

Chesnara plc Interim Management Statement

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

19 May 2010

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 31 March 2010 and to its financial performance during the first quarter of the year. Where events and transactions have occurred since the end of the first 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 financial statements for the year ended 31 December 2009, is set out in the following table:

	Quarter ended 31 March 2010 <u>£m</u>	Quarter ended 31 March 2009 <u>£m</u>	Year ended 31 December 2009 <u>£m</u>
EEV at beginning of period	262.6	182.7	182.7
Profit arising on acquisition of Swedish Business	-	-	54.2
Earnings for the period, net of tax			
- UK Business	4.8	(6.4)	28.1
- Swedish Business	5.2	-	8.7
- Other Group Activities	0.1	(0.1)	(0.7)
Foreign exchange reserve movement	5.2	-	5.5
Dividends paid	-	-	(15.9)
EEV at end of period	277.9	176.2	262.6

EEV of £277.9m as at 31 March 2010 is stated before appropriation of a dividend of £10.5m which will be paid on 20 May 2010.

Investment market improvements over the first quarter had a significant positive impact on earnings for both the UK and Swedish businesses, posting gains of £4.4m (£4.0m net of tax) and £2.7m (£2.7m net of tax) respectively. However, since the quarter end, investment markets have been weaker. For example, while the leading UK equity indices gained some 5% over the first quarter, they have subsequently, up to the date of this statement, fallen back, such that they now reflect losses approaching 2% since 31 December 2009.

Other significant influences underlying earnings for the first quarter were:

UK Business

On the adverse side, a reduction in the swap yield which is used both to set the rate of investment return and the discount rate for future cashflows, with little corresponding change in the market values of our fixed interest securities and in

future inflation expectations, gave rise to a reduction of £5.6m (£5.0m net of tax) of in-force value under market-consistent principles. This has been offset by:

- (i) £1.8m (£1.6m net of tax) expected return from the unwind of the risk discount rate;
- (ii) £1.8m (£1.6m net of tax) favourable mortality and morbidity experience; and
- (iii) £1.5m (£1.3m net of tax) favourable persistency experience.

Swedish Business

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

- (i) £1.7m expected return from the unwind of the risk discount rate;
- (ii) £0.9m value added by new business;
- (iii) £0.2m favourable mortality experience; and
- (iv) £0.7m favourable persistency experience

offset by:

- (v) an expense overrun of £0.5m; and
- (vi) a net loss of £0.4m on non-covered business.

The foreign exchange gain of £5.2m, set out in the EEV table above, arises from the effect of translating the SEK-denominated EEV of the Swedish Business into pounds sterling, which depreciated 5.4% against the Swedish Krona over the first quarter of 2010. The subsequent 3.1% appreciation of sterling against the Swedish Krona has reduced this gain to £2.4m.

IFRS

The IFRS result arising in the quarter ended 31 March 2010 is set out in the following table:

	Quarter ended 31 March 2010 <u>£m</u>	Quarter ended 31 March 2009 <u>£m</u>	Year ended 31 December 2009 <u>£m</u>
Pre-tax earnings			
Profit arising on acquisition of Swedish Business	-	-	25.1
UK Business result	8.9	4.2	24.7
Swedish Business result	4.4	-	(2.6)
Other group activities	(0.4)	(0.1)	(2.5)
Total pre-tax earnings	12.9	4.1	44.7
Tax	(7.8)	(1.1)	1.2
Post-tax earnings	5.1	3.0	45.9

The total IFRS pre-tax result for the quarter ended 31 March 2010 continues to arise mainly from the surplus arising within the UK life and pensions business, which is in run off: This was enhanced by favourable investment market and mortality experience of £2.5m and £2.0m respectively.

