates primarily to simple term assurance contracts, backed by relatively low yield but non-volatile assets. As such, whilst the future cash generation expectations are modest they are deemed to be relatively robust and insensitive to economic conditions.

2. BUSINESS REVIEW: STRATEGIC OBJECTIVES

ENHANCE VALUE THROUGH NEW BUSINESS - SWEDEN

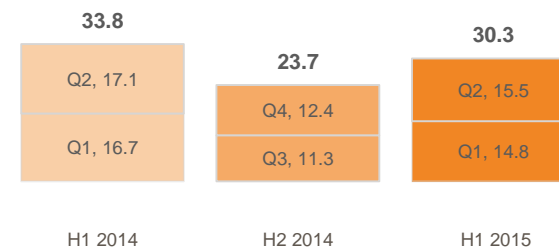


New business profit of £2.4m shows a marked decline compared with the first half of 2014 due to a 10.4% reduction in new business volumes.

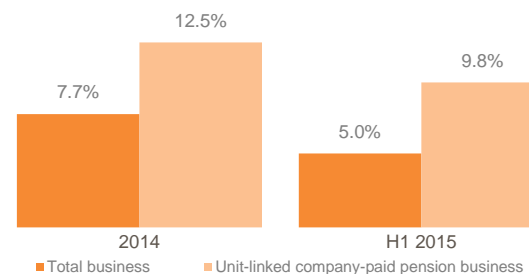
Highlights

- 10.4% reduction in new business volumes compared with the first half of 2014.
- Average profit margins have held up in increasingly competitive market conditions.
- The unit-linked market remains challenging compared with alternative traditional contracts which offer significant guarantees.
- Local management remain of the view that the guaranteed returns being offered by competitors are not sustainable. The market share of our target market was 9.8% which has dipped below our target range of 10%-15%.

Trend analysis of new business premium income (£m)



Trend analysis of Movestic's share of new business



20%

New business gross margin
(2014: 21%)

2. BUSINESS REVIEW: STRATEGIC OBJECTIVES

ACQUIRE LIFE AND PENSION BUSINESSES



We completed the acquisition of the Waard Group during May 2015 and therefore the results for the six months to 30 June 2015 incorporate the impact of the acquisition. The Group embedded value has increased by £21.6m and the net cash generation has increased by £39.9m as a direct consequence of the acquisition. Over and above the direct and immediate financial benefits the acquisition creates opportunity to progress further value adding deals in the Dutch market.

Highlights

- Completion of the acquisition of the Waard Group in the Netherlands for €69.9m.
- £21.6m increase in Group Embedded Value.
- £39.9m of additional cash distribution potential created.
- Entry to a third market assessed as having significant further market consolidation potential.

Waard Group acquisition

CASH GENERATION

The Solvency position on acquisition confirms that significant surplus (c£39.9m) is available for distribution in an orderly fashion over a three year period.

EMBEDDED VALUE

The actual discount to embedded value of 29.7% has resulted in a embedded value increment of £21.6m.

STRATEGIC OPPORTUNITY

Initial evidence of potential deal opportunities reaffirms our view that Chesnara can benefit from closed book market consolidation.

RISK CONSIDERATIONS

Business, market and regulatory developments during the period support our initial positive assessment of the risk profile of the business.

Outlook

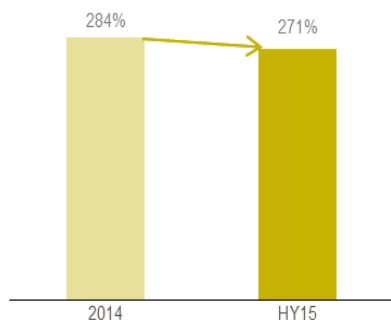
- Short term challenges in UK
- Commercial and economic drivers remain positive and the UK market should become more active in due course
- Significant potential in the Dutch market
- Strong regulatory and financial foundations

2. BUSINESS REVIEW: CHESNARA CULTURE AND VALUES



Good solvency levels continue

Group



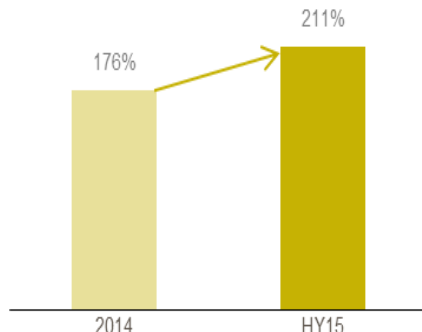
Increase

- Regulatory surplus in the period

Reduction

- Acquisition of Waard Group (as predicted)
- Interim dividend
- Foreign exchange losses

