

## Interim Management Statement

Chesnara plc

Interim Management Statement for the period from 1 January 2010 to 18 November 2010

19 November 2010

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 30 September 2010 and to its financial performance during the first three quarters of the year. Where events and transactions have occurred since the end of the third quarter, which are estimated to have a material impact on management's core expectation of the financial position and/or financial performance of the Group, then these are identified, together with a broad indication of their impact.

### EEV

The movement in Group European Embedded Value ('EEV'), since the position last reported in the interim financial statements for the six months ended 30 June 2010, is set out in the following table:

	Quarter ended 30 September 2010 £m	Quarter ended 30 September 2009 £m	Year ended 31 December 2009 £m
<b>EEV at beginning of period</b>	<b>255.1</b>	<b>178.9</b>	<b>182.7</b>
Profit arising on acquisition of Swedish Business	-	54.7	54.2
Earnings for the period, net of tax			
- UK Business	10.1	13.2	28.1
- Swedish Business	4.9	4.9	8.7
- Other Group Activities	(0.8)	(1.3)	(0.7)
Foreign exchange reserve movement	9.2	8.3	5.5
Dividends paid	-	-	(15.9)
<b>EEV at end of period</b>	<b>278.5</b>	<b>258.7</b>	<b>262.6</b>

EEV of £278.5m as at 30 September 2010 is stated before appropriation of a dividend of £5.9m which was paid on 12 October 2010. EEV of £258.7m as at 30 September 2009 is stated before appropriation of a dividend of £5.7m which was paid on 12 October 2009.

The third quarter result has been significantly impacted by favourable experience in investment markets. Leading UK equity market indices improved by some 13% over the quarter and leading Swedish market indices improved by 8-10%. While rates on fixed interest investments continued to drift down during the quarter in the UK they have, by contrast, strengthened in Sweden. Given the different mixes of underlying investment and insurance contracts in the UK and Swedish Businesses these contrasting movements have, in fact, led to beneficial outcomes in both as set out below.

### *UK Business*

Within the UK Business favourable investment market effects gave rise to pre-tax gains of some £8.0m (£6.3m net of tax) in the third quarter, arising principally from higher deductions from unit-linked funds, which have increased in value, and through significant increases in the capital value of fixed interest securities which match non-linked funds.

This result has been enhanced by:

- (i) continuing favourable mortality and morbidity experience of £0.5m (£0.4m net of tax);
- (ii) continuing favourable persistency experience of £1.9m (£1.5m net of tax);
- (iii) unwind of the risk discount rate on existing business of £1.2m (£1.0m net of tax); and
- (iv) new business contribution and expense efficiencies together realising £1.2m (£1.0m net of tax).

### *Swedish Business*

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

Within the Swedish Business favourable investment markets effects gave rise to gains of some £6.0m in the quarter, arising principally from the impact of higher investment growth in both equity and fixed interest markets on assumed future earnings from the core pensions and savings business.

This outcome has been enhanced by:

- (i) a £0.8m favourable outturn on risk and health insurance business, underpinned by the performance of the Aspis business acquired earlier in the year;
- (ii) £1.6m unwind of the risk discount rate; and
- (iii) a new business contribution of £0.8m.

On the adverse side, the result has been impacted by:

- (i) unfavourable persistency experience of £0.8m;
- (ii) an expense overrun of £1.6m; and
- (iii) an unfavourable effect of £1.8m arising from the change in the investment mix in the underlying unit-linked contracts.

The foreign exchange gain of £9.2m set out in the table above arises from the effect of translating the SEK-denominated EEV of the Swedish business into UK pounds sterling which depreciated 9% against the Swedish Krona over the third quarter. The subsequent 4% appreciation of sterling against the Swedish Krona is estimated to have reduced this gain by £4.1m.