The total IFRS pre-tax earnings of the Swedish Business of £4.4m include £5.5m deductions from policyholder unit-linked funds in respect of policyholder tax chargeable on those funds: this amount is offset by an equal and opposite

policyholder tax item within the overall tax charge. It is more meaningful to assess the results after reversing out these items, and, on this basis, the Swedish Business posted a pre-tax loss of £1.1m for the quarter, while the corresponding amounts at the total group level are pre-tax earnings of £7.4m with a tax charge of £2.3m, leaving the net result unchanged at £5.1m. No corresponding adjustments to the comparative fiscal 2009 periods are necessary as the recognition of policyholder tax occurred in the pre-acquisition period.

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

	<u>Quarter ended 31 March 2010</u>	<u>Quarter ended 31 March 2009*</u>	<u>Year ended 31 December 2009*</u>
Total premium income**			
Pensions and savings	62.8	61.3	257.6
Risk insurance	7.8	5.9	26.6
Total	<u>£70.6m</u>	<u>£67.2m</u>	<u>£284.2m</u>
New business premium income**			
Pensions and savings	14.5	15.2	49.4
Risk insurance	5.9	0.9	3.3
Total	<u>£20.4m</u>	<u>£16.1m</u>	<u>£52.7m</u>
Market share of unit-linked pensions business			
Total business	<u>3.8%</u>	<u>6.6%</u>	<u>5.7%</u>
Company-paid contribution Business	<u>4.6%</u>	<u>8.2%</u>	<u>7.4%</u>
	<u>31 March 2010</u>	<u>31 December 2009</u>	
Assets under management**	<u>£1,100.4m</u>	<u>£1,015.3m</u>	

* Information in respect of the quarter ended 31 March 2009 and the year ended 31 December 2009 includes performance prior to the acquisition of the Swedish Business on 23 July 2009 and is presented for illustrative purposes.

** 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. Pensions and savings income has recovered, on a quarterly comparison basis, to near 2009 levels whilst risk insurance premiums have surged following the acquisition of the operations of Aspis Försäkrings Liv AB ('Aspis') as described below. Whilst, on first glance, the market share figures appear disappointing, these are skewed due to a significant one-off transaction in the market. If this particular transaction is excluded Moderna's market shares are comparable to those in the fourth quarter of 2009 which were 5.4% of Total business and 7.8% of the Company paid market.

Aspis

On 19 February 2010 Chesnara plc's Swedish subsidiary, Moderna, entered into an agreement with the Swedish regulatory authority, Finansinspektionen ('FI') to take over the operational management of Aspis (the 'Agreement'). Moderna thereby acquired the in-force business, personnel, expertise and systems of Aspis and will

also manage, but not be responsible for, the payment of in-force claims that occurred up to 12 November 2009.

Prior to the Agreement, the FI had determined to revoke Aspis' licence due to issues regarding its solvency capital. By entering into the Agreement, therefore, Moderna removed significant uncertainty for Aspis' customers, staff and supporting intermediaries and acquired a book of protection business which represents an excellent strategic fit with its existing pensions and savings business. However, given the significant uncertainty faced by Aspis as a result of the events leading up to the Agreement, the business suffered significant negative press coverage within Sweden which had an impact on lapse rates of policies at the date of renewal. While Moderna has moved quickly to mitigate the effects of Aspis' legacy issues, this has impacted the quantification of the value of the in-force intangible assets acquired by Moderna and, as a result, the fair value of the net assets acquired and the goodwill arising on acquisition cannot be assessed with reliability at this time. The Board anticipates that the transaction will be earnings-enhancing in the short to medium term.

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 197% as at 31 December 2009 to 235% as at the end of the first quarter. The Swedish life business solvency ratio as at 31 March 2010 is estimated to be 267%, compared with 302% as at 31 December 2009 and with a target ratio of a minimum of 150%. As at the quarter end, the corresponding Group (IGD) position remains strong at 332% compared with 316% as at 31 December 2009.

Market Opportunity

We continue to see a decent flow of potential acquisition opportunities and, as demonstrated with the Aspis transaction, we will readily progress these where we see value and a clear strategic fit. As regards other opportunities, while we remain open-minded as to location in the UK and Western Europe, we 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.