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Transcript

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Steve Murray: Good morning and welcome to the 2021 Chesnara full year results presentation webinar. I'm Steve Murray, group chief executive of Chesnara. And I'm joined by Dave Rimmington, our group finance director. We're delighted you could join us here today. And this year, we're pleased to welcome a far broader audience to this presentation, including some of our new bond holders. So, what will be covered this morning. Well, I'll start by briefly covering the main areas of delivery across Chesnara during 2021, how we performed against our three strategic pillars and also some of the more recent activity we've undertaken in 2022. Dave will then cover the financial results in a bit more detail. And this will include where we see potential for future growth, how some of our historic acquisitions have added to the value of the group, and why we have a high degree of confidence that Chesnara will continue to deliver strong cash generation in the future.

Steve Murray: I'll then finish with an overview of our future areas of focus and an outlook for 2022. And we'll have plenty of time for questions at the end of our presentation, which we expect to take around 35 minutes. And you can also submit questions during the presentation, or you can ask your question as part of the managed Q&A at the end.

Steve Murray: So, let me start with what we see as the key strengths of Chesnara and some of the positive steps we've taken in 2021. So, on this slide, you'll see some of those key strengths. Our first area of key strength is the great track record we have of building value and cash generation throughout our history, consistently increasing our dividend through a wide variety of market conditions. And in 2021, we've again seen the delivery of strong commercial cash generation supporting a further increase in our dividend. And our EcV has grown in each of our divisions. Our second area of strength is our strong and stable solvency position, which has proved highly resilient in volatile financial markets. And the solvency position in 2021 has remained robust. And the successful issue of £200 million of Tier 2 debt in February this year provides us with further financial and strategic flexibility, Fitch has also recently assigned Chesnara an investment grade rating.

Steve Murray: Our third area of strength is our track record of successful M&A. We announced two acquisitions in the second half of 2021. We expect these to complete in the first half of 2022. And we see further opportunities to deliver shareholder value through acquisitions in the future. And our final area of strength is the experienced board and management team we have at Chesnara. And in 2021, we've added to our capability here as well. As well as myself joining Chesnara, we've brought two new non-exec directors into the group and we've strengthened the management team, adding further M&A and investor relations experience through the hire of Sam Perowne from Phoenix. And I wanted to thank Rakesh and the team at Phoenix for letting Sam join proceedings here today a day or so earlier than was originally planned.

Steve Murray: So, let's turn now and look at the financial headlines for 2021. Overall, it's been a good year of delivery here at Chesnara. Commercial cash generation was very strong at £53 million. And as a reminder, commercial cash generation strips out things like the symmetric adjustment and with profits restrictions. So, we see this as a really good underlying indicator of how our businesses are performing. Solvency has remained robust at 152% at the year end. And we grew our EcV again by £58 million before dividend payments and the impact of forex movements during the year. Commercial new business profits of £10 million represent about 30% of the ongoing dividend. And we're proposing a 3% increase in our dividend. That's the 17th time we've done that every year since we were listed on the London Stock Exchange in 2004.

Steve Murray: Turning now to our strategic objectives. Let's look at how we've delivered against our three strategic pillars. As a reminder, we maximise value from our in-force books of business. We seek to execute value adding acquisitions of portfolios and businesses. And we write focused new business where we have a high degree of confidence we can make a profit. So, let's look at how we've delivered against each of these three areas. On maximising the value from our existing business, as well as growing the economic value and also improving the cash generation of the group, we grew our funds under management. We executed a number of management actions, including a UK annuity reinsurance deal, and a Dutch catastrophe risk reinsurance, which reduced our overall capital requirements.

Steve Murray: On M&A, having completed the acquisition of a portfolio from Brand New Day in the Netherlands, we announced the acquisitions of Sanlam L&P and Robein Leven in the second half of the year. And I've already mentioned the hiring of Sam and the recent tier 2 debt raise, both of which will support our increased ambition for value creative M&A. And finally, on new business, we saw the commercial value of new business stay at broadly the same levels as 2020, albeit with improved market share for Scildon in the Dutch term market and positive strides made by Movestic in its custodian business line. And Chesnara remained carbon neutral for all of its direct operations. And we've put in place a broader program of activity to increase the rate at which we can make further improvements in our approach to ESG.

Steve Murray: Turning now to our dividend. Our dividend has grown by over 80% over the last 17 years. And we're pleased to be proposing an increase of 3% to our final dividend. Chesnara has delivered cash generation in support of a progressive dividend through a very wide variety of market conditions. And as Dave will show you in more detail, we have a strong line of sight to future sources of cash generation.