## IFRS

The IFRS result arising in the quarter ended 30 September 2010 is set out in the following table:

	Quarter ended 30 September 2010 <u>£m</u>	Quarter ended 30 September 2009 <u>£m</u>	Year ended 31 December 2009 <u>£m</u>
<b>Beginning of the period*</b>			
Pre-tax earnings	12.0	11.2	-
Tax	(4.2)	(2.9)	-
Post-tax earnings	7.8	8.3	-
<b>Pre-tax earnings arising in the third quarter</b>			
Profit arising on acquisition of the Swedish Business	-	25.6	25.1
UK Business result	7.8	9.5	24.7
Swedish Business result	(0.5)	(1.4)	(2.6)
Other group activities	(0.8)	(1.3)	(2.5)
	6.5	32.4	44.7
Tax arising in the period	(1.8)	(1.9)	1.2
Post-tax earnings arising in the period	4.7	30.5	45.9
<b>End of period</b>			
Pre-tax earnings	18.5	43.6	44.7
Tax	(6.0)	(4.8)	1.2
Post-tax earnings	12.5	38.8	45.9

\* Cumulative earnings position for the first two quarters of 2010

The total IFRS pre-tax result for the third quarter continues to be dominated by the surplus arising within the UK life and pensions business which is in run-off. This was enhanced in the period by favourable investment market effects of £1.7m and favourable mortality and morbidity experience of £1.6m.

The following key performance indicators relating to the Swedish Business underpin the progress which has been made during the quarter:

	Three quarters ended 30 September 2010	Three quarters ended 30 September 2009	Year ended 31 December 2009
<b>Total premium income*</b>			
Pensions and savings	189.0	193.4	257.6
Risk insurance	26.8	21.2	26.6
Total	£215.8m	£214.6m	£284.2m
<b>New business premium income*</b>			
Pensions and savings	36.7	37.3	49.4
Risk insurance	7.1	1.0	3.3
Total	£43.8m	£38.3m	£52.7m

	Quarter ended 30 September 2010	Quarter ended 30 September 2009	Year ended 31 December 2009
Market share of unit-linked pensions business			
Total business	3.1%	5.3%	5.7%
Company-paid contribution Business	10.3%	9.3%	9.9%
	30 September 2010	30 September 2009	31 December 2009
Assets under management*	£1156.7m	£922.3m	£1015.2m

\* Translated into sterling at a constant rate of SEK10.9 = £1

During the quarter, Moderna Försäkringar Liv AB ('Moderna') has continued to seek to re-establish its sales and market share in Sweden and, consequent upon a refocused sales and marketing approach, has slightly improved its share of its main target market as can be seen in the table above. Generally the Pensions and Savings side of the business has made some ground although it continues, as expected, to generate losses albeit these are at a lower level than the run rate experienced in the first half of 2010. On a positive note the Risk and Health insurance side of the business has made good ground following the acquisition of Aspis Försäkrings Liv AB ('Aspis') with lower claims ratios than expected. As a result, it has contributed £0.8m to IFRS profit (matching its contribution on the EV basis).

## Solvency

The underlying emergence of surplus in the UK Business, and hence the capacity of the Group to continue to pursue its dividend policy, remains strong. This is reflected in the ratio of regulatory capital resources to regulatory capital requirements in the UK life company, which has improved from 263% as at 30 June 2010 to 307% as at the end of the third quarter. The Swedish life business solvency ratio as at 30 September 2010 is estimated to be 176%, compared with 220% as at 30 June 2010. This solvency ratio has reduced over the quarter as a result of the growth in the Risk and Health business and the associated increase in the capital resource requirement. Both the UK and Swedish life businesses continue to have a target ratio of a minimum of 150%. As at the quarter end, the corresponding Group (IGD) position remains strong at 329% compared with 330% as at 30 June 2010.

## Market Opportunity

We continue to review a flow of potential acquisition opportunities and will readily progress these where we see value and a clear strategic fit. As regards opportunities, we remain open-minded as to location in the UK and Western Europe and will continue to apply strict financial and risk criteria in assessing them.

## **Enquiries**

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## **Notes to Editors**

Chesnara plc, which listed on the London Stock Exchange in May 2004, is the owner of Countrywide Assured plc ("CA") and Moderna Försäkringar Liv AB ("Moderna"). CA is a UK life assurance subsidiary that is substantially closed to new business. In June 2005 Chesnara acquired a further closed life insurance company - City of Westminster Assurance ("CWA") - for GBP47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA. Moderna, a life assurance company which focuses on pensions and savings, was acquired on 23 July 2009 for GBP20m. The company, which was launched in 2002, continues to write new business and grow its strong position in the Swedish unit-linked market. Moderna's market presence was increased through the acquisition of a controlling stake in AkademikerRådgivning I Sverige AB, an IFA, in late 2009 and the purchase of the policyholders, personnel, intellectual property and systems of Aspis Försäkrings Liv AB, a life and health insurer, in February 2010.