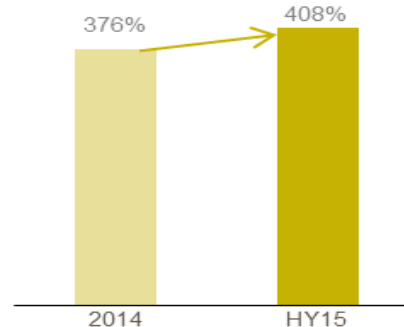
CA plc



Increase

- Regulatory surplus
- Capital requirement reduction

Movestic



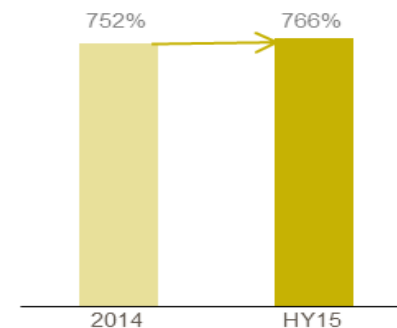
Increase

- Regulatory surplus

Reduction

- Capital requirement increase

Waard (Waard Leven)



- Waard Leven is the largest company within the Waard Group and owns Hollands Welvaren.

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

2. BUSINESS REVIEW: CHESNARA CULTURE AND VALUES



Solvency II

Dry Run

- Total surplus capital over and above SCR broadly equivalent to Solvency I
- Based on the surplus equivalence (above SCR) and assuming regulators require no increase in buffer surplus, we continue to expect a “neutral to marginally positive” Solvency II impact.
- Based on “standard formula”
- Assume no transitional arrangements
- Assume management actions (primarily in Sweden)
- Assume further data availability in UK (eg asset look through data)

Project Status

- The Solvency II programme has been given a high profile in all Divisions, and the coordinated efforts have ensured that all the components will be in place to meet the 1 January 2016 implementation deadline.
- Implementation of Solvency II is supported by the production of Group wide Governance Maps.

3. FINANCIAL REVIEW



3. FINANCIAL REVIEW: IFRS PRE-TAX PROFIT

Stable core (CA & PL)

- Strong underlying generation of surplus, albeit reduced when compared with the same period in 2014 due to a number of one off items in 2014 not repeating in the year to date.
- Strong product deductions, particularly in relation to mortality surpluses.

Variable element (S&P)

- The S&P segment has reported a pre-tax profit in the first half of 2015 that is broadly in line with the same period in 2014.
- Surplus includes impact of a £3.8m reduction in the cost of guarantees.

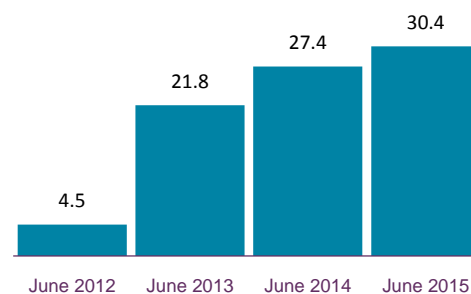
Growth Business (Movestic)

- Continued growth in FUM with increase of 10.5% taking total value to SEK 24.2bn, coupled with some large rebates that were received in the period.

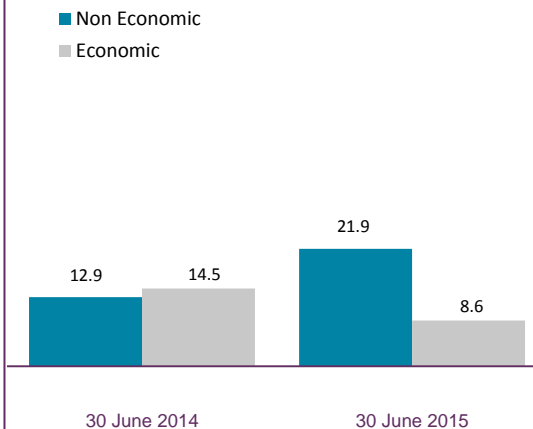
Group

- Group costs are higher than the equivalent period in 2014, mainly due to £3.5m of translation loss arising on holding Euros prior to the completion of the Waard Group acquisition. In addition, further one-off expenses have been incurred in the first half of 2015, such as the cost of additional resources required for final Solvency II preparations, deal costs associated with the Waard Group acquisition and 2015 costs associated with the resignation of the previous CEO.
- The IFRS pre-tax profits also include a day one profit arising on the acquisition of the Waard Group, being the excess of the fair value of the net assets acquired over the purchase consideration.

