Chesnara plc Interim Management Statement

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Interim Management Statement for the period from 1 January 2011 to 18 May 2011

19 May 2011

This statement relates primarily to the financial position of Chesnara plc (the 'Group') as at 31 March 2011 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

Detail on the increase in Group European Embedded Value ('EEV'), since the position last reported in the financial statements for the year ended 31 December 2010, is set out in the following table:

	Quarter ended 31 March 2011 £m	**Quarter ended 31 March 2010 £m**	**Year ended 31 December 2010 £m**
EEV at beginning of period	**354.6**	**262.6**	**262.6**
Modelling improvements in Swedish Business	-	-	13.2
Profit arising on acquisition of Save & Prosper	-	-	40.7
Earnings for the period, net of tax			
UK Businesses			
Countrywide Assured ('CA')	2.3	4.8	18.8
Save & Prosper ('S&P')	3.0	-	(0.9)
Swedish Business			
Movestic	1.3	5.2	3.5
Other Group Activities	(0.4)	0.1	(2.3)
Foreign exchange reserve movement	4.9	5.2	9.5
Dividends paid	-	-	(16.3)
Issue of new shares	-	-	22.6
Sale of treasury shares	-	-	3.2
EEV at end of period	**365.7**	**277.9**	**354.6**

EEV of £365.7m as at 31 March 2011 is stated before appropriation of a dividend of £12.2m which will be paid on 20 May 2011.

Overall, the net of tax EEV result for the first quarter of 2011 was ahead of expectations in spite of negligible growth in UK equity markets, and modest falls in the Swedish equity markets over the quarter. By comparison, investment market improvements over the first quarter of 2010 had a significant positive impact on earnings for CA and Movestic. The EEV results for all businesses benefited from a gently rising interest rate environment in both swap and gilt markets: CA benefited to the extent of £2.0m (£1.4m net of tax), Save & Prosper to the extent of £0.8m (£0.6m net of tax) and Movestic to the extent of £2.1m (£2.1m also net of tax).

Other significant influences underlying earnings for the first quarter were:

UK Businesses

CA

(i) £1.1m (£0.8m net of tax) expected return from the unwind of the risk discount rate;
(ii) £0.4m (£0.3m net of tax) favourable mortality and morbidity experience; and
(iii) £0.9m (£0.6m net of tax) favourable persistency experience

offset by net adverse net of tax effects of £0.8m, arising from a number of market and fiscal influences.

S & P

(i) £0.8m (£0.6m net of tax) from favourable lapse and investment mix experience, together; and
(ii) £0.6m (£0.5m net of tax) expected return

enhanced by a release of £1.0m in respect of deferred tax, to reflect lower rates of UK corporation tax, following from the Chancellor's Budget in March 2011.

Swedish Business

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

(i) £1.5m expected return from the unwind of the risk discount rate; and
(ii) £1.2m value added by new business

offset by
(i) adverse persistency experience and assumption changes, together £2.8m; and
(ii) adverse investment market effects of £0.5m, arising principally from dull equity markets.

The foreign exchange gain of £4.9m, 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 some 4% against the Swedish Krona over the first quarter of 2011.

IFRS

The IFRS result arising in the quarter ended 31 March 2011 is set out in the following table:

	Quarter ended 31 March 2011 £m	**Quarter ended 31 March 2010 £m**	**Year ended 31 December 2010 £m**
Pre-tax earnings			
Profit arising on business combinations			
Save & Prosper	-	-	15.5
Aspis	-	-	0.4
UK Businesses			
Countrywide Assured ('CA')	4.4	8.9	25.7
Save &Prosper ('S&P')	0.7	-	0.2
Swedish Business			
Movestic	(1.0)	(1.1)	(3.6)
Other group activities	(0.6)	(0.4)	(3.9)
Total pre-tax earnings	**3.5**	**7.4**	**34.3**
Tax	(1.4)	(2.3)	(4.5)
Post-tax earnings	**2.1**	**5.1**	**29.8**

The total IFRS pre-tax result for the quarter ended 31 March 2011 continues to be significantly influenced by the surplus arising within CA's life and pensions business, which is in run off. The shortfall over the corresponding quarter in 2010 arises from (i) the fact that the business is in run off, so that the level of earnings arising from this source will decline over time, and from (ii) more muted investment market influences.