Steve Murray: Looking now at more recent events. Whilst not in the 2021 results, we wanted to remind you of the expected impact of the acquisitions we announced last year, and also the impact of the February Tier 2 debt issuance, both of which strongly position Chesnara for the future. On the two acquisitions, we expect them combined to add around £13 million of day one EcV and around £6 million of steady state cash generation to the group's ongoing result. The pro forma solvency position for the group post the tier 2 raise, and the expected completion of our proposed acquisitions, will be around 182% versus 152% at the year end. Now, as and when we execute further acquisitions, utilising our internal resources, we would expect this to reduce back down to our normal operating level of around 140% to 160%. And Dave will provide you with further colour on this shortly.

Steve Murray: Now, finally, it's impossible to be here today and not reflect on the ongoing events in Ukraine, which are truly shocking. At Chesnara, we stand with and support the people of Ukraine, and we've made total corporate donations across the group of 50,000 pounds to charities that are supporting Ukrainian people. At a corporate level, we have very limited exposure to Russia ourselves, and we're working with the very small number of our customers that do to help them to manage their positions

wherever possible. So, now let me hand over to Dave, who can take us through the numbers in some further detail. Over to you Dave.

David Rimmington: Thanks Steve. Morning all. So, I'm going to start with our wider financial scorecard. I'm going to highlight three of the key financial observations before going into the more specific metrics in a little bit more detail. Firstly, we report strong and improving results across most of our P&L metrics. In particular, as Steve previously mentioned, I note the strong commercial cash results of £53 million, which support a 3% dividend growth. Secondly, the balance sheet remains strong and stable with a closing ratio of 152%, which represents a surplus of £190 million. Assets under management have also increased during the year to £9.1bn. Finally, you will see here, we've included some pro forma figures which represent the estimated impact of the post-balance sheet events recently referred to.

David Rimmington: You can see here that we expect the solvency ratio to have increased to 182%, and importantly, the level of surplus to have increased to £344m. This is important because it gives additional fire power to M&A and other actions. Finally, you can see that the assets under management pro forma the completion of the acquisitions increases to a record high of £12.3 billion. So, moving on to the metrics in more detail, and starting with probably the most important metric of cash generation. I'm going to spend a minute just explaining what we mean by cash generation at Chesnara, because I'm conscious that not all insurers use the same definition. We define cash generation as the movement in the Solvency 2 surplus.

David Rimmington: We think this is sensible because it pins the number to a regulated and consistent regime. But what it does mean is the results can sometimes be influenced by some of the more technical nuances of solvency reporting, such as the symmetric adjustment Steve previously mentioned. The symmetric adjustment is a feature of Solvency 2, which means after periods of strong equity growth we are required to hold proportionately more capital. And this can have a suppressing impact on the results in the period. Because of this, we developed an alternative metric called commercial cash, largely at the request of investors which cuts through and looks through some of these more technical adjustments. So, on the graph, we're particularly pleased to show the sharp improvement in commercial cash from £27.7m to £53m, this represents 156% coverage of the dividend.

David Rimmington: Moving on to look at the commercial cash result by division over both a five year and a one year timeframe. You can see from these charts that the cash continues to primarily come from the closed books of Countrywide and Waard, which is what we'd expect. The closed books themselves have more than covered the dividend over both the five year and one year period. It's equally encouraging to see that the new business operations, which are naturally impacted by the capital strain of writing new business, have actually begun to make positive cash contributions. And this is all part of the diversified business model of Chesnara.

David Rimmington: The next graph is an important graph, and it's an addition to our presentation this year. And we've always been very confident about the sustainability of the cash generation. And the track record to some extent has spoken for itself. But we've added a slide to give a more forward looking view of where we expect cash to come from in the future. You can see in the grey block on this slide that we've estimated the total outflow of the next five years in the form of dividend payments and the new coupon payments on the tier two debt we raised is circa £230 million. So, what this graph shows is that the vast majority of that can be covered by two sources of cash, the reduction in the risk margin and SCR, which releases over time and is a relatively natural and highly certain source of cash, together with real world returns on our investments, a relatively conservative estimated level. Those together cover the vast majority of the outflow.

David Rimmington: Adding to this, we have various management actions we can take to enhance cash should we need to do so. Overall, the sources of cash mean that we're confident we have a base cash generation result significantly in excess of the outflows. Whilst this is a five year graph, this continues way beyond five years. And you'd probably see a similar profile if you took it to 10 or even 15 years.