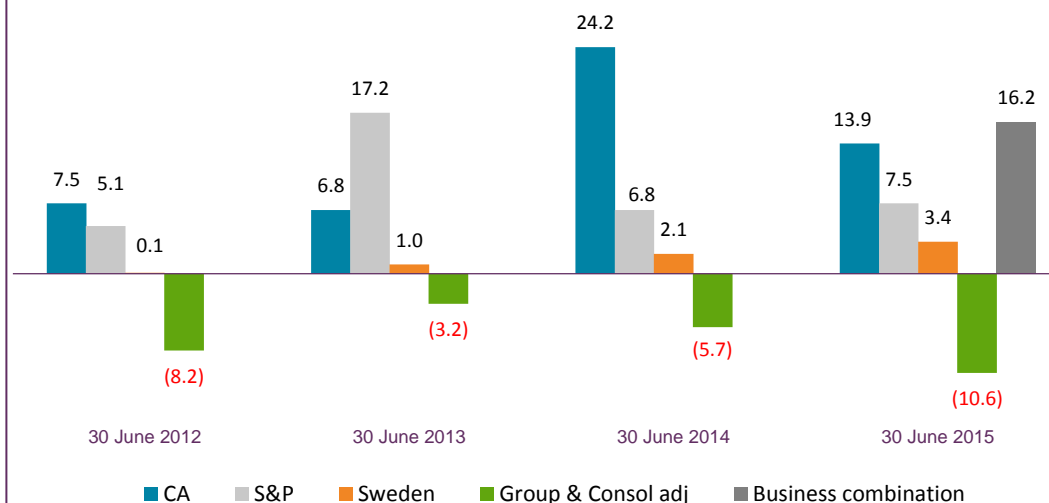
Group IFRS pre-tax profit £m



Economic / Non-economic £m



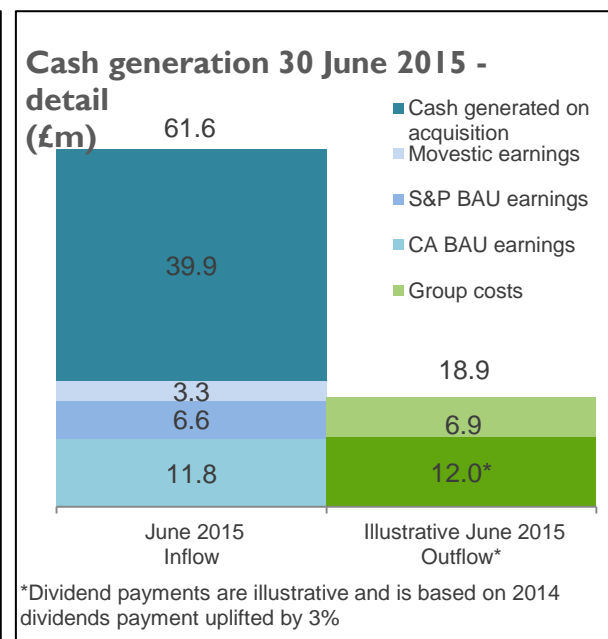
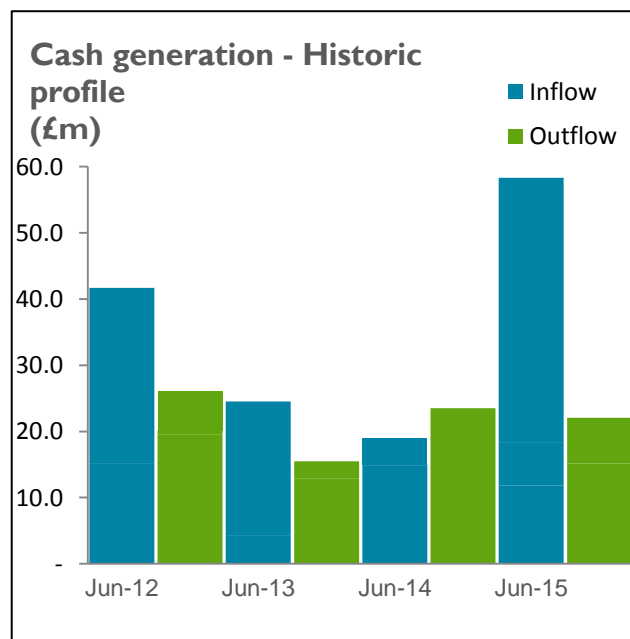
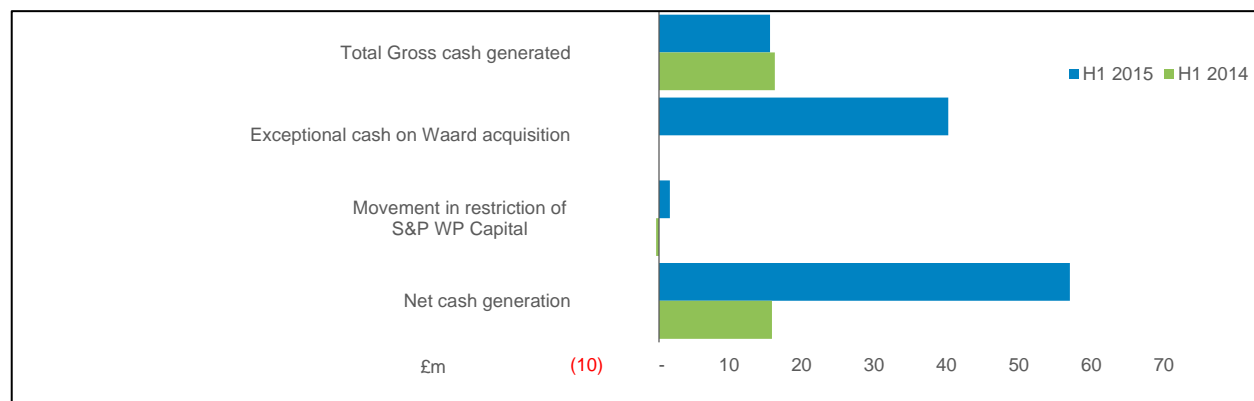
Group IFRS pre-tax profit - split by division - £m



