

Chesnara plc

Condensed Consolidated Financial Statements

for the Six Months Ended

30 June 2009

Key Contacts

Registered and Head Office

Harbour House
Portway
Preston
Lancashire
PR2 2PR

Tel: 01772 840000
Fax: 01772 840010
www.chesnara.co.uk

Legal Advisors

Ashurst LLP
Broadwalk House
5 Appold street
London
EC2A 2HA

Eversheds LLP
70 Great Bridgewater Street
Manchester
M1 5ES

Addleshaw Goddard LLP
100 Barbirolli Square
Manchester
M2 3AB

Auditor

KPMG Audit Plc
St James' Square
Manchester
M2 6DS

Registrars

Capita
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers

Panmure Gordon
Moorgate Hall
155 Moorgate
London
EC2M 6XB

Bankers

National Westminster Bank plc
135 Bishopsgate
London
EC2M 3UR

The Royal Bank of Scotland
8th Floor, 135 Bishopsgate
London
EC2M 3UR

Lloyds TSB plc
3rd Floor, Black Horse House
Medway Wharf Road
Tonbridge
Kent
TN9 1QS

Public Relations Consultants

Cubitt Consulting
30 Coleman Street
London
EC2R 5AL

Corporate Advisers

Hawkpoint Partners Limited
41 Lothbury
London
EC2R 7AE

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Notes

- (1) On 30 June 2006 the long-term business of City of Westminster Assurance Company Limited, a Group subsidiary acquired on 2 June 2005, was transferred, under the provisions of Part VII of the Financial Services and Markets Act 2000, to the Group's other principal operating subsidiary, Countrywide Assured plc, in which the whole of the UK Life operations of the Group now subsist. However, within this document reference is made to 'CWA' and to 'CA' to continue to identify respectively the long-term business which had been conducted within the respective companies prior to the transfer.
- (2) As stated in Note 7 to the unaudited Condensed Consolidated Financial Statements on page 23, Chesnara plc acquired the entire issued share capital of Moderna Försäkringar Liv AB ('Moderna') on 23 July 2009. Accordingly, the Moderna financial position and post-acquisition results will first be consolidated into the Group's financial statements for the year ending 31 December 2009 and are not included in these financial statements.

Chesnara plc

Condensed Consolidated Financial Statements for the six months ended 30 June 2009

Financial Highlights

	Unaudited 6 months ended 30 June		Year ended 31 December
	2009	2008	2008
IFRS basis			
Operating profit	11.3	10.4	23.5
Financing costs	(0.1)	(0.4)	(0.8)
Profit before income taxes	£11.2m	£10.0m	£22.7m
Basic earnings per share	8.17p	7.71p	19.24p
Dividend per share	5.65p	5.50p	15.55p
Shareholders' net equity	£124.5m	£123.5m	£126.4m
European Embedded Value basis (EEV)			
Operating profit / (loss)	10.2	(4.7)	25.9
Investment variances and economic assumption changes	(2.4)	(0.5)	(9.9)
Profit / (loss) before tax	7.8	(5.2)	16.0
Tax	(1.4)	7.2	(1.2)
Profit for the period	£6.4m	£2.0m	£14.8m
Covered Business			
Shareholder net worth	55.0	57.1	69.4
Value of in-force business	80.2	85.9	84.9
Embedded value	135.2	143.0	154.3
Acquired embedded value financed by debt	(4.2)	(8.3)	(8.4)
Shareholders' equity in other Group companies	47.9	44.3	36.8
Shareholders' equity on EEV basis	£178.9m	£179.0m	£182.7m
Life annual premium income (AP)	£43.5m	£47.4m	£92.6m
Life single premium income (SP)	£13.2m	£13.3m	£23.9m
Life annualised premium income (AP + 1/10 SP)	£44.8m	£48.7m	£95.0m

In contrast with the IFRS basis of reporting, the EEV basis recognises the discounted value of the expected future cash flows arising from the long-term business contracts in force at the period-end, as a component of shareholder equity. Accordingly, the EEV result recognises, within profit, the movement in this component.

Chairman's Statement

I am pleased to present the sixth interim statements of Chesnara plc ('Chesnara').

Background

Chesnara was listed on the London Stock Exchange in May 2004. Originally formed to become the holding company of Countrywide Assured plc on its demerger from Countrywide plc, in June 2005 it acquired City of Westminster Assurance Company Limited, a further closed life assurance company, the long-term business of which was transferred to Countrywide Assured plc on 30 June 2006. In July 2009 Chesnara completed the acquisition of Moderna Försäkringar Liv AB ('Moderna'), an open Swedish life assurance company.

Countrywide Assured plc now manages a portfolio of some 184,000 life assurance and pension policies and is substantially closed to new business. It writes a small amount of new business and accepts top-ups to existing contracts. As a substantially closed book it is expected that the embedded value of the business will decline over time as the number of policies in force reduces and as the surplus emerging in the business is distributed by way of dividends. As the portfolio runs off, the regulatory capital supporting it may also be reduced.

Moderna manages a portfolio of some 75,000 life assurance and pension policies and is open to new business. It, predominantly, writes unit-linked pension business through independent financial advisers and it is expected that its embedded value will increase over time as further new business is written.

In order to prolong yield delivery, Chesnara seeks to acquire further businesses. We continue to believe that such potential acquisitions will, in the long term, support and be complementary to our key objective of delivering a steady and attractive dividend yield.

Review of the Business

In the first half of the year we continued to examine potential acquisition opportunities and were pleased to announce the acquisition of Moderna which we financed from internal cash resources on 23 July 2009 at a price of £20.0m - a significant discount to its Embedded Value. We believe that Moderna, under its continuing management, can provide strong growth in its chosen markets and contribute to the future prosperity of Chesnara.

Investment market volatility has become a feature of recent times and the first half of 2009 has proved no exception, having experienced the lows of mid-March to a near recovery to end 2008 levels at the half year point. Although investment market returns had an adverse effect on our Q1 performance, the subsequent near full recovery and our long-standing prudent approach to the business has enabled the posting of a result, which in the prevailing circumstances, continues to prove resilient.

With the effect of investment markets during the period being limited, the positive effects of continuing good persistency, mortality experience showing positive gains and the mortgage endowment misselling reserve proving adequate, we are able to report improved results on both an IFRS and an EEV basis compared with the corresponding period in 2008.

On the IFRS basis of reporting we have posted a pre-tax profit of £11.2m for the half-year ended 30 June 2009 compared with £10.0m for the corresponding period in 2008.

On the European Embedded Value ('EEV') basis of reporting, the Group recognises a pre-tax profit of £7.8m for the half-year ended 30 June 2009 compared with a loss of £5.2m for the same period in 2008, which had been impacted by the significant decline in global investment markets.

Total shareholder equity, as stated on an EEV basis, pre interim dividend appropriation, has reduced from £182.7m (£1.80 per share) at 31 December 2008 to £178.9m (£1.76 per share) at 30 June 2009. This is after the payment of the final dividend of £10.2m (10.05p per share) in respect of 2008.

Countrywide Assured plc's capital solvency ratio at 241% remains at a healthy premium to the target set by the Board of 150% (30 June 2008: 227%). The Group's solvency position, post the proposed interim dividend, has strengthened significantly from 348% as at 30 June 2008 to 406% as at 30 June 2009. Taking account of the Moderna acquisition, this subsequently reduced to an estimated 283%.

Based on these results the Board is pleased to recommend an interim dividend of 5.65p (2008: 5.5p), which represents an increase of 2.7% and equates to a total interim dividend of £5.7m.

Outlook

Despite the continuing effects of volatile investment markets, the fundamentals of the business and our prudent approach continue to generate resilient results. Overall, in the face of a challenging environment, the group has produced improved results and this bodes well for the future.

We continue to search for acquisitions in the life assurance market and, as recent market transactions demonstrate, there has been a resurgence of available opportunities. With our strong capital base, we are in a good position to take advantage of any suitable opportunities as demonstrated by our purchase of Moderna.

We remain well placed to continue fulfilling our stated objective of delivering a reliable and progressive dividend stream and wish to thank our employees for their contribution to the Group in realising this aim.

Peter Mason
Chairman
27 August 2009

Directors' Information

Peter Mason is Chairman of Chesnara plc and Chairman of the Chesnara Nomination Committee. He was appointed to these roles on 1 January 2009. Prior to this he was the Senior Independent Non-executive Director of Chesnara plc and Chairman of the Audit Committee and he also served on the Remuneration and Nomination Committees during 2008 but retired from the Audit and Remuneration Committees on 31 December 2008. He is currently a Non-executive Director of Homeowners Friendly Society and Countrywide Assured plc. He is the Investment Director and Actuary of Neville James Group, an investment management company. He was admitted as a Fellow of the Institute of Actuaries in 1979.