David Rimmington: Finally, acquisitions. This is the one part of this chart, which isn't drawn to scale. Acquisitions will actually have an impact on short term and medium term cash, which is very specific to the details and the nature of each acquisition. The point is in general, over time, we expect acquisitions to create cash. And this is something we can demonstrate by looking retrospectively at the deals we've done through our history on our further slide. Overall message is there's a clear line of sight from relatively predictable and stable sources of cash to cover all the outflows we expect over the next five years.

- David Rimmington: Moving on to our second financial pillar and that's solvency. A key feature of Chesnara has been its stable solvency over time. As Steve mentioned, the solvency ratio has remained within our preferred operating range for many years, including the last five years. As at the end of 2021, we're comfortably within the 140 to 160% range. It's worth noting at this point, this financial stability is despite having paid out over £150 million in dividends over the same timeframe. I also point out that the ratio doesn't include the use of any transitional measures, which by their definition would naturally run off over time. So, we believe it's a relatively clean and high quality solvency ratio.
- David Rimmington: Looking at the closing ratio in a little bit more detail. So, as I say 152%, the symmetric adjustment and the impact it has on cash also has an impact on the closing solvency position. And we believe this to be a temporary impact. So, for illustration, if you look through the symmetric adjustment impact, you get an adjusted solvency ratio of 160%. Equally, as mentioned previously, if we pro forma the impacts of the Tier 2 debt and the two acquisitions we expect to complete in the second quarter, our ratio is at 182%. I think it's important to note, this is not a new long term norm. And actually, we would expect through doing future M&A or other actions for that headline ratio to revert back to within the 140 to 160% range.
- David Rimmington: Looking at the results on an IFRS basis, I think we've been quite consistent in flagging that IFRS is not a core management metric. But suffice to say it's useful that the profit before tax has remained stable and increased slightly. And at a divisional level, all the results are broadly in line with expectations.
- David Rimmington: Moving on to the main pillar of the financial model and that's growth. Before I get into some of more the technical points of growth, this slide looks at growth from a more operating perspective. And perhaps contrary to the perception of a company which is seen in some quarters to be a closed book, you can see here that the company's grown actually in terms of both policy counts and assets under management. Indeed, assets under management will have increased by 59% pro forma the deals. And policies in force have increased by 8%. So Chesnara is actually a growing organisation. This growth has been achieved whilst containing good control over costs. And you can see here that the cost base has actually reduced over the last five years.

- David Rimmington: Looking at growth in terms of economic value. Strong economic earnings in the year of £57.8 million have more than covered the dividend. They haven't however, been quite sufficient to cover the dividend and an FX loss of £37 million. I do note we had a similar FX gain in 2020. So, we're neutral over the two year period. This has led to a modest reduction in economic value. When we complete the deals in 2022, this will turn to a modest increase.
- David Rimmington: Looking at economic value at a divisional level. It's great to see all of our divisions have reported strong and positive economic value growth. The growth has been predominantly from economic conditions, and for Movestic and Scildon in particular, the positive results are after the impact of some material operating losses. Just add a little bit of colour to that, in Movestic we have continued to see transfers out of the business in excess of our long term assumption. And in Scildon we've invested heavily in the IT infrastructure. Importantly, we expect both of these sources of outflow to curtail significantly in 2022.
- David Rimmington: Steve mentioned earlier the "Chesnara fan", this is just an illustrative view of where we see that economic value doesn't capture the full growth potential of the group. We expect to be able to grow in the form of acquisitions, new business, synergies through acquisitions or through natural organic growth, real world returns and risk margin.
- David Rimmington: Looking at long term economic value growth, clearly this graph demonstrates a positive upward trend. I think it's also worth pointing out there, profile is of interest. In periods of lower M&A activity, and if they align to less positive economic conditions, you can in fact see plateaus or indeed periods where the value of the company is temporarily reduced. This does not concern us, we're still confident that the long term trend is upwards.
- David Rimmington: Moving to new business. It is a key part of our business model for two reasons. One, we get real value enhancement of circa £10 million, and that's coming broadly equally from Scildon and Movestic. Secondly, it's an important driver of the scale dynamics I talked to earlier. So over and above the absolute value growth, it helps the group to grow operationally and therefore offer synergies and operational efficiency. I think it's fair to say the new business operations have been hampered to some extent by COVID conditions over the last two years. Where it's been more

difficult for salesmen and brokers to spend face to face time with clients. And therefore, we would expect over 2022 and beyond, a level of improvement in new business profits over and above the last two years.

