

**Chesnara plc**  
**Interim Management Statement for the period from 1 January 2009 to**  
**18 November 2009**

**19 November 2009**

This statement relates primarily to the financial statements of Chesnara plc (the 'Group') as at 30 September 2009 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.

The Group's financial position and financial performance referred to in this statement incorporate, for the first time, the financial position and financial performance of Moderna Försäkringar Liv AB ('Moderna'), which was acquired on 23 July 2009. Accordingly, the financial performance of the Group, on both the European Embedded Value ('EEV') and IFRS bases of reporting, includes (i) the profit arising on the acquisition of Moderna and (ii) the Moderna post-acquisition trading result for the 10-week period ended 30 September 2009. This interim management statement follows a trading update statement issued on 27 October 2009, which advised of the significant profit arising on the acquisition of Moderna, on both the EEV and IFRS bases of reporting.

**EEV**

The movement on Group EEV since the position last reported in the interim financial statements for the six months ended 30 June 2009, stated before recognition of an interim dividend of £5.7m (2008: £5.8m), may be summarised as:

	<b>2009</b>	<b>2008</b>
	<b><u>£m</u></b>	<b><u>£m</u></b>
EEV as reported 30 June	178.9	179.0
Profit arising on acquisition of Moderna	54.7	-
Third quarter earnings, net of tax		
- UK life and pensions business	13.2	2.4
- Swedish life and pensions business (Moderna) for 10 week post-acquisition period	4.9	-
- Parent company operations	(1.3)	(0.5)
Reduction in equity following share buyback operation	-	(0.3)
Foreign exchange gain	8.3	-
EEV as at 30 September	<u>258.7</u>	<u>180.6</u>

The profit arising on the acquisition of Moderna is measured as the EEV of Moderna at the acquisition date, which was £74.7m, less the purchase

consideration of £20.0m. This represents a discount of 73.2% to Moderna's EEV at the acquisition date.

The dominant feature underlying the third quarter earnings of both the continuing UK life and pensions operations and of Moderna was the recovery in global investment markets. The leading UK equity market indices, for example, posted an increase of some 21% over the third quarter. The favourable impact of global investment market growth is reflected through higher current and prospective deductions from unit-linked funds under management, with the UK and Swedish life and pensions businesses benefiting to the extent of £6.9m (£6.2m net of tax) and £2.9m (£2.9m net of tax) respectively.

Other favourable influences underlying earnings in the third quarter were:

1. UK life and pensions business

- (i) £2.9m (£2.6m net of tax) expected return from unwind of risk discount rate;
- (ii) £1.9m (£1.7m net of tax) continuing favourable persistency experience (£4.6m net of tax cumulative for the three quarters ended 30 September 2009); and
- (iii) £2.0m (£1.8m net of tax) other favourable investment market effects, net of economic assumption changes.

2. Swedish life and pensions business

(all amounts stated are pre-tax: tax effects for the period are immaterial)

- (i) £0.8m expected return from unwind of risk discount rate;
- (ii) £0.6m value of new business written; and
- (iii) £0.3m favourable change in mix of assets under management.

The parent company loss of £1.3m for the third quarter is stated after expenditure of £0.9m incurred, during the quarter, in connection with the acquisition of Moderna, the total of such expenditure being £1.4m.

The foreign exchange gain of £8.3m arises from the effect of translating the SEK-denominated EEV of Moderna into pounds sterling, the latter having depreciated 10% against the Swedish Krona from the Moderna acquisition date to 30 September 2009. Subsequently, up to 17 November 2009, the pound has appreciated 3.6% against the Swedish Krona. Accordingly, it is estimated that £2.8m of the gain reflected in the table above has reversed, with a corresponding diminution of Group EEV.

IFRS

The IFRS result arising over the three quarters ended 30 September 2009 comprises:

	2009			2008		
	Pre-tax £m	Tax £m	Post-tax £m	Pre-tax £m	Tax £m	Post-tax £m
Six months ended 30 June 2009 as reported	11.2	(2.9)	8.3	10.0	(1.9)	8.1
Profit arising on acquisition of Moderna	25.6	-	25.6	-	-	-
Third quarter earnings						
- UK life and pensions business	10.3	(1.8)	8.5	4.7	(0.9)	3.8
- Swedish life and pensions business (Moderna) for 10-week post-acquisition period	(0.6)	(0.3)	(0.9)	-	-	-
- Parent company operations	(1.3)	-	(1.3)	(0.5)	-	(0.5)
Amortisation of intangible assets						
- UK life and pensions business	(0.8)	0.2	(0.6)	(0.8)	0.2	(0.6)
- Swedish life and pensions business	(0.8)	-	(0.8)	-	-	-
Nine months ended 30 September 2009	43.6	(4.8)	38.8	13.4	(2.6)	10.8

The profit of £25.6m arising on the acquisition of Moderna represents the excess of the £45.6m estimate of the fair value of the net assets acquired over the purchase consideration of £20m. This compares with the estimated excess of £23.2m disclosed in the trading update statement issued on 27 October 2009 and arises from adjustments to the estimated fair value of net assets acquired.

As for the EEV result, the IFRS result for the UK life and pensions business for the three quarters ended 30 September 2009 has been dominated by the improvement in global investment markets: the recovery in equity markets contributed some £0.6m pre-tax, while the significant appreciation in the capital value of fixed interest securities contributed some £2.8m pre-tax.

Moderna, which is well-positioned to take advantage of the recovery in investment markets and which is re-establishing its market positioning with brokers now that its ownership is clear, incurred a small loss over the 10-week post-acquisition period. It is expected to continue to incur trading losses for some two years as it continues to build scale and until realised profits from an increasing base of in-force investment contracts outweigh the front-end strain of writing new business.

Amortisation of intangible assets represents principally the write down of the carrying value of in-force investment and insurance contracts recognised, for the UK business, on the acquisition of City of Westminster Assurance Company Limited in June 2005 and, for the Swedish business, on the

acquisition of Moderna in July 2009. As for EEV reporting, the parent company result is stated after expenditure, during the quarter, of £0.9m on the acquisition of Moderna.

### Solvency

The underlying emergence of surplus in the UK life and pensions business, 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 UK life company, which has improved from 241% at 30 June 2009 to 273% at the end of the third quarter. The corresponding Group (IGD) position remains strong, notwithstanding the diminution by £21.4m of available group capital resources arising from the acquisition of Moderna. At 30 September 2009 the Group solvency ratio is estimated to be a healthy 314% (30 June 2009: 408%). The Swedish life business solvency ratio at 30 September 2009 is estimated to be 298%, compared with a target ratio of 150%.

### Market Opportunity

We have seen an increase in the number of potential acquisition opportunities following the turbulence in financial markets. We will continue to consider such opportunities as they arise and, after allowing for the acquisition costs of Moderna, we continue to be in a strong financial position from which to pursue them. We will maintain the application of our strict financial and risk criteria to prospective acquisitions as they arise.

### 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") and Moderna Försäkringar Liv AB ("Moderna"). CA is a life assurance subsidiary that is substantially closed to new business. In June 2005 Chesnara acquired a further closed life insurance company - City of Westminster Assurance ("CWA") - for £47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA plc.

Moderna was acquired on 23 July 2009 for £20m. The company continues to write new business and grow the strong position it has achieved in the Swedish unit-linked market since its launch in 2002.