Graham Kettleborough is the Chief Executive of Chesnara plc. He joined Countrywide Assured plc in July 2000 with responsibility for marketing and business development and was appointed as Managing Director and to the Board in July 2002. Prior to joining Countrywide Assured plc, he was Head of Servicing and a Director of the Pension Trustee Company at Scottish Provident. He has lifetime experience in the financial services industry, primarily in customer service, marketing, product and business development, gained with Scottish Provident, Prolific Life, City of Westminster Assurance and Target Life.

Ken Romney is the Finance Director and Company Secretary of Chesnara plc. He joined Countrywide Assured plc in 1989 and became a member of the Board in 1997. He has worked in the life assurance industry for the last 25 years. He was Chief Accountant at Laurentian Life (formerly Imperial Trident) up to 1987 and was Financial Controller at Sentinel Life between 1987 and 1989. He worked for Price Waterhouse in their audit division until 1983 in both the UK and South Africa. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Frank Hughes is the Business Services Director of Chesnara plc. He joined Countrywide Assured plc in November 1992 as an IT Project Manager and was appointed to the Board as IT Director in May 2002. He has 24 years' experience in the life assurance industry gained with Royal Life, Norwich Union and CMG.

Mike Gordon is an Independent Non-executive Director of Chesnara plc and is Chairman of the Remuneration Committee. He was appointed as Senior Independent Non-executive Director of Chesnara plc on 1 January 2009. He also serves on the Audit Committee and the Nomination Committee. He spent 12 years as Group Sales Director of Skandia Life Assurance Holdings. He is Chairman of Bankhall Investment Management Limited, a Skandia-owned subsidiary.

Terry Marris is an Independent Non-executive Director of Chesnara plc and serves on the Audit Committee, the Remuneration Committee and the Nomination Committee. He joined Countrywide Assured Group plc in 1992 and was Managing Director of Countrywide Assured plc until July 2002. Previous roles included senior management positions at Lloyds Bank and General Accident.

Peter Wright (appointed 1 January 2009) is an Independent Non-Executive Director who was appointed to the Chesnara plc Board on 1 January 2009. At the same date he was appointed as Chairman of the Audit Committee and as a member of the Remuneration Committee. On 9 July 2009, he was also appointed as a member of the Nomination Committee. He retired as a Principal of Towers Perrin on 1 January 2008. He is a former Vice President of the Institute of Actuaries, having been admitted as a Fellow in 1979.

Interim Management Report

Background

Chesnara continues to seek to participate in the consolidation of the closed life business sector in the UK. In 2004, at the same time that we listed on the London Stock Exchange, we acquired Countrywide Assured plc on its effective demerger from Countrywide plc, while in 2005 we acquired City of Westminster Assurance Company Limited from Irish Life and Permanent plc. In 2006 we merged the long-term business of the two companies in order to realise significant financial and operational synergies.

During the first half of 2009 the Group announced the planned purchase of Moderna Försäkringar Liv AB ("Moderna"), an open Swedish life assurance company. The purchase completed on 23 July at a price of £20m – a significant discount to its Embedded Value.

As Countrywide Assured plc is substantially closed to new business its primary focus is on the efficient run-off of the existing life and pension portfolios. This gives rise to the emergence of surplus which supports our primary aim of delivering an attractive long-term dividend yield to our shareholders. By the very nature of the life business assets the surplus arising will deplete over time as the policies mature, expire or are the subject of a claim. Therefore, to prolong the yield delivery we continue to seek to acquire similar businesses.

Moderna is a young, growing life company focussed on writing profitable life, pension and investment business through its strong relationships with independent advisers and other distribution channels. Whilst it may, initially, utilise Group capital to fund new business it is expected to become a net contributor in the short to medium term, whilst producing strong Embedded Value growth.

Review of the Business

In addition to progressing the Moderna acquisition, the Group has continued to concentrate on its policy of delivering enhanced value to shareholders through focusing on the efficient run-off of its Life business.

The continued strength of the emergence of surplus has underpinned the overall financial performance of the business and enabled the delivery of a slightly improved profit on the IFRS basis of reporting, a significant increase in EEV profit and the maintenance of a healthy regulatory solvency position.

Whilst the result has, inevitably, been affected by the volatility prevailing in the investment markets this has been offset by good ongoing performance in key business areas. There have been no new regulatory issues that have given rise to any significant concerns or costs.

These key areas are reviewed in more detail in the following sections.

Investment Funds

Strong performance in the unit-linked funds helps promote policy retention and increases the embedded value of the Group as future management charges will be of a higher magnitude. The CA Managed Fund, which represents a significant proportion of the CA policyholder funds under management, returned –8.1% during the twelve months ended 30 June 2009 and the CWA Global Managed Fund, which represents a significant proportion of CWA policy funds under management, also returned –8.1% over the same period. These returns, on balance, compare favourably with the average of –13.5% achieved by the ABI Life Balanced Managed Funds sector.

As these are Managed Funds the returns reflect the performance of the equity, fixed interest and property markets consequent upon the general economic climate. Market performance does affect fund values and, consequently, embedded value. Guidance as to the sensitivity of embedded value to market movements is provided on page 32.

The Board continue to have a prudent approach to the investment of shareholder funds, which underpins our strong solvency position. The benchmark of 70% cash and 30% fixed interest has been maintained.

Policy Attrition

The longer a policy stays in force the greater the profit that accrues to the Group. We have continued to maintain a strong focus on the retention of policies where it is in the interests of customers to continue with their arrangements. At the 2008 year-end we reported that the rate of policy attrition had decreased. This improvement has been sustained and a further slight reduction in policy cessation rates has been evident. However, this benefit has not been reflected in the assumptions underpinning the EEV at the half year as we suspect that the current economic climate and, in particular, the rising level of unemployment may, at least temporarily, stall the improvements we have historically seen.

Financial Exposures

The Group pays particular attention to any area where it has potentially significant financial exposure. In life and pensions these typically arise in the areas of onerous policy options and guarantees and of compensation claims for past misselling of products. Whilst the Group has very little exposure to the impact of investment market performance on options and guarantees, it does have some ongoing exposure to potential misselling of policies sold in connection with an endowment mortgage. We are required to make redress to a subset of mortgage endowment policyholders who have been missold their product and to write to policyholders on a biennial basis setting out their potential returns based on specified growth rates. In the past there has been significant media attention and aggressive advertising by claims management firms on this issue. This activity has continued to reduce as more potential claims become time-barred from making a successful complaint. At the present time, over 80% of relevant mortgage endowments are time-barred with the balance of the population carrying little potential liability to compensation. During the first half of 2009, the number of complaints we have received has continued to reduce, albeit not at the pace it has done previously. The reduction in those received has been offset by slightly higher uphold rates and, due to market lows in the period, increased compensation levels. Based on current experience we believe that the reserve we hold will prove adequate.

As disclosed in previous statements, we identified an error in an old unit pricing system which had resulted in incorrect capital gains tax being deducted from unit-linked funds. A project is now well advanced which provides recompense to affected policyholders in line with Treating Customers Fairly ('TCF') principles and, based on experience to date, we are able to release £1.1m from the previously established provision of £2.5m net of estimated recoveries.

Regulatory Issues

We have maintained our focus on achieving the FSA's requirements to treat our customers fairly and evidencing and further embedding this within the company culture. Other than meeting the regulator's industry-wide requirement for more frequent high level solvency reporting, there has been little in the regulatory landscape of note in the first half of the year.

Expense Base

Operational and outsourcer costs are being kept under control and our policy attrition rate is better than assumed. The result is that there are more policies in force over which fixed costs can be allocated, leading to cost efficiencies reflected in lower per policy costs.

Key to our strategy of expense base management is the outsourcing of our back office functions to professional outsourcing organisations. This results in predictable levels of per policy cost each year for the term of the relevant contract and removes cost inefficiencies that can occur as a result of a diminishing policy base.

Service levels from both Capita and HCL Insurance BPO Services Limited, who are managing the CA book of business, are in line with agreed standards.

IFRS Result

The following summarises pre-tax earnings information reflected in the IFRS Condensed Consolidated Statement of Comprehensive Income, showing the contribution from the Life business and from the Parent Company.

	Life business	Parent company	Amortisation of AVIF	Total
	£000	£000	£000	£000
Six months ended 30 June 2009 (unaudited)				
Operating profit / (loss)	13,401	(327)	(1,751)	11,323
Financing costs	-	(112)	-	(112)
Profit / (loss) before income taxes	13,401	(439)	(1,751)	11,211
Six months ended 30 June 2008 (unaudited)				
Operating profit / (loss)	11,062	1,121	(1,751)	10,432
Financing costs	-	(455)	-	(455)
Profit / (loss) before income taxes	11,062	666	(1,751)	9,977

Year ended 31 December 2008

Operating profit / (loss)	27,116	(135)	(3,502)	23,479
Financing costs	-	(752)	-	(752)
Profit / (loss) before income taxes	27,116	(887)	(3,502)	22,727

Notes

- (1) Financing costs relate to a bank loan raised to part finance the acquisition of CWA.
- (2) Amortisation of Acquired Value In-Force ('AVIF') represents a post acquisition charge to profits of the write-down of the acquired value of CWA in-force business, as measured at the acquisition date. The pattern of amortisation is broadly intended to match the pattern of surplus arising from the run-off of the underlying CWA insurance and investment contract portfolios.