David Rimmington: Moving on to investment return above risk free. An important basis of preparation for economic value is that we assume risk free returns. Of course, we expect to get real world returns on our assets, particularly those assets which are held by policy holders in unit linked funds. So, what happens over time is as at real world returns, the economic value grows over and above the reported value. This has been a key feature in 2021. As reported here, we had over £110 million of value growth from economic conditions. Similarly, over the last five years there's been £290 million of real world return growth. So, this is a key and powerful source of growth. I think it's important to note that's not necessarily the long term norm in terms of quantum, but we are confident that there's significantly in excess of £150 million of future value in the form of real world returns, not recognised in the current economic value.

David Rimmington: Finally, Steve mentioned that I'd take a little bit of a historic view at some of our more recent acquisitions, or sorry, our longer term acquisitions. For two reasons, one to genuinely assess how successful those acquisitions have been and the power of M&A, but also to demonstrate the growth factors I've talked to in practice. So, you can see here, we paid £32.5 million for Movestic, adjusted for inflation. And its current economic value after adjusting for dividends paid or capital injections made is over £250 million. I think it's fair to say, a very successful venture into Sweden.

David Rimmington: And where's that growth come from? And as the illustration shows, the growth is because for Movestic over that period, despite some operating challenges at times, all of the growth factors have been material, including investment returns, new business, and run off of the risk margin, et cetera. And this graph shows that for all of our acquisitions, not only are the gains healthy, but it's evidence of the growth factors we expect to continue in the future. And we're confident that not only is Chesnara a stable business, it's also a business we expect to grow. And I'll hand back to Steve now to talk about M&A on a forward looking basis.

Steve Murray: Thanks for that Dave. So, as I covered at the start of the presentation, Chesnara has a really good track record of successfully executing M&A. Nine deals in our history, with two more announced in the second half of 2021 and completing

shortly. And as Dave has just shown, we've delivered meaningful upside for shareholders from M&A over a number of years. Now as shown on this slide, we continue to have a clear and robust process for M&A, supported by four key criteria. And these ensure that we remain disciplined in our approach, but they also allow us to have a good amount of flexibility to take advantage of M&A opportunities in the future. And as a group, we're increasing our focus on acquisition related activity, given the opportunities we're currently seeing in the market.

Steve Murray: And we wanted to share a little more detail on how we see the M&A market. Now on this slide, the chart on the left gives you a sense of the back book market available across the UK and Netherlands. And these are the markets that we've been the most active in, in terms of consolidation. Around £390 billion available, which if anything, probably understates the opportunity.

Steve Murray: Now within these back books, there remains a very significant opportunity, at least 20% by our maths, of books that are around the £10 billion funds under management and below sort of size. Which would broadly equate to deals of £500 million and under. Now deals in this lower range are a very good size for us. Very transformative at the top end of that range. And we do tend to see slightly less competition than you do for larger deals above this sort of size. Now looking at the available market is very much art rather than an exact science. For example, the splits we've shown do not include the potential to carve up larger books into bite size pieces. And this is the approach we've seen AXA take in Belgium recently, for example.

Steve Murray: Looking at our acquisition fire power, post the Tier 2 debt raise, we're able to continue to fund deals a bit above the £100m pound mark from our own existing resources. And whilst it's obvious for us to look at our home markets first, where we have operating platforms and existing regulatory relationships, we will still consider new territories where there's a positive regulatory backdrop for consolidation. And if we can see a clear deal pipeline that's accessible to us, and we think we can generate real value for our shareholders. More broadly, we're continuing to see large international groups seeking to very actively reshape their portfolios, and overall, a very active market in Europe for M&A. And an active market is good for Chesnara. And as a listed company with long-term capital and a track record of looking after customers, we're an attractive counterparty for vendors and also for

local regulators. And we've tried to bring to life in more detail what we see as our USPs on the right hand side of this slide. So, all in all, we remain optimistic about our ability to participate successfully in acquisitions going forward.

Steve Murray: So, turning now to ESG. The group has continued to make progress on ESG, albeit we have much more to do here. We launched a broader program of work this year to accelerate our progress. And this includes wider engagement with a number of the parties that evaluate insurer's ESG credentials. Our direct operations remain carbon neutral, trending to negative. We've improved the diversity of our board through the recent non-exec hires that I talked about earlier, and we are working with our asset management partners to ensure that our investments meet higher ESG standards going forward. On customer outcomes, we've continued to maintain a strong focus on positive customer outcomes again in 2021, continue our track record of providing good service right the way through the pandemic. And that's in no small part due to the efforts of people right the way across Cheshnara Group in 2021. And we've also made improvements to the responsible and sustainable investment choices available to our customers.