3. FINANCIAL REVIEW: CASH GENERATION

“ The Group’s cash flows are generated principally from the interest earned on capital, the release of excess capital as the life funds run down, policyholder charges and management fees earned on assets under management.

- Significant amount of net cash, amounting to £39.9m, has emerged from the acquisition of the Waard Group, driven by the strong levels of regulatory surplus in this group.
- Gross cash generation in the UK run-off business of £18.9m is in line with the same period in 2014.
- Modest levels of cash generation (£3.3m) for Movestic for the first time since its acquisition in 2009.
- Increase in cash utilised by Chesnara in the period compared with the same period in 2014 is largely due to a one-off foreign exchange loss of £3.5m in the period, directly associated with the acquisition of the Waard Group.
- Current cash level at Chesnara is £70.1m (2014: £80.1m).



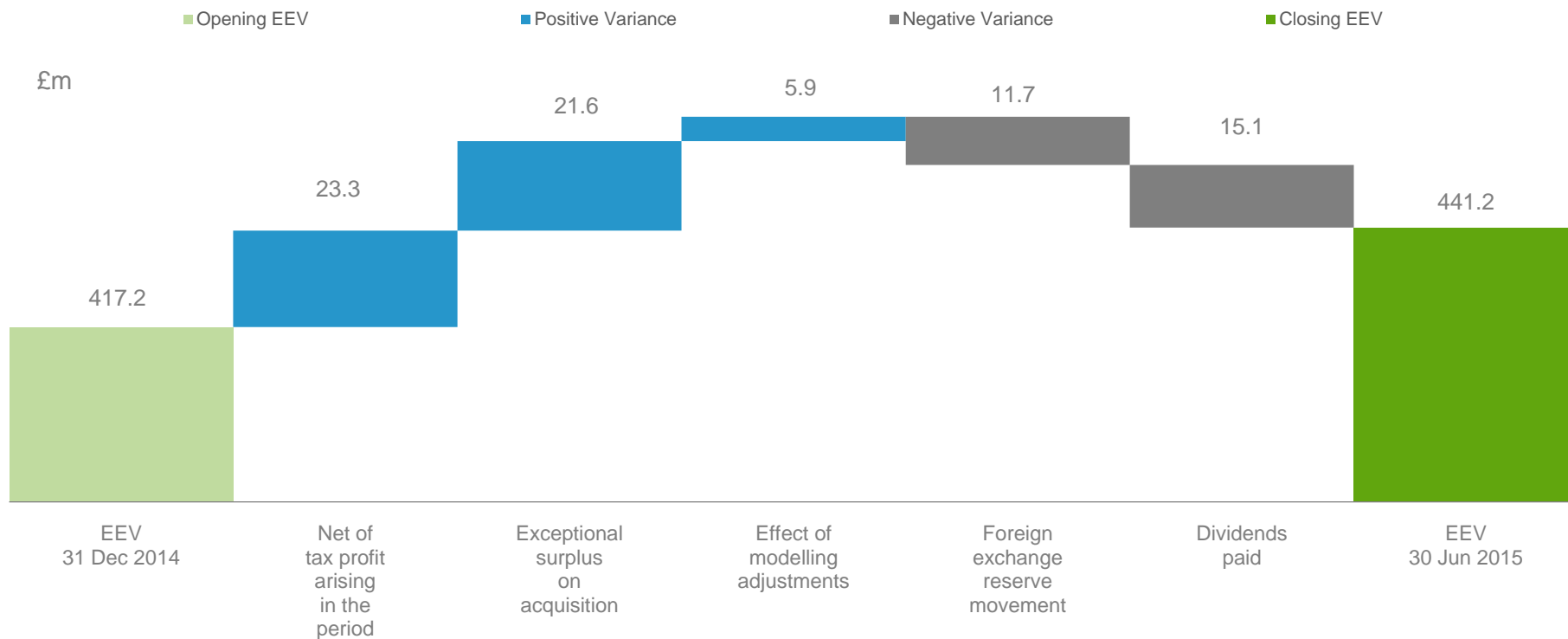
*Dividend payments are illustrative and is based on 2014 dividends payment uplifted by 3%