Overall, the result for the six months ended 30 June 2009 reflects the continuing strong emergence of surplus in the life business, as the underlying insurance and investment contracts run off. However, the impact of investment market conditions over the period has adversely impacted the life business result by some £1.5m, mirroring conditions similar to those experienced in the corresponding six-month period in 2008. This has been almost exactly offset by favourable mortality experience in the period and the resilience of the result has been further underpinned by continuing tight control over expenses in the life business and by the release of £1.1m in respect of a remedial provision no longer considered to be required.

The parent company result has also been adversely impacted by weak investment returns: these are net of a recovery of £0.2m in respect of a cash deposit with Kaupthing, Singer and Friedlander which we had fully written off to the extent of some £1.1m during the second half of 2008. Weaker interest rates did, however, serve to reduce the overall burden of financing costs.

EEV Result

Supplementary information prepared in accordance with EEV principles and set out in the financial information on pages 24 to 33 is presented to provide alternative information to that presented under IFRS. EEV principles recognise profits as they are earned over the life of insurance and investment contracts and assist in identifying the value being generated by the life businesses. The result determined under this method represents principally the movement in the life businesses' embedded value, before transfers made to the Parent Company and ignoring any capital movements. As the Group's life assurance operations were substantially closed to new business during the period under review, the principal underlying components of the EEV result are the expected return from the business in force (being the yield at the risk discount rate on the related policy cash flows as they fall into surplus) together with (1) variances of actual experience from that assumed for each component of the policy in-force cash flows and (2) the impact of resetting assumptions for each component of the prospective cash flows.

The following is a summarised statement of the EEV result:

	Unaudited		Year ended
	6 months ended		31 December
	2009	2008	2008
	£000	£000	£000
Operating profit / (loss) before tax	10,227	(4,669)	25,906
Variation from longer term investment return	(2,710)	428	(16,831)
Economic assumption changes	293	(950)	6,951
Profit / (loss) before tax	7,810	(5,191)	16,026
Tax			
- current	(4,071)	(2,500)	(3,759)
- deferred	2,638	9,726	2,559
Profit for the period after tax	6,377	2,035	14,826

Favourable lapse experience of £3.2m and favourable mortality/morbidity experience of £1.6m over the six-month period, together with the expected unwind of the risk discount rate at 6.3% of some £4.0m, contributed to a very strong EEV operating result for the period.

This was further enhanced by the release of £1.1m from a remedial provision and by a recovery of £0.2m in respect of a cash deposit previously written off, both referred to under 'IFRS Result' above.

Investment market returns continued to be weak, generating an adverse variance in excess of £2.7m. However, taking the six-month period as a whole, equity market performance was steady, in spite of sharp intra period fluctuations, so that the investment market experience variance arising on our linked portfolios was relatively minor.

Overall, embedded value performance has held up well in a trading environment which continues to be difficult and challenging.

Shareholders' Equity and Embedded Value of Covered Business – EEV Basis

The consolidated balance sheet prepared in accordance with EEV principles may be summarised as:

	Unaudited 30 June		31 December
	2009	2008	2008
	£000	£000	£000
Value of in-force business	80,153	85,939	84,940
Other net assets	98,732	93,109	97,768
	178,885	179,048	182,708
Represented by:			
Embedded value ('EV') of covered business	135,175	143,005	154,329
Less: amount financed by borrowings	(4,194)	(8,326)	(8,358)
EV of covered business attributable to shareholders	130,981	134,679	145,971
Net equity of other Group companies	47,904	44,369	36,737
Shareholders' equity	178,885	179,048	182,708

Subsequent to 31 December 2008, a dividend of £26m was paid to Chesnara plc from the Life business. This reduced the EV of the covered business, while increasing the net equity of other Group companies.

The tables below set out the components of the value of in-force business by major product line at each period end:

	Unaudited 30 June		31 December
	2009	2008	2008
	000	000	000
Number of policies			
Endowment	58	62	62
Protection	61	70	64
Annuities	5	4	5
Pensions	52	50	53
Other	8	9	8
Total	184	195	192

Subsequent to 30 June 2008, and following the migration of CWA's business to the outsourcer's systems, the methodology for determining CWA policy numbers was amended. The numbers of policies as at 30 June 2008, as reflected above, have not, as regards the CWA component, been re-stated in accordance with this change in methodology and are as originally reported. The numbers of policies as at 31 December 2008 and 30 June 2009 are stated in accordance with the change in methodology.

	Unaudited 30 June		31 December
	2009	2008	2008
	£m	£m	£m
Value in-force			
Endowment	46.5	51.4	53.8
Protection	47.3	55.0	51.2
Annuities	5.3	2.3	4.5
Pensions	32.7	34.1	33.5
Other	-	0.2	-
Total at product level	131.8	143.0	143.0
Valuation adjustments			
Holding company expenses	(8.8)	(20.5)	(8.7)
Other	(23.1)	(20.5)	(26.3)
Cost of capital	(4.4)	(5.1)	(5.1)
Value in-force pre-tax	95.5	96.9	102.9
Taxation	(15.3)	(11.0)	(18.0)
Value in-force post-tax	80.2	85.9	84.9

Principal Risks and Uncertainties

The Group's management of insurance risk is a critical aspect of the business. The primary insurance activity carried out by the Group comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event, with the majority of the Group's exposure relating to mortality risk on individual lives, predominantly in the UK. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts.

The Group is also exposed to a range of financial risks through its life assurance contracts, financial assets, financial liabilities, including investment contracts and borrowings, and its reinsurance assets. In particular, the key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are market risk (interest rate risk and equity price risk), and credit risk, including the risk of reinsurer default. The Group has procedures for setting and monitoring the Group's assets and liability position with the objective of ensuring that the Group can always meet its obligations without undue cost and in accordance with the Group's internal and regulatory capital requirements.

Detailed information on the characteristics and management of insurance and financial risks borne by the Group is provided in Notes 4 and 5 respectively of the Company's published consolidated financial statements for the year ended 31 December 2008.

In addition, insofar as the Group makes estimates and assumptions that affect the reported amounts of the following assets and liabilities, there is uncertainty as to the amounts at which they may eventually be settled or realised and as to the timing of settlement or realisation:

- (i) estimates of future benefits payments arising from long-term insurance contracts;
- (ii) fair value of investment contracts;
- (iii) liability for redress in respect of mortgage endowment misselling complaints and of unit pricing error;
- (iv) deferred acquisition costs and deferred income; and
- (v) amortisation of acquired value of in-force business.

Detailed information on these items is provided in Note 3 of the Company's published consolidated financial statements for the year ended 31 December 2008.

There have been no changes in the nature and incidence of the principal risks and uncertainties, referred to above, during the six months ended 30 June 2009, except in relation to continuing volatility in global investment markets. The impact of this on reported results for the six months ended 30 June 2009 is set out in the commentary under 'IFRS Result' and 'EEV Result' above. Clearly there is continuing significant uncertainty with regard to the direction of investment markets over the remaining six months of the current financial year and attention is drawn particularly to the sensitivity of the reported embedded value of the Company to investment market and interest rate movements set out in Note 7 to the European Embedded Value Basis Supplementary Information on page 32.

Related Party Transactions

There have been no related party transactions that have occurred during the first six months of the financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

Solvency and Regulatory Capital

Regulatory Capital Resources and Requirements

The regulatory capital of life insurance companies in the UK is calculated by reference to FSA prudential regulations. The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. As such, there is a restriction on the full transfer of surplus from the long-term business fund to shareholder funds of the Life company and on the full distribution of reserves from the Life company to Chesnara.

The following summarises the capital resources and requirements of the Life company for regulatory purposes after making provision for dividend payments from the Life company to Chesnara, which were approved after the respective period ends. There were no such dividends relating to 30 June 2009 or 30 June 2008.

	Unaudited 30 June 2009 £m	2008 £m	31 December 2008 £m
Available capital resources ('CR')	55.0	57.1	43.0
Long-term insurance capital requirement ('LTICR')	21.2	23.6	22.5
Resilience capital requirement ('RCR')	1.6	1.5	1.8
Total capital resources requirement ('CRR')	22.8	25.1	24.3
Target capital requirement cover	33.5	37.0	35.6
Excess of CR over target requirement	21.5	20.1	7.4
Ratio of available CR to CRR	241%	227%	177%

The CA Board, as a matter of policy, continues to target CR cover for total CRR at a minimum level of 150% of the total LTICR and 100% of the RCR.

It can be seen from this information that Chesnara, which relies on dividend distributions from its Life company, is currently in a favourable position to service its loan commitments and to continue to pursue a progressive dividend policy.

Available capital resources as at 30 June 2009 are reflected after taking account of an FSA rule modification, granted on 17 August 2009, to allow Countrywide Assured plc to not treat entities, if control is exercised by, or on behalf of, HM Treasury, as closely-related counterparties.

