

Chesnara PLC - Interim Management Statement

Chesnara plc

Interim Management Statement for the period from
1 January 2008 to 17 November 2008

19 November 2008

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 30 September 2008 and to its financial performance during the first three quarters of the year. Where events and transactions have occurred since the end of the third 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.

Embedded Value

The key determinant of Group performance in the calendar year to 30 September 2008 has continued to be the decline in global equity markets. The leading UK market indices show a 24% decline over that period, approximately half of which occurred since 30 June. The effect of the market fall over the first three quarters has been an £8.2m net of tax reduction in European Embedded Value ('EEV'), of which £3.2m occurred in the last quarter. Notwithstanding this the business has, in terms of fundamentals, performed ahead of expectations and this, together with the expected return from in-force business, has produced, at the end of the third quarter, a net of tax increase of some £1.9m in the half-year reported EEV. Key contributors are:

- * Continuing favourable lapse experience across both our key protection and endowment products, which led to a net of tax EEV increase of some £4m in the first three quarters;
- * Endowment misselling complaints continue at relatively low levels with no significant change in uphold rates. Therefore the provision we hold continues to prove adequate; and
- * Expenses continue to be in line with management expectations.

After allowing for expenditure incurred in a share buyback operation before the quarter end the EEV movement may be summarised as:

	£m
As reported 30 June 2008	179.0
Third quarter earnings, net of tax	1.9
Reduction in equity, following share buyback operation	(0.3)
EEV at 30 September 2008 as adjusted for above items	180.6

Notwithstanding our continued conservative approach to the management of treasury funds we have one specific exposure in respect of a cash deposit of £1.1m with Kaupthing Singer and Friedlander. Following

their entry into administration this has been fully written down and is reflected in the above result.

Subsequent to this the Interim Dividend of £5.8m has been paid and a further £2.3m has been expended on the repurchase of shares. Taking these into account reduces the embedded value to £172.5m.

Further investment market falls subsequent to the third quarter end (to 17 November) give rise to an estimated further net of tax reduction in EEV of some £3.5m.

IFRS Result

The IFRS result has progressed from £10.0m (£8.1m net of tax) at the half-year position to £13.4m (£10.8m net of tax) at the cumulative three quarters' position.

This result takes account of the investment market conditions and investment writedown set out above, while the impact of favourable policy lapse experience, although overall beneficial to EEV, has an adverse short-term impact, insofar as statutory reserve releases in the life company are not as high as anticipated.

Financial Strength

The underlying emergence of surplus in the life company, and hence the capacity of the Group to continue to pursue its dividend policy, remains strong. This is reflected in the ratio of regulatory capital resources to regulatory capital requirements in the life company, which has improved from 227% at the 2008 half-year position to 237% at the end of the third quarter. The corresponding Group solvency (IGD) measure has improved from 348% at the half-year position to 359% at the end of the third quarter.

Whilst investment market performance has negatively affected the results to date and we, clearly, continue to be exposed to the impact of investment market performance on our policyholders' unit-linked funds, we believe that our wider exposure to adverse investment market performance is limited. We continue to maintain a prudent approach to policyholder non-linked and shareholder fund investments and have no exposure to asset-backed securities. We closely monitor counterparty exposure limits and apply minimum credit security ratings to all investments. Shareholder funds are held in cash deposits and fixed interest securities only. Furthermore, our long-established conservative approach to the estimation of the illiquidity yield premium means that the recent widening of bond yield spreads has had little impact on our results.

Share Buyback

Although the EEV has demonstrated a degree of resilience in the face of turbulence in investment markets, the Group's shares have traded at prices which represent a substantial discount to EEV over the last few months. Accordingly, in order to maximise shareholder value, we have taken the opportunity to undertake a share buyback operation. Commencing on 24 September 2008, this operation has, to date, given rise to the buyback of 2,390,194 shares at an average price of 108.4p per share. The closing price of 110p per share on 17 November 2008 represents a 34% discount to an estimated EEV of 167p per share on that date.

Market Opportunity

We believe that attractively priced assets are starting to become available as a result of the current turbulence in the market. We will continue to examine such opportunities as they arise and believe that we have a strong financial platform from which to pursue them, although, given the current climate, we will continue to apply strict financial and risk criteria to any prospective acquisitions.

Enquiries

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Notes to editors:

Chesnara plc, which listed on the London Stock Exchange in May 2004, is the owner of Countrywide Assured plc ('CA'). CA is a life assurance subsidiary that is substantially closed to new business. In June 2005 Chesnara acquired City of Westminster Assurance ('CWA') for £47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA plc. Chesnara's operating model is to maintain a relatively small governance team and outsource the majority of its back office functions. Chesnara continues to seek acquisition opportunities in the financial services sector.

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