3. FINANCIAL REVIEW: EEV movement 31 December 2014 to 30 June 2015 (£m):



EEV earnings continue to exceed dividend payments.





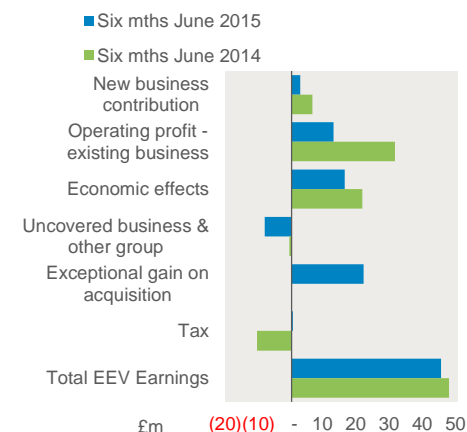
3. FINANCIAL REVIEW: EEV - EARNINGS NET OF TAX

- Reduction in “New business contribution” driven by a 10.4% reduction in Movestic new business volumes.
- Gain of £21.6m arising on the acquisition of the Waard Group.
- The operating profit from the in-force book in 2014 included a material non-recurring item relating to changing both practice and models with regards to allocation of bonus units.
- Economic profits remain significant, although investment market condition were less favourable than in 2014.
- Economic profits relate mainly to Sweden.
- The CA result in 2014 benefited from the bonus unit exceptional item.
- Uncovered business costs are higher when compared with the same period in 2014 largely due to a one-off foreign exchange loss of £3.5m arising from holding Euros prior to purchasing the Waard Group.

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

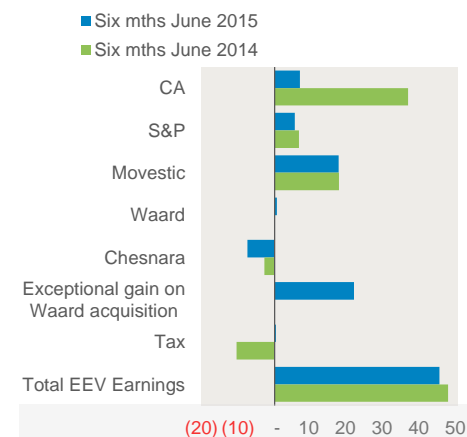
- by source

£m	June 2015	June 2014
New business contribution	2.6	6.2
Operating profit - existing business	12.6	31.0
Economic effects	15.9	21.2
Uncovered business & other group	(8.1)	(0.7)
Exceptional gain on acquisition	21.6	-
Tax	0.3	(10.4)
	44.9	47.3



- by segment

£m	June 2015	June 2014
CA	6.9	36.4
S&P	5.5	6.6
Movestic	17.4	17.5
Waard Group	0.6	-
Chesnara	(7.4)	(2.8)
Exceptional gain on Waard acquisition	21.6	-
Tax	0.3	(10.4)
	44.9	47.3