Insurance Group Directive

In accordance with the EU Insurance Group Directive, the Group calculates the excess of the aggregate of regulatory capital employed over the aggregate minimum solvency requirement imposed by local regulators. The following sets out these calculations after the recognition of interim and final dividends for the financial year, approved by the Board and paid to Group shareholders after the respective dates:

	Unaudited 30 June 2009 £m	2008 £m	31 December 2008 £m
Available group capital resources	93.0	87.3	86.9
Group regulatory capital requirements	(22.8)	(25.1)	(24.3)
Excess	70.2	62.2	62.6
Cover	408%	348%	358%

The regulatory requirement is that available group capital resources should be at least 100% of capital requirements.

Available group capital resources as at 30 June 2009 are reflected after taking account of an FSA rule modification as referred to above.

As stated on page 4 above, the Group financed the acquisition of Moderna from internal cash resources on 23 July 2009. Had this transaction occurred on 30 June 2009, the cover at that date would have been an estimated 283%.

Individual Capital Assessments

The FSA Prudential Sourcebooks require an insurance company to make its own assessment of its capital needs to a required standard (a 99.5% probability of being able to meet its liabilities to policyholders after one year). In the light of scrutiny of this assessment, the FSA may impose its own additional individual capital guidance. The Individual Capital Assessment is based on a realistic liability assessment, rather than on the statutory mathematical reserves, and involves stress testing the resultant realistic balance sheet for the impact of adverse events.

Countrywide Assured plc completed a further annual assessment during 2008 as a result of which it was concluded that the effective current- and medium-term capital requirement constraints on distributions to Chesnara will continue to be on the basis set out under "Regulatory capital resources and requirements" above.

EU Solvency II Framework

Over the first half of 2009 we have continued to monitor developments in the EU Solvency II framework which, when introduced, will replace the current framework, developed in the 1970s, with a risk-based approach. We commissioned a firm of external consultants to undertake a gap analysis and the results of this are being used to inform our Implementation Plan, to meet the initial implementation date of October 2012. In the meantime, we have continued internal quantitative analysis and begun to assess the impact on the Group of the content of the numerous Consultation Papers which have been issued by the Committee of European Insurance and Occupational Pensions Supervisors ('CEIOPS')

Developments

In the second half of the year Chesnara will continue to search for consolidation or other value-enhancing acquisition opportunities and work with our outsource partners to ensure continuing delivery of acceptable service levels. We will also maintain our focus on mortgage endowment and persistency issues.

In addition we will seek to work with our new colleagues in Moderna to maximise the value they can bring to the Group.

Consolidation

The effects of the dislocation in the financial markets have given rise to further opportunities for consolidation in the life assurance market. We have recently seen evidence of this with the restructuring at Pearl, the proposed purchase of Lincoln by Sun Life of Canada and Resolution's agreed offer for Friends Provident and their reported plans for further consolidation. Whilst not competing at this value level we are seeing more opportunity in our targeted range of the market.

Regulatory

With our TCF project on track, our Individual Capital Assessment indicating that, at present, we have no requirement to hold additional regulatory capital and no other significant regulatory challenges emerging we will look to build on our progress to date and to ensure that we maintain strong and focussed management of our regulatory and risk programmes.

Financial Reporting

In June 2008, the European Insurance CFO Forum ('CFO Forum') issued the European Insurance CFO Forum Market Consistent Embedded Value ('MCEV') Principles (copyright © Stichting CFO Forum Foundation 2008). These principles, with which we had intended to comply with effect from the interim financial statements for the six months ended 30 June 2009, represent a development of the existing European Embedded Value ('EEV') principles issued by the same Forum, which form the current basis of preparation of our Supplementary Information – European Embedded Value Basis as set out on Note 1 to the Supplementary Information on page 27. However, on 22 May 2009, the CFO Forum announced that the mandatory MCEV reporting date for all its

member firms would be deferred until 2011, in light of developments arising from the current financial crisis. In accordance with this, we have also decided to defer compliance with the MCEV Principles, and any amendment thereto, until 2011.

Mortgage Endowments and Persistency

Notwithstanding the acceptable mortgage endowment experience and the positive persistency result in the first half of the year we remain aware that they are both significant drivers of both current and future profitability. Therefore they will, necessarily, receive ongoing focussed management attention.

Outlook

The results for the first six months have benefited from ongoing improvement in policy attrition rates, improved mortality experience, strong expense management and a reduction in the adverse impact of investment market performance. We believe that the results demonstrate a level of ongoing resilience to the rigours of volatile market conditions.

The uncertain economic climate may bring challenges in terms of persistency and endowment misselling claims. In the case of persistency we have yet to reflect the improvements in persistency that we have enjoyed in recent times and this provides a buffer against any adverse experience. On endowments the percentage of clients time-barred continues to edge up whilst the average compensation will reduce if equity markets continue their upward trend. We believe the current reserve reflects a realistic view of likely future outcomes.

We continue to seek consolidation opportunities that could leverage value from our existing, and newly acquired, capabilities with a higher level of optimism than in recent times.

We continue to believe we are well placed to fulfil our stated objective of delivering a reliable and progressive dividend flow.

The Board wishes to extend its thanks to all its employees for their continued contribution to the Group and extends a welcome to our new colleagues in Sweden.

Dividend

We have signalled that we aim to provide a reliable and progressive dividend payment. With the continuing healthy emergence of surplus from the underlying product base, the improving situation in the key areas of mortgage endowment and persistency and the strong solvency position of the business, the Board are pleased to be able to recommend an interim dividend of 5.65p, which represents an increase of 2.7% over the 2008 interim payment.

Graham Kettleborough
Chief Executive Officer
27 August 2009

Statement of Directors' Responsibilities in respect of the Half Yearly Financial Report

The Directors confirm that, to the best of their knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU; and
- the interim management report includes a fair view of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules in respect of
 - (I) transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the Group during that period; and
 - (II) any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board:

Ken Romney
Finance Director
27 August 2009

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2009

	Unaudited 6 months ended 30 June		Year ended 31 December
Note	2009 £000	2008 £000	2008 £000
Insurance premium revenue	44,577	48,183	94,274
Insurance premium ceded to reinsurers	(8,110)	(8,779)	(17,193)
Net insurance premium revenue	36,467	39,404	77,081
Fee and commission income			
Insurance contracts	17,573	17,905	35,289
Investment contracts	3,299	4,907	9,305
Net investment return	9,145	(114,296)	(222,742)
Total revenue (net of reinsurance payable)	66,484	(52,080)	(101,067)
Other operating income	1,498	1,031	1,314
	67,982	(51,049)	(99,753)
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	(60,417)	(72,350)	(131,829)
Net decrease in insurance contract provisions	9,809	97,734	180,265
Reinsurers' share of claims and benefits	7,287	(4,011)	(8,736)
Net insurance contract claims and benefits incurred	(43,321)	21,373	39,700
Change in investment contract liabilities	(3,658)	51,632	108,516
Reinsurers' share of investment contract liabilities	193	(2,352)	(4,743)
Net change in investment contract liabilities	(3,465)	49,280	103,773
Fees, commission and other acquisition costs	(661)	(601)	(1,377)
Administrative expenses	(6,322)	(6,531)	(13,633)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	(1,863)	(1,740)	(3,578)
Other	(1,027)	(300)	(1,653)
Total expenses	(56,659)	61,481	123,232
Operating profit	11,323	10,432	23,479
Financing costs	(112)	(455)	(752)
Profit before income taxes	11,211	9,977	22,727
Income tax expense	(2,922)	(1,917)	(2,710)
Profit for the period and total comprehensive income for the period	8,289	8,060	20,017
Basic earnings per share	8.17p	7.71p	19.24p
Diluted earnings per share	8.17p	7.71p	19.24p

The profit for the period and the total comprehensive income for the period are both attributable solely to the owners of the company.