Steve Murray: So, let's look at some of the areas of focus you can expect from Cheshnara going forward. Now our strategic pillars remain the same, maximising value from inforce books, seeking to add value from M&A, and the focused writing of profitable new business. But you will see some changes in how we approach these. We're looking at how we more proactively manage the balance sheet, looking at actions such as hedging and reinsurance, potentially alongside M&A activity. And there are potential opportunities within our existing business to take on some additional risk that would provide further positive diversification benefits and capital synergies. We're looking again at our investment strategy and the ways that we might deliver a better risk reward, particularly on our shareholder owned assets.

Steve Murray: It hopefully won't have escaped you that we've got a greater focus on M&A, and we're seeing good opportunities for us to engage in transactions already this year. And the Tier 2 raise gives us further flexibility in a far more capital efficient structure. And we've also retained our bank revolving credit facility. And finally, we're developing our return on capital frameworks to ensure that we're making more deliberate capital allocation decisions across the group. And this will include us

evaluating the relative return of M&A versus new business and versus other activity, including things like share buybacks.

Steve Murray: So, let's look ahead into 2022. We see the terrible events happening in Ukraine being a strong contributor to short term inflation rises across Europe, volatile equity markets, and yields potentially falling. At the back end of the presentation, Dave's set out our sensitivities to some of these sorts of stresses and our business continues to perform in line with these sensitivities. The Chesnara business model has delivered over the years through a very wide variety of market conditions, including the global pandemic and the global financial crisis. And we remain confident it will do so again, not least given the strong line of sight we have the cash generation over the medium term that Dave outlined earlier. And on M&A, we remain optimistic about the outlook here. An active M&A market should be good for Chesnara.

Steve Murray: So, in summary, Chesnara has had a good year of delivery. We've seen strong commercial cash generation across our businesses, robust and stable solvency levels, and an increase in the EcV of the group before the impact of Forex movements and the payment of dividends. Looking forward, we've got strong line of sight to future cash generation, and we remain optimistic about the prospect of us delivering value adding acquisitions. So, all in all, there's a lot to look forward to here at Chesnara. I'm delighted I joined the group, and with the rest of the team here at Chesnara, I'm very focused on the group delivering to its future potential. So, thanks for listening to the presentation and we'll now open up to questions.

Moderator: Thank you. We've got a number of questions that have come through the webcast, but if I can just remind people that if you'd like to submit a question to us, then you just use the question button in the toolbar below. Our first question is from Victor Henimann, I've noticed that the expected profits included in future premiums is quite sizeable and represents 65% of your SCR as of the end of the year 2020. This is significantly higher than your peer group. Could you expand?

Steve Murray: Dave, do you want to pick up Victor's question around expected profits from future premiums and I suppose the component of the SCR that's made up of that? Maybe we can just talk to Victor more generally about what makes up the SCR and some of the key risks that we see.

- David Rimmington: Yeah, I'm not sure I fully understand specifically the question, but because we've got a unit linked portfolio, we're quite heavily unit linked based. A lot of our future profits do come from future cash flows we expect to flow from that portfolio. So naturally a large proportion of our economic value will be from the cash we expect to flow from future premiums.
- David Rimmington: In terms of the SCR, similarly because we have got a large unit linked portfolio, a lot of our SCR relates to equity market risk and currency risk because we're exposed to movements in both those values. So, we have probably got a skew towards market related investment, investment market related SCR components, and we've probably naturally got a high skew towards how much of our profit is on the balance sheet is future profit rather than net assets at the point of the balance sheet.
- David Rimmington: In terms of those exposures on the SCR, Steve mentioned earlier, we do have the option to take out more hedging than we currently do. In fact, as a group, we carry out very little hedging. We're pretty much fully exposed to those risks; therefore, the SCR can be higher.
- David Rimmington: We do business cases, and we constantly assess the relative merits of the upside of those exposures versus the cost and the benefits of hedging, and to date we've chosen not to hedge, but under different circumstances we might hedge and therefore reduce the SCR and create an instant cash release. I don't know if that help answers your question, Victor.
- Moderator: That's great. Thank you for that, Dave. Another question, you spoke about looking at other territories, could you give any more colour on where might be of interest?
- Steve Murray: Yeah, thanks. I'll take that and thanks for the question. Look, firstly, what we should say is we'll absolutely start by looking at our home markets. So, we've got operating platforms, technology, regulated relationships and people there, so it makes an awful lot of sense for us to start looking in the markets that we're in at the moment. And across both the UK and the Netherlands, we are seeing a good pipeline of opportunities so we're optimistic about what may come to the market there. What we do want to make sure is that we do have the opportunity to look at opportunities outside these markets if we think they make sense for shareholders. So historically the group has looked at some offshore territories, particularly where we've seen