3. FINANCIAL REVIEW: EEV - SENSITIVITIES

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 contribution
	UK business				Swedish business	Dutch business	Swedish business
	CA Pre-tax £m	S&P Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	Post-tax £m	£m
Published value as at 30 June 2015	187.2	59.9	(23.1)	224.0	133.1	60.6	2.4
Economic sensitivities							
100 basis point increase in yield curve	(3.8)	6.3	(0.9)	1.6	0.5	(0.1)	(0.1)
100 basis point reduction in yield curve	4.4	(8.7)	0.4	(3.9)	(0.5)	(0.5)	0.1
10% decrease in equity and property values	(7.5)	(10.2)	2.2	(15.5)	(13.4)	-	(0.1)
Operating sensitivities							
10% decrease in maintenance costs	3.1	4.6	(0.9)	6.8	6.8	1.0	0.4
10% decrease in lapse rates	2.4	(1.1)	-	1.3	9.5	-	0.7
5% decrease in mortality/morbidity rates:							
Assurances	2.4	0.4	(0.2)	2.6	0.1	1.3	-
Annuities	(2.0)	(0.6)	-	(2.6)	n/a	-	n/a
Reduction in the required capital to statutory minimum	1.4	0.4	-	1.8	-	0.2	-

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

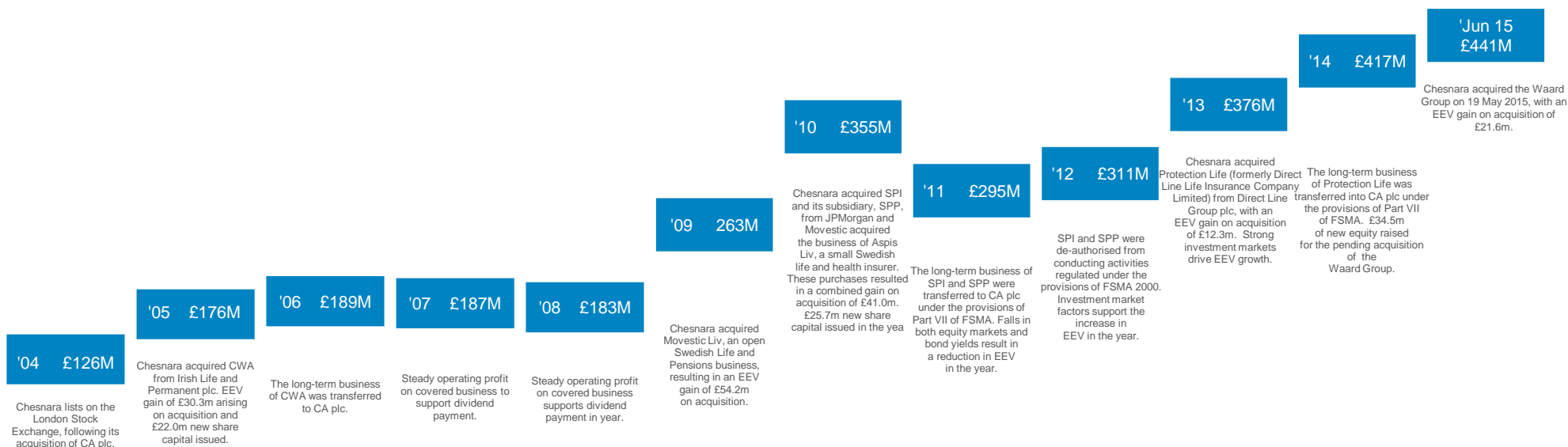
Equity market movements are the dominant variable

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



Shareholder Equity Split - £m							
	CA	S&P	Movestic	Waard Group	Other Group	Debt	Total
30 June 2015	164.1	59.8	135.0	73.3	73.4	(64.4)	441.2
31 Dec 2014	210.5	61.3	128.4	-	81.3	(64.3)	417.2
	CA dividend paid of £58m in period is offset by earnings in the year						
	Reduction in S&P due to dividend paid of £7m offset by earnings of £5.5m in the period						
	Small decrease in "Other Group" equity due to the net impact of dividend income from CA plc of £65.0m, offset by the settlement of the year end 2014 Chesnara dividend of £15.1m, the consideration paid for the Waard Group of £50.1m and Chesnara corporate governance costs.						