Condensed Consolidated Balance Sheet at 30 June 2009

		Unaudited 30 June		31 December
	Note	2009 £000	2008 £000	2008 £000
Assets				
Intangible assets				
Deferred acquisition costs		8,116	9,158	8,590
Acquired value of in-force business				
Insurance contracts		15,512	18,197	16,866
Investment contracts		11,101	12,118	11,610
Reinsurers' share of insurance contract provisions		181,769	197,763	182,693
Amounts deposited with reinsurers		22,339	24,876	22,181
Investment properties		3,272	3,673	3,432
Financial assets				
Equity securities at fair value through income		356,387	443,155	363,879
Holdings in collective investment schemes at fair value through income		589,530	634,228	576,502
Debt securities at fair value through income		258,410	247,457	279,104
Insurance and other receivables		9,812	13,008	11,056
Prepayments		2,920	269	1,600
Derivative financial instruments		2,410	8,338	5,570
Total financial assets		1,219,469	1,346,455	1,237,711
Reinsurers' share of accrued policyholder claims		3,519	4,356	4,100
Cash and cash equivalents		178,789	244,810	192,381
Total assets	4	1,643,886	1,861,406	1,679,564
Liabilities				
Bank overdrafts		2,074	1,506	1,094
Insurance contract provisions		910,174	1,009,868	923,506
Financial liabilities				
Investment contracts at fair value through income		535,536	650,061	558,542
Borrowings	6	4,194	8,326	8,358
Derivative financial instruments		746	2,474	70
Total financial liabilities		540,476	660,861	566,970
Provisions		2,580	3,494	3,397
Deferred tax liabilities		9,647	11,263	10,798
Reinsurance payables		1,772	1,942	1,397
Payables related to direct insurance and investment contracts		24,948	24,023	23,891
Deferred income		13,779	15,576	14,575
Income taxes		6,956	2,643	1,074
Other payables		7,023	6,688	6,494
Total liabilities	4	1,519,429	1,737,864	1,553,196
Net assets		124,457	123,542	126,368
Shareholders' equity				
Share capital		41,501	41,501	41,501
Share premium		20,458	20,458	20,458
Treasury shares		(3,379)	-	(3,379)
Other reserves		50	50	50
Retained earnings	3	65,827	61,533	67,738
Total shareholders' equity		124,457	123,542	126,368

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2009

	Unaudited 6 months ended 30 June		Year ended 31 December
	2009	2008	2008
	£000	£000	£000
Profit for the year	8,289	8,060	20,017
Adjustments for:			
Amortisation of deferred acquisition costs	474	384	952
Amortisation of acquired in-force value	1,863	1,739	3,577
Tax expense	2,922	1,917	2,710
Interest receivable	(8,558)	(13,825)	(24,398)
Dividends receivable	(15,266)	(15,908)	(35,781)
Interest expense	112	455	752
Change in fair value of investment properties	160	(10)	324
Fair value losses on financial assets	3,824	146,777	247,210
Interest received	8,627	10,639	22,150
Dividends received	15,024	18,399	39,278
Changes in operating assets and liabilities			
Decrease in financial assets	14,494	30,569	38,166
Decrease in reinsurers' share of insurance contract provisions	1,505	14,895	30,221
(Increase) / decrease in amounts deposited with reinsurers	(158)	2,682	5,377
Decrease in insurance and other receivables	1,417	2,818	194
(Increase) / decrease in prepayments	(1,320)	15	1,316
Decrease in insurance contract provisions	(13,332)	(100,980)	(187,342)
Decrease in investment contract liabilities	(23,006)	(76,442)	(167,961)
Decrease in provisions	(817)	(81)	(178)
Increase / (decrease) in reinsurance payables	375	320	(225)
Increase in payables related to direct insurance and investments contracts	1,057	1,164	1,032
Increase / (decrease) in other payables	427	1,353	(2,728)
Cash (utilised by) / generated from operations	(1,887)	34,940	(5,337)
Income tax paid	1,811	(600)	(2,921)
Net cash (utilised by) / generated from operating activities	(76)	34,340	(8,258)
Cash flows from financing activities			
Repayment of borrowings	(4,200)	(4,200)	(4,200)
Dividends paid	(10,200)	(10,302)	(16,054)
Interest paid	(96)	(432)	(720)
Purchase of treasury shares	-	-	(3,379)
Net cash utilised by financing activities	(14,496)	(14,934)	(24,353)
Net (decrease) / increase in cash and cash equivalents	(14,572)	19,406	(32,611)
Cash and cash equivalents at beginning of period	191,287	223,898	223,898
Cash and cash equivalents at end of period	176,715	243,304	191,287

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2009

Unaudited Six months ended 30 June 2009						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2009	41,501	20,458	50	(3,379)	67,738	126,368
Profit for the period representing total recognised income and expenses	-	-	-	-	8,289	8,289
Dividends paid	-	-	-	-	(10,200)	(10,200)
Equity shareholders' funds at 30 June 2009	41,501	20,458	50	(3,379)	65,827	124,457

Unaudited Six months ended 30 June 2008						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2008	41,501	20,458	50	-	63,775	125,784
Profit for the period representing total recognised income and expenses	-	-	-	-	8,060	8,060
Dividends paid	-	-	-	-	(10,302)	(10,302)
Equity shareholders' funds at 30 June 2008	41,501	20,458	50	-	61,533	123,542

Year ended 31 December 2008						
	Share capital £000	Share premium £000	Capital redemption reserve £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2008	41,501	20,458	50	-	63,775	125,784
Purchase of treasury shares	-	-	-	(3,379)	-	(3,379)
Profit for the period representing total recognised income and expenses	-	-	-	-	20,017	20,017
Dividends paid	-	-	-	-	(16,054)	(16,054)
Equity shareholders' funds at 31 December 2008	41,501	20,458	50	(3,379)	67,738	126,368

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of preparation

This condensed set of consolidated financial statements has been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of consolidated financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2008, which were prepared in accordance with IFRS as adopted by the EU. Any judgements and estimates applied in the condensed set of financial statements are consistent with those applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2008.

In preparing these financial statements, the Company has, for the first time, applied the revised IAS1 *'Presentation of Financial Statements: A Revised Presentation'* and IFRS 8 *'Operating Segments'*, both of which are effective for accounting periods commencing on or after 1 January 2009. The principal effect of applying IAS1 is the re-naming of the Income Statement to *'Condensed Consolidated Statement of Comprehensive Income'*. IFRS 8 sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. Disclosure of the requirements can be seen in Note 4 of the financial statements.

The financial information shown in this half-year review is unaudited and does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2008, are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. Earnings per share

Earnings per share is based on the following:

	Unaudited 6 months ended 30 June		Year ended 31 December
	2009	2008	2008
Profit for the period (£000)	8,289	8,060	20,017
Weighted average number of ordinary shares	101,492,591	104,588,785	104,021,765
Basic earnings per share	8.17p	7.71p	19.24p
Diluted earnings per share	8.17p	7.71p	19.24p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2009 is based on 104,588,785 shares in issue at the beginning and end of the period less 3,096,194 own shares held in treasury.

The weighted average number of shares in respect of the year ended 31 December 2008 is based on 104,588,785 shares in issue at the beginning of the period and on 104,588,785 shares in issue at the end of the period less 3,096,194 own shares held in treasury, taking account of the timing of the purchases of own shares.

The weighted average number of ordinary shares in respect of the six months ended 30 June 2008 is based on 104,588,785 shares in issue at the beginning and end of that period.

There were no share options outstanding during the periods covered by these financial statements. Accordingly, there is no dilution of the average number of ordinary shares in issue in respect of those periods.

3. Retained earnings

	Unaudited 6 months ended 30 June		Year ended 31 December
	2009	2008	2008
	£000	£000	£000
Balance at 1 January	67,738	63,775	63,775
Profit for the period	8,289	8,060	20,017
Dividends			
Final approved and paid for 2007	-	(10,302)	(10,302)
Interim approved and paid for 2008	-	-	(5,752)
Final approved and paid for 2008	(10,200)	-	-
Balance at 30 June/31 December	65,827	61,533	67,738

The final dividend in respect of 2007, approved and paid in 2008, was paid at the rate of 9.85p per share.

The interim dividend in respect of 2008, approved and paid in 2008, was paid at the rate of 5.50p per share.

The final dividend in respect of 2008, approved and paid in 2009, was paid at the rate of 10.05p per share, so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2008 was 15.55p per share.

An interim dividend of 5.65p per share in respect of the year ending 31 December 2009, payable on 12 October 2009 to equity shareholders of the parent company registered at the close of business on 11 September 2009, the dividend record date, was approved by the Directors after 30 June 2009. The resulting interim dividend of £5.7m has not been provided in these financial statements.

The following summarises dividend per share information in respect of the year ended 31 December 2008 and the year ending 31 December 2009:

	2009	2008
Interim dividend	5.65p	5.50p
Final dividend		10.05p
Total for the year		15.55p

4. Operating segments

The Group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis it is reported internally to the Chief Operating Decision Maker, which is the Board of Directors of Chesnara plc.

During the period under review, the Group had one reportable business segment, being its UK life assurance operation, Countrywide Assured Life Holdings Limited ('CAHL'), which holds the Group's life assurance assets and liabilities and was the Group's main strategic unit. The strategic unit is responsible for managing unit-linked and non-linked business.

The management team reviews internal management reports for Countrywide Assured plc, the principal operating subsidiary of CAHL, on a quarterly basis.

There were no changes to the basis of segmentation or the measurement basis for segment profit during the six months ended 30 June 2009.

The functions performed by the holding company, Chesnara plc, are defined under the operating segment analysis as reconciling corporate activities.

The table below provides information on the profit before tax and the total assets and liabilities of the reporting segment and the Group for the period under review.