strong regulation and where the product sets are pretty similar to the ones that we run.

Steve Murray: So, Dave has just talked about the fact that we have a large part of our business that's unit linked. Again, if we were looking at businesses that had a large part unit linked or other life assurance, again, that would encourage us to look elsewhere, but there's certainly a higher hurdle for us to look at those territories. And we would need to look at the totality of those environments, how the regulator viewed consolidation, and also what the deal pipeline looked like as well because I think for us to enter another territory, we need to be confident that we could do further deals and create scale in those markets. So, we aren't talking specifically about territories, that's commercially sensitive. And I think if we were ultimately going to do that, then we'd want to be able to kind of do our work in the background before we bought in one of these markets.

Moderator: Thank you. A further question, could you provide some more detail on planned management actions in the coming years?

Steve Murray: Yeah, sure. I think Dave can talk to some of the management actions more generally that we have available to us. Do you want to cover that, Dave?

David Rimmington: Yeah. Yeah, so the management actions tend to fall into two categories, their actions to either reduce the capital we have to hold or their actions to increase the value of the company and combined they widen the gap between capital and value and hence the surplus. So, the actions we can take to reduce the capital we're holding include hedging, as I mentioned before, not least currency hedging would be one of the more simple actions to take. And by way of illustration, we could release circa £40 million of capital by taking out hedges over the sterling value of our overseas subsidiaries. We could do more sophisticated hedging on some of our equity exposure. Although interestingly, the Solvency 2 model, the symmetric adjustment I talked about earlier is actually to some extent a free hedge because we are actually quite protected through that for the impact of falling equity markets to some extent, whilst we've got that free hedge from the rules, why would we pay for one?

David Rimmington: We can also do things like take out more reinsurance than 2021. One of the drivers of the strong cash result was that we did take out more reinsurance in the UK and

the Netherlands, but we are by no means fully reinsured so there's definitely room to go there. And in terms of the actions we can take to enhance the value of the company, naturally as the group grows, you would expect unit costs to drop and therefore that will burn through to the valuation and the own funds. We can also continue to invest in systems and the automation of process which we've been doing over all of our divisions and there's still more to do. So, they're the type of things we're referring to.

Moderator: That's great, thank you. Further question from Brendan Reilly. With respect to the statement made on slide 15 re dividend coverage for the next 18 years, what assumption does the calculation use for average yearly dividend growth?

Steve Murray: Dave, I think that's one for you.

David Rimmington: Yeah. For the purpose of that illustration, we've assumed 3% a year dividend growth. [Note: assumptions are explained in footnotes to the slide]

Moderator: Okay. That's great. Further question from Brendan. Why do you expect the adverse outflows you mentioned to reduce in 2022?

Steve Murray: Do you want to take that, Dave? And you are on the Movestic board as am I, so we're pretty close to this.

David Rimmington: So we believe the transfer outflow flows have been driven by, well, we know they're driven by one thing and we believe they're driven by two things. During 20 and 21, one of the large mutuals in Sweden followed a relatively, or in fact a very aggressive pricing strategy. It appeared they were trying to kind of take a chunk of the market. And we know that that company has withdrawn that offer from the end of 2021. So that specific driver of the outflows and just for clarity, it wasn't just Movestic, our Swedish business, losing business to that mutual, the whole of the industry was seeing net outflows to the mutual.

David Rimmington: We know that offer has been withdrawn and we're already seeing in the monthly MI towards the end of 2021 and into 2022 some relatively encouraging reductions in the level of outflow. So that's happening. The other dynamic is that brokers definitely changed their behaviour under COVID. They were less able to get out and see new clients and spend face to face time. So, like happened in the UK many years ago,

there was a tendency to churn existing business. And we expect when normal business resumes that level of churn will reduce.