4. CONCLUSION & OUTLOOK

4. CONCLUSION & OUTLOOK: REGULATORY BACKDROP

① Maximise value from the in-force book

- Solvency II
- Pension Freedom
- FCA legacy review
- HM Treasury review of exit charges
- Discussion on rebate charging changes in Sweden

② Enhance value through new business

- Commission ban
- SICAV

③ Acquire Life and Pension businesses

- Solvency II
- Woekerpolise

Chesnara culture and values

- Solvency II
- Senior Insurance Managers Regime (SIMR) to be introduced in 2016

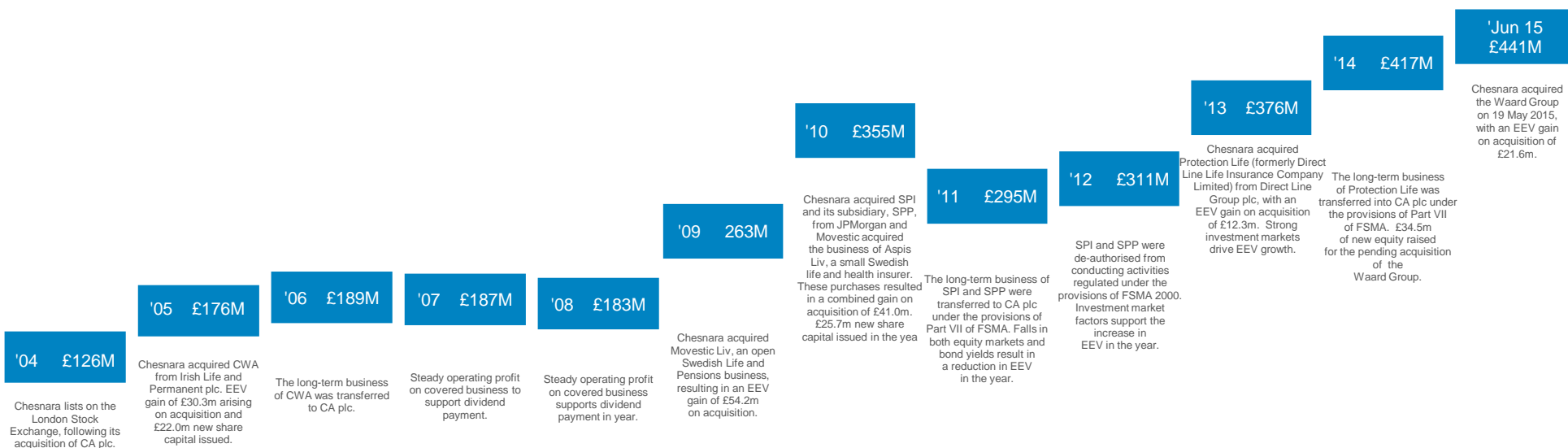
4. CONCLUSION & OUTLOOK: [MANAGEMENT FOCUS FOR 2015](#)

Management Focus for 2015	Outcome in H1 2015	Management Focus for H2 2015
① Maximise value from the in-force book		
<ul style="list-style-type: none"> Integration of Waard Group Solvency II implementation 	<ul style="list-style-type: none"> ✓ On track, reassuring dry run results 	<ul style="list-style-type: none"> MI development Full implementation of Solvency II Continued focus on dealing with regulatory changes
② Enhance value through new business		
<ul style="list-style-type: none"> Consolidate recent improvements 	<ul style="list-style-type: none"> Continued market competition from traditional contracts has resulted in a 10% reduction in sales. 	<ul style="list-style-type: none"> Continue to protect gross margins Recover market share to target range Maintain pricing discipline
③ Acquire Life and Pension businesses		
<ul style="list-style-type: none"> Market opportunity Implementation of group-wide acquisition process Solvency II 	<ul style="list-style-type: none"> Dutch market remains most interesting. ✓ On track, reassuring dry run results 	<ul style="list-style-type: none"> Expect an increasing refocus on the UK but retain immediate short term focus on Netherlands.
Chesnara culture and values		
<ul style="list-style-type: none"> Implementation of the Governance map 	<ul style="list-style-type: none"> Governance Map refined 	<ul style="list-style-type: none"> Governance Map's implementation in preparation for SIMR