	Unaudited 6 months ended 30 June		Year ended 31 December
	2009	2008	2008
	£000	£000	£000
Profit before tax			
Segment profit before tax	13,401	11,062	27,116
Funding costs	(112)	(455)	(752)
Charge for amortisation of acquired value of in-force business	(1,751)	(1,751)	(3,502)
Net segment profit before tax	11,538	8,856	22,862
Reconciling corporate activities	(327)	1,121	(135)
Group profit before tax	11,211	9,977	22,727
Group total assets and liabilities			
Segment total assets	1,569,357	1,786,729	1,614,120
Acquired value of in-force business	25,806	29,308	27,557
Reconciling corporate activities	48,723	45,369	37,887
Group total assets	1,643,886	1,861,406	1,679,564
Segment total liabilities	1,507,046	1,719,965	1,535,848
Acquired value of in-force business deferred tax	6,799	7,708	7,254
Funding	4,194	8,326	8,358
Reconciling corporate activities	1,390	1,865	1,736
Group total liabilities	1,519,429	1,737,864	1,553,196

5. Partial recovery from Kaupthing Singer and Friedlander of bad debt written off in relation to a cash deposit

As stated in the Group's financial statements for the year ended 31 December 2008, following the entry of Kaupthing Singer and Friedlander into administration, a cash deposit with them in the amount of £1.1m had been fully written down during the year ended 31 December 2008. As part of the ongoing administration process, an initial payment of £0.2m was received on 24 July 2009 and this recovery has been included in income for the six months ended 30 June 2009.

6. Borrowings

	Unaudited 30 June		31 December
	2009	2008	2008
	£000	£000	£000
Bank Loan	4,194	8,326	8,358

The bank loan, which was drawn down on 2 June 2005 under a facility made available on 4 May 2005, is unsecured and is repayable in five equal annual amounts on the anniversary of the draw-down date. The outstanding principal on the loan bears interest at a rate based on the London Inter-bank Offer Rate and is payable in arrears over a period which varies between one and six months at the option of the borrower.

The fair value of the bank loan at 30 June 2009 was £4,200,000 (30 June 2008 and 31 December 2008: £8,400,000).

7. Events after the reporting period – acquisition of Moderna Försäkringar Liv AB

On 23 July 2009, Chesnara plc acquired the entire issued share capital of Moderna Försäkringar Liv AB ('Moderna') from Moderna Finance AB for a total consideration of SEK 250m (£20m), payable in cash.

Moderna is a Stockholm-based unit-linked life insurance company which specialises in corporate and personal pension arrangements and life assurance policies. Primarily it aggregates client funds into a range of investment providers and provides policy wrappers. It, primarily, sells through the independent financial adviser channel, has, approximately, 9% per cent market share of the Swedish unit-linked pension business and also operates in Norway. It was set up in 2000, with the unit-linked business being launched in 2002 and currently has 65 employees. The business was acquired from Moderna Finance AB which is owned by Glitnir Bank in Iceland.

Fair value considerations in accordance with 'IFRS 3: Business Combinations' will be disclosed in the annual financial statements of Chesnara plc for the year ended 31 December 2009.

8. Contingencies

Past sales

The Group has made provision for the estimated cost of settling complaints in respect of past sales of endowment mortgages. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management. In particular, uncertainty exists in relation to future regulatory actions and to the outcome of ongoing cases which have been referred to the Financial Ombudsman Service. The outcome of such referrals may lead to a review of other similar cases and the financial effect of these cannot be assessed with any certainty until the cases, which the Company continues to contest, have been concluded.

9. Forward-looking statements

This document may contain forward-looking statements with respect to certain of the plans and current expectations relating to future financial condition, business performance and results of Chesnara plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Chesnara plc including, amongst other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdiction in which Chesnara plc and its subsidiaries operate. As a result, Chesnara plc's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

10. Approval of condensed consolidated report for the six months ended 30 June 2009

This condensed consolidated report was approved by the Board of Directors on 27 August 2009. A copy of the report will be available to the public at the Company's registered office, Harbour House, Portway, Preston PR2 2PR, UK and at www.chesnara.co.uk.

Supplementary Information – European Embedded Value Basis

Summarised Consolidated Interim Income Statement for the six months ended 30 June 2009

	Note	Unaudited Six months ended 30 June		Year ended 31 December
		2009 £000	2008 £000	2008 £000
Operating profit / (loss) of covered business	6	10,075	(5,334)	25,521
Other operational result		152	665	385
Operating profit / (loss)		10,227	(4,669)	25,906
Variation from longer-term investment return		(2,710)	428	(16,831)
Effect of economic assumption changes		293	(950)	6,951
Profit / (loss) before tax		7,810	(5,191)	16,026
Tax		(1,433)	7,226	(1,200)
Profit for the period		6,377	2,035	14,826
Earnings per share				
Based on profit for the period		6.28p	1.95p	14.25p
Diluted earnings per share				
Based on profit for the period		6.28p	1.95p	14.25p

Supplementary Information – European Embedded Value Basis

Summarised Consolidated Interim Balance Sheet as at 30 June 2009

		Unaudited 30 June		31 December
		2009	2008	2008
	Note	£000	£000	£000
Assets				
Value of in force business	5,8	80,153	85,939	84,940
Reinsurers' share of insurance contract provisions		165,377	177,575	165,648
Amounts deposited with reinsurers		21,584	24,039	21,404
Investment properties		3,272	3,673	3,432
Deferred tax assets		-	82	-
Financial assets				
Equity securities at fair value through income		356,387	443,155	363,879
Holdings in collective investment schemes at fair value through income		589,530	634,228	576,502
Debt securities at fair value through income		258,410	247,457	279,104
Insurance and other receivables		9,812	13,008	11,056
Prepayments		2,920	269	1,600
Derivative financial instruments		2,410	8,338	5,570
Total financial assets		1,219,469	1,346,455	1,237,711
Reinsurers' share of accrued policy claims		3,519	4,356	4,100
Income taxes		-	-	-
Cash and cash equivalents		178,789	244,810	192,381
Total assets		1,672,163	1,886,929	1,709,616
Liabilities				
Bank Overdrafts		2,074	1,506	1,094
Insurance contract provisions		893,908	989,974	907,071
Financial liabilities				
Investment contracts at fair value through income		549,063	666,811	573,955
Borrowings		4,194	8,326	8,358
Derivative financial instruments		746	2,474	70
Total financial liabilities		554,003	677,611	582,383
Provisions		2,580	3,494	3,397
Deferred tax liabilities		14	-	-
Reinsurance payables		1,772	1,942	1,397
Payables related to direct insurance and investment contracts		24,948	24,023	23,891
Income taxes		6,956	2,643	1,181
Other payables		7,023	6,688	6,494
Total liabilities		1,493,278	1,707,881	1,526,908
Net assets		178,885	179,048	182,708
Shareholders' equity				
Share capital		41,501	41,501	41,501
Share premium		20,458	20,458	20,458
Treasury shares		(3,379)	-	(3,379)
Other reserves		50	50	50
Retained earnings		120,255	117,039	124,078
Total shareholders' equity	5,8	178,885	179,048	182,708

Supplementary Information – European Embedded Value Basis

Summarised Consolidated Interim Statement of Changes in Equity for the six months ended 30 June 2009

	Unaudited Six months ended 30 June		Year Ended 31 December
	2009 £000	2008 £000	2008 £000
Shareholders' equity at 1 January	182,708	187,315	187,315
Purchase of treasury shares	-	-	(3,379)
Profit for the period representing total recognised income and expense	6,377	2,035	14,826
Dividends paid	(10,200)	(10,302)	(16,054)
Shareholders' equity at 30 June/31 December	178,885	179,048	182,708

Supplementary Information – European Embedded Value Basis

Notes to the Supplementary Information (unaudited)

1. Basis of presentation

This section sets out the detailed methodology followed for producing this Group financial information which is supplementary to the Group's primary financial statements which have been prepared using accounting policies consistent with International Financial Reporting Standards ('IFRS') and in accordance with International Accounting Standard 34 as adopted by the EU. This financial information has been prepared in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005. The principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

2. Covered business

The Group uses EEV methodology to value its individual life assurance, pension and annuity business, which has been written, with only insignificant exceptions, in the UK ('covered business'). This business comprises the Group's long-term business operations, being those contracts falling under the definition of long-term insurance business for UK regulatory purposes.

The Group has no business activities other than those relating to the covered business. In particular, the operating activities of the holding company, Chesnara plc, are treated as an integral part of the covered business. Under EEV principles no distinction is made between insurance and investment contracts, as there is under IFRS, which accords these classes of contracts different accounting treatments.

3. Methodology

a) Embedded Value

Overview

Shareholders' equity comprises the embedded value of the covered business, together with the net equity of other Group companies, including that of the holding company which is stated after writing down fully the carrying value of the covered business.

The embedded value of the covered business is the aggregate of the shareholder net worth ('SNW') and the present value of future shareholder cash flows from in-force covered business (value of in-force business) less any deduction for the cost of required capital. It is stated after allowance has been made for aggregate risks in the business. SNW comprises those amounts in the long-term business, which are either regarded as required capital or which represent surplus assets within that business.

New business

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. The Group does still sell guaranteed bonds but, overall, the contribution from new business to the results established using EEV methodology is not material. Accordingly, not all of those items related to new business values, which are recommended by the EEV guidelines, are reported in this supplementary financial information.