David Rimmington: Finally, the rules change mid 2022. Our business has always been fully open, and clients have always been able to take their pots elsewhere. There are parts of the Swedish market which have been restricted, so huge parts of the traditional Swedish market have been protected. That protection is being lifted mid 2022 so we believe there be a more level playing field. So not only do we think transfers will drop. We believe we will be able to actually start actively targeting transfer business from other players. So, that's the main reason why we're confident about that reducing significantly. One final point on this, we have strengthened our long-term assumption, so we've built into the results an assumption that it might not come back to pre-COVID levels. If it does, great. We'll have a profit, but we're protected against it.

Moderator: Thank you. We've got a question from Barrie Cornes from Panmure Gordon. He's got three, but I'll do them individually just for ease. Have you considered a share buyback given the share price discount to EcV?

Steve Murray: Thanks, Barrie, and thanks again for your note this morning as well. I talked about looking at capital allocation, capital allocation more broadly and return on capital levels as a group, and one of things that we always use to evaluate some of the decisions that we take, particularly those strategic ones, is we will compare that against a share buyback. So, we do recognise that there's certainly further value there in the share price when you look at the level that we're trading at, and you look at the kind of yield level. We're very focused on making sure that we take the actions to demonstrate to investors and broader stakeholders' group that the business is growing, and we can deliver value. So, we will always think about share buybacks. We're aware of that measure and that being open to us, and we will evaluate things like M&A against the potential benefits of a share buyback.

Moderator: The second question from Barrie was post Tier 2 capital raise, have you noticed an enhanced M&A discussion, or is it too early to date?

Steve Murray: So, what we've seen, Barrie, is it's been helpful for us to go out and market ourselves off the back of that Tier 2. So, we've certainly been able to go to organisations that we spoke to last year, and as you'll know, these conversations

can take a number of years as we talk about the Chesnara story, what we might be able to do and look at assets that some organisations have that aren't core. So, I think it's been useful for us to demonstrate again that we have financial resources available. The investment grade rating has also been helpful for us as well. That's another demonstration of an external party validating the strength of Chesnara, but we were already seeing a pretty active market across Europe. So, I think it's just provided Dave and I and the broader team the opportunity to, I suppose, to re-market the fact that we are in the M&A market, and we believe that we can be a good partner.

Moderator: Thank you, Steve. The final part of Barrie's question from Panmure Gordon was, do you anticipate IFRS 17 having an impact on presentation of results? Are you looking to introduce a CSM?

Steve Murray: Dave, you're the exec sponsor of our IFRS 17 program, so over to you on that.

David Rimmington: Yes. Well, IFRS 17 will certainly change the presentation of the results. The primary statements will look fundamentally quite different, and we're working hard on understanding those disclosure requirements. In terms of where our projects up to, look, IFRS 17 is undoubtedly a very complicated piece of work across the whole of the sector. We're in a very good position. We've got no concerns about complying. We've also done our first dry run, relatively provisional numbers but importantly, we don't see any concerns about it having a negative impact on IFRS net equity, which would potentially otherwise have dividend consequences. So, we're confident the numbers are looking good. We're confident that process-wise, we're in a good position, but you're right, Barrie. The disclosures will change quite significantly, and I think there'll be a learning curve for the whole of the industry and the analysts to become familiar with a new set of primary statements.

Moderator: Great. Thank you for that, Dave. I'll combine this one. A couple of people have asked this, but you've mentioned that you had M&A firepower of above £100 million. How would you think about funding deals above this size?

Steve Murray: Dave, do you want to cover how we think about financing, maybe reminding people of what we've got internally and then looking at some other things as well?

David Rimmington: Yeah. So, smaller to mid-size deals, we can fund largely through our own resources. We've got a track record and a very successful track record of going to the equity market for the right deals. We're confident our equity holders and new, potential new equity investors would be willing to support any M&A activity. We've also, as you know, entered the Tier 2 market, and we're becoming familiar with other alternatives like RT1. We're also open to more creative ways to fund deals if required, if the vendor retains some sort of stake in the business they sold or through operating in partnerships. I think our overall conclusion is we have lots of sources to finance. Some of them, more proven than others including equity. We've also got £150 million pound revolving credit facilities, so whilst we've taken out the Tier 2 debt, we've retained our existing term debt facilities. So, that would definitely be another source of cash especially for deals in the £150 to 200 million range but lots of sources basically and a track record.

Moderator: Great. Thank you, Dave. We've got time for one final question. You talk about taking on more risk onto the balance sheet. Could you provide more detail on this, and would you consider taking on more longevity risk through acquiring annuity portfolios?

