

Interim Management Statement

Chesnara plc

Interim Management Statement for the period from 1 January 2009 to 18 May 2009

19 May 2009

This statement is to update investors on the financial position of Chesnara plc (the 'Group') as at 31 March 2009 and on its financial performance during the first quarter. Where events and transactions have occurred since the first quarter end, which are estimated to have a material impact on management's core expectation of the financial position and financial performance of the Group, then these are identified, together with a broad indication of their impact.

The key determinant of Group performance in the first quarter was the continuing decline in investment markets, with the leading UK equity market indices showing an 11% reduction over the period and with returns on cash deposits reducing. The effect of these factors was a £6.4m net of tax reduction in European Embedded Value ('EEV'). However, the subsequent recovery in equity investment markets, which has, up until 16 May 2009, virtually eliminated all of the first quarter decline, is estimated to have offset the net of tax reduction in EEV by some £3.6m.

In addition, a widening of the differential between gilt returns and swap rates has, in the absence of the re-calibration of the Risk Discount Rate (RDR) used to discount the cash flows underlying the value in-force component of EEV, led to a further net of tax reduction in the order of £3.8m in EEV. It is expected that this effect will be largely reversed when the RDR is next re-calibrated as at 30 June 2009.

Apart from the impact of market performance in the first quarter, the business is, based on fundamentals, performing ahead of expectations. Key contributors are:

- favourable lapse experience across both investment and protection products, leading to a net of tax EEV increase of £1.3m.
- favourable mortality experience, leading to a net of tax EEV increase of £0.5m

With the return from the in-force business, by way of the unwind of the RDR, in line with expectation, the overall position over the quarter is a reduction in the EEV of £6.5m net of tax from £182.7m to £176.2m. Both amounts are stated before adjustment for the appropriation of the final 2008 dividend of £10.2m payable on 20 May 2009. As indicated earlier, the recovery of investment markets since the quarter end and the expected recalibration of the RDR as at 30 June 2009 are together estimated to offset this reduction to the extent of some £7.4m.

In contrast to the volatility of the EEV result, the IFRS result of £4.1m pre-tax (£3.0m net of tax) for the quarter has proved more resilient. While first quarter investment market effects have adversely impacted the pre-tax result by some £2.3m, the impact of this has been sheltered by favourable expense and mortality experience of just under £1.0m pre tax. It is expected that equity investment market recovery from the end of the quarter to 16 May 2009 will have reduced the adverse pre-tax impact by more than £1m.

In terms of solvency, the emergence of surplus from the life business has remained strong such that the ratio of regulatory capital resource to regulatory capital requirements in the life company has improved from 177% as at the 2008 year end to 185% at the end of the first quarter 2009.

Whilst, we remain cautious about the impact of continuing volatility in equity markets and about declining cash deposit yields, the results have clearly benefited from the favourable effects of fundamentals, such as lapses, mortality and expenses.

Acquisition

As announced on 17 April 2009 the Company has agreed to acquire (subject to shareholder approval) Moderna Forsakringar Liv and a circular in relation to this will be sent shortly.

Market Opportunity

We believe that attractively priced assets are now becoming available as a result of turbulence in financial markets. We continue to examine such opportunities as they arise and believe that we have a strong financial platform from which to pursue them and we will continue to apply strict financial and risk criteria to any prospective acquisitions.

Notes to editors:

Chesnara plc, which listed on the London Stock Exchange in May 2004, is the owner of Countrywide Assured plc ('CA'). CA is a life assurance subsidiary that is substantially closed to new business. In June 2005 Chesnara acquired City of Westminster Assurance ('CWA') for GBP47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA plc. Chesnara's operating model is to maintain a relatively small governance team. Chesnara continues to seek acquisition opportunities in the financial services sector in areas related to its core life operations.

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