Value of in-force business

The cash flows attributable to shareholders arising from in-force business are projected using best estimate assumptions for each component of cash flow.

The present value of the projected cash flows is established by using a discount rate which reflects the time value of money and the risks associated with the cash flows which are not otherwise allowed for. There is a deduction for the cost of holding the required capital, as set out below.

Taxation

The present value of the projected cash flows arising from in-force business takes into account all tax which is expected to be paid under current legislation, including tax which would arise if surplus assets within the covered business were eventually to be distributed.

The value of the in-force business has been calculated on an after-tax basis and is grossed up to the pre-tax level for presentation in the income statement. The amount used for the grossing up is the amount of shareholder tax payable in the policyholder fund plus any direct tax charge within the shareholder fund.

Cost of capital

The cost of holding the required capital to support the covered business (see 3b below) is reflected as a deduction from the value of in-force business and is determined as the difference between the amount of the required capital and the projected release of capital and investment income.

Financial options and guarantees

The principal financial options and guarantees are (i) guaranteed annuity rates offered on some unit-linked pension contracts and (ii) a guarantee offered under Timed Investment Funds that the unit price available at the selected maturity date (or at death, if earlier) will be the highest price attained over the policy's life. The cost of these options and guarantees has been assessed, in principle, on a market-consistent basis, but, in practice, this has been carried out on approximate bases, which are appropriate to the level of materiality of the results.

Allowance for risk

Allowance for risk within the covered business is made by:

- 1) Setting required capital levels by reference to the Directors' assessment of capital needs;
- 2) Setting the risk discount rate, which is applied to the projected cash flows arising on the in-force business, at a level which includes an appropriate risk margin; and
- 3) Explicit allowance for the cost of financial options and guarantees and, where appropriate, for reinsurer default.

b) Level of Required Capital

The level of required capital of the covered business reflects the amount of capital that the Directors consider necessary and appropriate to manage the business. In forming their policy the Directors have regard to the minimum statutory requirements and an internal assessment of the market, insurance and operational risks inherent in the underlying products and business operations. The capital requirement resulting from this assessment represents 150% of the long-term insurance capital requirement ('LTICR') together with 100% of the resilience capital requirement ('RCR'), as set out in FSA regulations.

The required capital is provided by the retained surplus in the long-term business fund and the retained earnings and issued share capital in the shareholder fund.

c) Risk Discount Rate

The risk discount rate ('RDR') is a combination of the risk-free rate and a risk margin. The risk-free rate reflects the time value of money and the risk margin reflects any residual risks inherent in the covered business and makes allowance for the risk that future experience will differ from that assumed. In order to reduce the subjectivity when setting the RDR, the Board has decided to adopt a 'bottom up' market-consistent approach to allow explicitly for market risk.

Using the market-consistent approach each cash flow is valued at a discount rate consistent with that used in the capital markets: in accordance with this, equity-based cash flows are discounted at an equity RDR and bond-based cash flows at a bond RDR. In practice a short-cut method known as the 'certainty equivalent' approach has been adopted. This method assumes that all cash flows earn the risk-free rate of return and are discounted at the risk-free rate. In general, and consistent with the market's approach to valuing financial instruments for hedging purposes, the risk-free rate is based on swap yields. Where, however, non-linked business is substantially backed by government bonds, the yields on these assets have been taken.

Within the risk margin, allowance also needs to be made for non-market risks. For some of these risks, e.g. mortality and expense risk, it is assumed that the shareholder can diversify away any uncertainty where the impact of variations in experience on future cash flows is symmetrical. For those risks that are assumed to be diversifiable no adjustment to the risk margin has been made. For any remaining risks that are considered to be non-diversifiable risks there is no risk premium observable in the market and therefore a constant margin of 50 basis points has been added to the risk margin. The RDR is determined by equating the results from the traditional embedded value approach, including the assumed actual investment returns and traditional cost of capital, to that derived using the market-consistent method, this process being known as calibration of the RDR. The risk margin is then the difference between the derived RDR and the risk-free rate. The selection of the assumed actual investment returns and the reported cost of capital will have no impact on the reported result, as changes in these produce corresponding changes in the RDR.

A market-consistent valuation approach also generally requires consideration of 'frictional' costs of holding shareholder capital: in particular, the cost of tax on investment returns and the impact of investment management fees can reduce the face value of shareholder funds. In the Group's case, the expenses relating to corporate governance functions eliminate any taxable investment return in shareholder funds, while investment management fees are not material.

d) Analysis of Profit

The contribution to operating profit, which is identified at a level which reflects an assumed longer-term level of investment return, arises from three sources:

- (i) New business;
- (ii) Return from in-force business; and
- (iii) Return from shareholder net worth.

Additional contributions to profit arise from:

- (i) Variances between the actual investment return in the period and the assumed long-term investment return; and
- (ii) The effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period in respect of new business written in that period, after allowing for the cost of acquiring the business, the cost of establishing the required technical provisions and after making allowance for the cost of capital.

The return from in-force business is calculated using closing assumptions and comprises:

- (i) The expected return, being the unwind of the discount rate over the period applied to establish the value of in-force business, at the beginning of the period;
- (ii) Variances between the actual experience over the period and the assumptions made to establish the value of business in-force at the beginning of the period; and
- (iii) The net effect of changes in future assumptions, made prospectively at the end of the period, from those used in establishing the value of business in-force at the beginning of the period, other than changes in economic assumptions.

The contribution from shareholder net worth comprises the actual investment return on residual assets in excess of the required capital.

e) Assumption Setting

There is a requirement under EEV methodology to use best estimate demographic assumptions and to review these at least annually with the economic assumptions being determined at each reporting date. The current practice is detailed below.

Each year the demographic assumptions are reviewed as part of year-end processing and hence were last reviewed in December 2008. For mid-year reporting, the previous year-end assumptions are usually considered in light of recent experience, particularly persistency, to ensure robustness, but are not necessarily expected to change.

The detailed projection assumptions, including mortality, morbidity, persistency and expenses reflect recent operating experience. Allowance is made for future improvement in annuitant mortality based on experience and externally published data. Favourable changes in operating experience, particularly in relation to expenses and persistency, are not anticipated until the improvement in experience has been observed. Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are principally allocated to the covered business to reflect effort expended within the holding company relating to the transaction of life assurance business through the subsidiary companies. Hence the expense assumptions used for the cash flow projections include the full cost of servicing this business.

The economic assumptions are reviewed and updated at each reporting date based on underlying investment conditions at the reporting date. The assumed discount rate and inflation rates are consistent with the investment return assumptions.

In addition, the demographic assumptions used at December 2008 are considered to be best estimate and, consequently, no further adjustments are required. The assumptions required in the calculation of the value of the annuity rate guarantee on pension business have been set equal to best-estimate assumptions.

4. Assumptions

a) Investment Returns (pre tax)

The assumed future pre-tax returns on fixed interest and RPI linked securities are set by reference to redemption yields available in the market at the end of the reporting period. The corresponding return on equities and property is equal to the fixed interest gilt assumptions plus an appropriate risk margin; for equities, the return is

split between franked income and capital gains based on a best estimate of long-term average dividend yields. For linked business the aggregate return has been determined by reference to the benchmark asset mix within the Managed Funds.

	30 June		31 December
	2009	2008	2008
Equity risk premium	2.7%	2.7%	2.7%
Property risk premium	2.7%	2.7%	2.7%
Investment return			
Fixed Interest	3.9%	5.2%	3.6%
Equities	6.6%	7.9%	6.3%
Property	6.6%	7.9%	6.3%
UK equities dividend yield	3.1%	4.1%	3.1%
Inflation			
RPI	2.4%	3.9%	1.5%

b) Actuarial Assumptions

The demographic assumptions used to determine the value of the in-force business have been set at levels commensurate with the underlying operating experience identified in the periodic actuarial investigations.

c) Taxation

Projected tax has been determined assuming current tax legislation and rates continue unaltered, except where future tax rates or practices have been announced.

d) Expenses

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions. These have been determined by reference to:

- i) The outsourcing agreements in place with our third-party business process administrators;
- ii) Anticipated revisions to the terms of such agreements as they fall due for renewal; and
- iii) Corporate governance costs relating to the covered business.

The expense assumptions also include the expected future holding company expenses which will be recharged to the covered business.

No allowance has been made for future productivity improvements in the expense assumptions.

e) Risk Discount Rate

The risk-free rate is set by reference to the sterling mid swap rates available in the market at the end of the reporting period. Where, however, non-linked business is substantially backed by government bonds, the yields on these assets have been used.

An explicit constant margin of 50 basis points is added to the risk-free rate to cover any remaining risks that are considered to be non-market, non-diversifiable risks, as there is no risk premium observable in the market. This margin gives due recognition to the fact that:

- i) The covered business is substantially closed to new business;
- ii) There is no significant exposure in the with-profits business, which is wholly reassured;
- iii) Expense risk is limited as a result of the outsourcing of substantially all policy administration functions to third-party business process administrators; and
- iv) For much of the Life business the Group has the ability to vary risk charges made to policyholders.