3. FINANCIAL REVIEW: EEV – GROWTH AND SHAREHOLDER EQUITY

5. QUESTIONS?



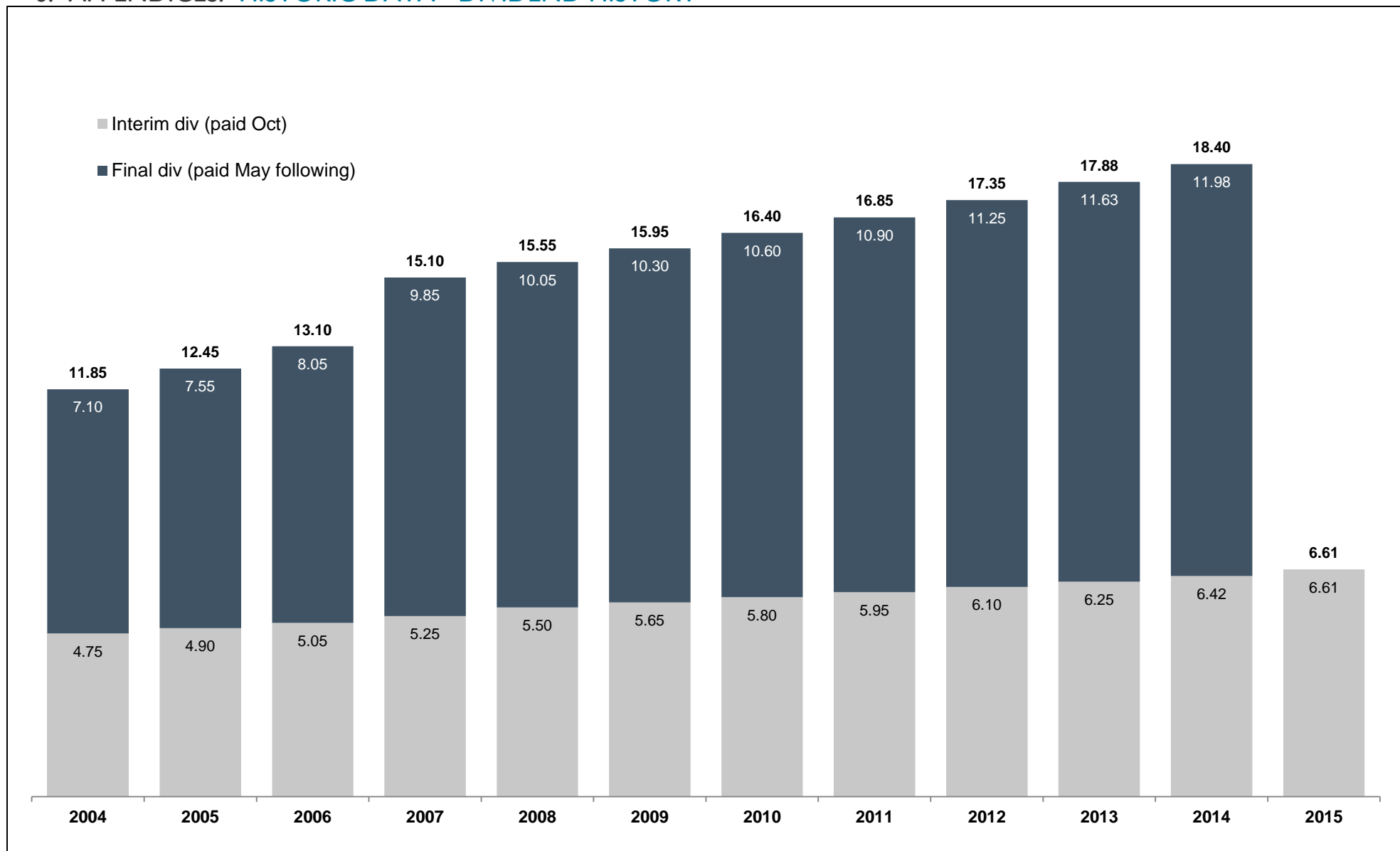
6. APPENDICES

6. APPENDICES: HISTORIC DATA - HEADLINE RESULTS

	Jun-15	Dec-14	Dec-13	Dec-12	Dec-11
IFRS profit £m (pre-tax and exceptionals)	30.4	28.8	57.8	24.5	22.4
EEV profit/loss £m (pre-tax and exceptionals)	44.6	54.7	77.2	36.1	(36.9)
EEV shareholder equity £m	441.2	417.2	376.4	311.1	294.5
Capital adequacy ratio (CA)	211%	176%	218%	199%	183%
Capital adequacy ratio (Movestic)	408%	376%	311%	280%	245%
Capital adequacy ratio (Waard Group)	766%	752%			
Capital adequacy ratio (Group)	271%	284%	194%	244%	197%

* Waard Leven is the largest company within the Waard Group, and owns Hollands Welvaren.

6. APPENDICES: HISTORIC DATA - DIVIDEND HISTORY



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