Steve Murray: Yeah, thanks for that question. So, when we've been talking about risk reward more generally, there are some opportunities for us to take in some more risk. So, longevity is certainly one of those areas that we could look at. So, we have some small annuity portfolios, both in the UK and in the Netherlands. We could take some of that risk back onto balance sheet, or we could extend the product offering that we have in the Netherlands as two examples.

Steve Murray: Now, we would need to be convinced that the risk reward was in the right place on that, that we have the capability to manage that risk, but one of the features of our balance sheet is we are underweight longevity. So, actually, we would get some very meaningful diversification benefit if we took a risk like that onto the balance sheet. That's an example. There are certainly other risks as well.

Steve Murray: We are also looking at our investment strategy as well. We're pretty conservative when it comes to the management of shareholder assets. Again, Dave and myself and the team are just taking a fresh look at that to see whether there might be some opportunities to generate some further returns for shareholders still within a

relatively conservative approach to investments. On, the M&A side, look, we would ... We'd be open minded if there were books there that had individual annuity portfolios as part of them. We've certainly got the capability to look at that.

Steve Murray: An annuity, an individual annuity book in runoff isn't the most complicated thing for us to think about. What you shouldn't expect from us, however, is us to follow some of the other people in the insurance market and do bulk purchase annuities. Dave and I don't see that as a space where we think we can make the right returns for our shareholders and that we've got the right capabilities and the capital to deploy there, but we'd certainly consider in payment annuities and runoff, I think, would be a sensible thing for us to look at, particularly as part of a broader deal.

Moderator: Thank you. I have just another question that's come in from Ashik Musaddi from Morgan Stanley. Hi, good morning, team. I have a couple of questions. How much of the recently raised debt can be deployed to M&A? The second question would be, what would be the type of business you plan to buy, annuities, with profits, unit-linked?

Steve Murray: Yeah, it's a great question and delighted you can join the call this morning. Yeah. So, we've talked about the, I suppose, the acquisition firepower, so that £100m plus number that I talked about in the presentation and Dave's just talked about, I mean, that's absolutely deployable on M&A. The reason there's a bit of a range there is obviously depending on the opportunity. It might be that actually, we're able to extend that range a little bit more depending on what the capital attributes of that opportunity were, but we have those funds available for us to deploy at very, very short notice. Certainly, when we're speaking to vendors, we're making sure that they're aware of that.

Steve Murray: In terms of the sorts of books that we'll look at, I mean, it is the things you've talked about. Look, we've got a broad range of options because of the existing capabilities we already have within the business. So, we've got experience of managing with profit assets in the UK. We've got extensive experience of managing unit-linked businesses across the range of individual and group pensions, and we've got lots of experience managing life insurance as well. We've just talked about some of the smaller annuity books that we have. Actually, we're quite happy to take books that have got a different blend of these things because of the capabilities that we have.

So, and again, that links to the optimism that we have for opportunities coming forward. It doesn't need to be a pure unit-linked book just for us to look at that.

Moderator: Thank you, Steve. Final question, Marcus Rivaldi from Jefferies. Despite raising £200 million pounds of Tier 2 in February, it does not sound as though you are expecting to execute more material M&A ... or sorry. Does not sound as though you're expecting to execute more material M&A over the remaining 2022. Is that fair?

Steve Murray: Thanks. Thanks, Marcus. I've been around the block long enough that trying to make predictions about exactly what sorts of deals will land where can be a little bit of a fool's errand. Look, what are seeing is we're seeing an active market. We're expecting to be active. We've had the opportunity to look at some portfolios already in 2022. These things can take a little bit of time. Sometimes, they're in competitive processes. Sometimes, the timing's not right for vendors, but having that Tier 2 debt available with that rating is very, very helpful for us when we look at our future M&A ambitions. Certainly, we're going to try and be active. We'll be knocking on lots of doors. Sam joining us today is a big addition to the team. We get the benefit of his little black book as well. So, but we're optimistic about Chesnara's ability to participate in M&A processes going forward.

Moderator: Thank you, Steve and Dave. We got no further questions from the webcast at the moment, so if I can pass back to you, Steve, for closing remarks.

Steve Murray: Okay. Well, thank you for joining us today. We hope you agree that it's a good set of results from Chesnara. We're looking forward to speaking to a number of our shareholders over the next few days, but we wish you a happy Thursday, and hope the rest of your day goes well. Thanks again for listening.