	30 June		31 December
	2009	2008	2008
Risk-free rate	4.3%	5.6%	3.6%
Non-diversifiable risk	0.5%	0.5%	0.5%
Risk margin	1.0%	2.2%	2.2%
Risk discount rate	5.8%	8.3%	6.3%

The risk margin is derived as a result of the calibration of the Risk Discount Rate, as explained in Note 3e above. The significant reduction between 31 December 2008 and 30 June 2009 reflects the fact that:

- (i) changes in economic factors that underlie key investment assumptions have reduced the tax margins which make up part of the risk that the calibration process adjusts for; and
- (ii) between 31 December 2008 and 30 June 2009 the yields on UK government bonds and swap rates have not moved in tandem: this impacts the Risk Discount Rate as, where business is substantially backed by government bonds, the yields on these are used for the discount rate, as explained in Note 3e above.

5 Analysis of shareholders' equity

	30 June		31 December
	2009	2008	2008
	£000	£000	£000
Covered business			
Required capital	33,494	36,962	35,615
Free surplus	21,528	20,104	33,774
Shareholder net worth	55,022	57,066	69,389
Value of in-force business	80,153	85,939	84,940
Embedded value of covered business	135,175	143,005	154,329
Less: amount financed by borrowings	(4,194)	(8,326)	(8,358)
Embedded value of covered business attributable to shareholders	130,981	134,679	145,971
Net equity of other Group companies	47,904	44,369	36,737
Total shareholders' equity	178,885	179,048	182,708
The movement in the value of in-force business comprises:			
Value at beginning of period	84,940	94,007	94,007
Amount charged to operating profit	(4,787)	(8,068)	(9,067)
Value at end of period	80,153	85,939	84,940

On 2 June 2005, the Group drew down £21m on a bank loan facility, in order to part fund the acquisition of CWA Life Holdings plc. This effectively represented, by way of debt finance, a purchase of part of the underlying value in force within that company, which was subsequently transferred to Countrywide Assured plc on 30 June 2006 under the provisions of Part VII of the Financial Services and Markets Act 2000. It follows that the embedded value of the covered business is not attributable to equity shareholders of the Group to the extent of the outstanding balance on the loan account at each balance sheet date. The loan is repayable in five equal annual instalments on the anniversary of the draw-down date, the funds for the repayment effectively being provided by way of the realisation of the underlying value of in-force business of the covered business. In accordance with this, a further £4.2m of the loan was repaid on 2 June 2009, leaving principal outstanding at that date of £4.2m.

6 Analysis of profit of covered business

	Six months ended 30 June		Year Ended 31 December
	2009	2008	2008
	£000	£000	£000
New business contribution	188	549	715
Return from in-force business			
Expected return	3,965	5,389	10,445
Experience variances	6,651	(9,894)	9,166
Operating assumption changes	(218)	-	4,590
Return on shareholder net worth	(511)	(1,378)	605
Operating profit	10,075	(5,334)	25,521
Variation from longer-term investment return	(2,710)	428	(16,831)
Effect of economic assumption changes	293	(950)	6,951
Profit before tax	7,658	(5,856)	15,641
Tax	(1,392)	7,232	(1,376)
Profit after tax	6,266	1,376	14,265

The profit of covered business varies from amounts presented in the summarised consolidated income statement in respect of the pre-tax result of the holding company presented as 'other operational result', and in respect of any tax pertaining thereto, which is included in 'other tax'.

Experience variances for the six months ended 30 June 2008 reflect the impact of significant adverse global investment market conditions over that period. There was a concomitant significant reduction in the estimate of future tax payable, as this was dependent, to a significant extent, on the associated projection of investment returns and franked investment income.

7. Sensitivities to alternative assumptions

The following table shows the sensitivity of the embedded value of the covered business at relevant period end dates to variations in the assumptions adopted in the calculation of the embedded value. Sensitivity analysis is not provided in respect of the new business contribution for the six months ended 30 June 2009 as the reported level of new business contribution is not considered to be material (see Note 3(a) above). It largely relates to guaranteed bond business, where a close asset/liability matching approach leaves values largely insensitive to changes in experience.

Embedded Value ('EV') of covered business	30 June		31 December
	2009 £135.2m	2008 £143.0m	2008 £154.2m
Change in EV	£m	£m	£m
Economic sensitivities			
100 basis point increase in risk discount rate	(4.9)	(4.8)	(5.0)
100 basis point reduction in yield curve	1.0	2.2	2.9
10% decrease in equity and property values	(3.9)	(5.1)	(4.8)
Operating sensitivities			
10% decrease in maintenance expenses	1.9	2.2	2.0
10% decrease in lapse rates	3.2	3.6	3.2
5% decrease in mortality/morbidity rates			
Assurances	2.1	1.6	1.7
Annuities	(0.9)	(0.8)	(0.9)
Reduction in the required capital to statutory minimum	1.7	1.9	1.7

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

- 100 basis point increase in the risk discount rate. The 5.8% RDR increases to 6.8%;
- 100 basis point reduction in the yield curve. The fixed interest return is reduced by 1% and the equity/property returns are also reduced by 1%, thus maintaining constant equity/property risk premiums. The rate of future inflation has also been reduced by 1% so that real yields remain constant. In addition the risk discount rate has also reduced by 1%; and
- 10% decrease in the equity and property values. This gives rise to a situation where, for example, a Managed Fund unit liability with a 60% equity holding would reduce by 6% in value.

Operating sensitivities

- 10% decrease in maintenance expenses, giving rise to, for example, a base assumption of £20 per policy pa reducing to £18 per policy pa;
- 10% decrease in persistency rates giving rise to, for example, a base assumption of 10% of policy base lapsing pa reducing to 9% pa;
- 5% decrease in mortality/morbidity rates giving rise to, for example, a base assumption of 100% of the parameters in a selected mortality/morbidity table reducing to 95% of the parameters in the same table; and
- The sensitivity to the reduction in the required capital to the statutory minimum shows the effect of reducing the required capital from 150% of the LTICR plus 100% RCR to the amounts of 100% LTICR plus 100% RCR, being the minimum requirement prescribed by FSA regulation.

In each sensitivity calculation all other assumptions remain unchanged except where they are directly affected by the revised economic conditions: for example, as stated, changes in interest rates will directly affect the risk discount rate.

The sensitivities to changes in the assumptions in the opposite direction will result in changes of similar magnitude to those shown in the above table but in the opposite direction.

8. Reconciliation of shareholders' equity on the IFRS basis to shareholder equity on the EEV basis

	30 June		31 December
	2009	2008	2008
	£000	£000	£000
Shareholders' equity on the IFRS basis	124,457	123,542	126,368
Adjustments			
Deferred acquisition costs			
Investment contracts	(7,590)	(8,595)	(8,047)
Deferred income	12,938	14,674	13,705
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(13,967)	(17,248)	(15,863)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(126)	(294)	(610)
Acquired in-force value	(19,636)	(22,386)	(21,020)
Deferred tax	2,656	3,416	3,235
Group shareholder net worth	98,732	93,109	97,768
Value of in-force business	80,153	85,939	84,940
Shareholders' equity on the EEV basis	178,885	179,048	182,708
Group shareholder net worth comprises:			
Shareholder net worth in covered business	55,022	57,066	69,389
Shareholder's equity in other Group companies	47,904	44,369	36,737
Debt finance	(4,194)	(8,326)	(8,358)
Total	98,732	93,109	97,768

Independent review report by KPMG Audit Plc to Chesnara plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009, which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes and to review the European Embedded Value Basis Supplementary Information for the six months ended 30 June 2009 which comprises the Summarised Consolidated Interim Income Statement, the Summarised Consolidated Interim Balance Sheet, the Summarised Consolidated Interim Statement of Changes in Equity and the related explanatory notes ("the Supplementary Information").

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements or the Supplementary Information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA") and also to provide a review conclusion to the Company on the Supplementary Information. Our review of the condensed set of financial statements has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the Supplementary Information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA. The directors have accepted responsibility for preparing the Supplementary Information contained in the half-yearly financial report in accordance with the European Embedded Value Principles issued in May 2004 by the European CFO Forum and supplemented by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 (together the 'EEV Principles') and for determining the methodology and assumptions used in the application of those principles.

As disclosed in Note 1 to the Condensed Consolidated Financial Statements, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The Supplementary Information has been prepared in accordance with the EEV Principles, using the methodology and assumptions set out in Notes 3 to 4 to the Supplementary Information. The Supplementary Information should be read in conjunction with the Group's condensed set of financial statements which are set out on pages 16 to 23.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements and the Supplementary Information in the half-yearly financial report based on our review.

Scope of review

We conducted our reviews in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information and Supplementary Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Based on our review, nothing has come to our attention that causes us to believe that the Supplementary Information for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with the EEV Principles, using the methodology and assumptions set out in notes 3 to 4 to the Supplementary Information.

JM Holt
For and on behalf of KPMG Audit Plc
Chartered Accountants
St James Square
Manchester
M2 6DS

27 August 2009