The S&P result, which also had a significant impact on the overall result, was below expectations as a result of a £1.8m strain, which is not expected to replicate, on the with profits business. This arose from the fact that, in a rising interest rate environment, the effect of adjustment to the valuation interest rate has, for this quarter, been outstripped by the corresponding fall in the capital value of fixed-interest securities.

The Movestic loss was influenced by a significant IFRS-based adjustment in connection with an option to settle early on financial reinsurance borrowings: the adverse impact of some £0.8m arose from the fact that the gap between the actual rate of interest on financial reinsurance borrowings and prevailing market rates of interest narrowed during the quarter. Adjusting for this item, Movestic continues to make progress in moving towards an overall profitable position on core trading.

The following are the key performance indicators relating to Movestic:

	Quarter Ended 31 March 2011	**Quarter Ended 31 March 2010**	**Year Ended 31 December 2010**
	£m	**£m**	**£m**
Total premium income*			
Pensions and savings	62.8	65.8	260.5
Risk insurance	9.9	9.0	38.0
Total	72.7	74.8	298.5

Overall premium is marginally down as we have exited some low or non-profitable lines of business to concentrate on higher margin products.

New business premium income*			
Pensions and savings	13.9	15.2	52.4
Risk insurance**	0.6	6.2	8.1
Total	14.5	21.4	60.5

*Translated into £ at constant rate of SEK10.4 = £ (Quarter1 2011 average rate)

** New Business risk insurance premium statistics for 2010 include Aspis renewal premiums: they are excluded from New Business statistics in 2011.

Market share of unit-linked pensions business	**Q1 10**	**Q2 10**	**Q3 10**	**Q4 10**
	%	**%**	**%**	**%**
Total business	3.9	5.1	3.1	5.8
Company-paid contribution business	12.3	12.3	10.1	11.3

Market share figures are not yet available for Q1. However we expect that modest positive progress has been made.

	31 March 2011	**31 March 2010**	**31 December 2010**
Assets under management*	£1,360.8	£1,187.5	£1,354.3

*Translated at a constant rate of SEK10.1 = £ (31 March 2011 closing rate).

Policy attrition	Quarter Ended 31 March 2011 %	Quarter Ended 31 March 2010 %	Year Ended 31 December 2010 %
Surrenders	13.8	8.7	13.4
Transfers	5.3	3.2	4.6
Lapses	17.5	16.7	19.8

Fund performance	Quarter Ended 31 March 2011 No of Funds	Quarter Ended 31 March 2010 No of Funds	Year Ended 31 December 2010 No of Funds
Outperformed against relevant index	22	18	18
Underperformed against relevant index	11	9	12
No relevant index	3	4	6

Whilst policy attrition has not yet fully recovered, lapses have improved compared to the experience over the whole of 2010, and other elements of the result are generally positive. Risk and Health total premiums have advanced whilst Pensions and Savings are being focused on more profitable contracts at the expense of a little volume. That said we are expecting market share to hold up if not increase marginally. Fund performance, a key driver of Movestic's appeal to distributors and end clients, has shown further improvement and has built on the positive reaction to Movestic's rebranding in Q4 2010.

Solvency

The underlying emergence of surplus in the UK businesses, 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 CA, which has improved from 213% as at 31 December 2010 to 238% as at the end of the first quarter and in S&P, which has correspondingly improved from 268% to 272%. The Swedish life business solvency ratio as at 31 March 2011 is estimated to be 174%, compared with 188% as at 31 December 2010. As at the quarter end, the corresponding Group (IGD) position remains strong at an estimated 206% compared with 200% as at 31 December 2010.

Market Opportunity

We continue to see a good flow of potential acquisition opportunities and, as demonstrated by the Save & Prosper acquisition, 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"), Save & Prosper Insurance (Save & Prosper') and Movestic Livförsäkringar AB ('Movestic'). 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 £47.8m. With effect from 30 June 2006, CWA's policies and assets were transferred into CA plc.

Movestic, a Swedish life assurance company which originally focused on pensions and savings, was acquired on 23 July 2009 for £20m. The company is open to new business and seeks to grow its position in the Swedish unit-linked market. Its proposition was strengthened in February 2010 with the acquisition of the operations of Aspis Försäkringar Liv AB which has a risk and health product bias.

Save & Prosper Insurance Limited, and its subsidiary, Save & Prosper Pensions Limited were acquired on 20th December 2010 for £63.5m in cash. This was funded by raising a new lending facility of £40m and the sale of new and treasury shares which raised £26.7m. The companies are closed to new business and operate an outsourced business model which is complementary to Chesnara's existing UK operations.