# 2020 RESULTS INVESTOR PRESENTATION

30 March 2021

Dividend per share



2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

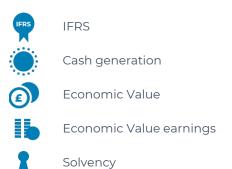
Chesnara

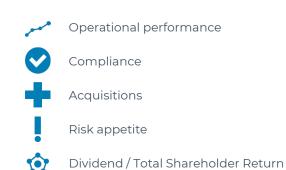
#### **AGENDA FOR 2020 RESULTS PRESENTATION**

OVERVIEW OF STRATEGIC DELIVERY	John Deane Chief Executive Officer
DELIVERY AGAINST STRATEGIC PRIORITIES	<b>John Deane</b> Chief Executive Officer
	<b>David Rimmington</b> Group Finance Director
OUTLOOK, FUTURE PRIORITIES AND CONCLUSIONS	<b>John Deane</b> Chief Executive Officer
APPENDICES	

#### **SYMBOL GUIDE**

Throughout the presentation the following symbols are used to help distinguish between the various financial and non-financial measures reported:







We have weathered the impact of Covid-19 well and have not utilised any government support schemes

Outcomes against our established objectives are solid

Another year of dividend growth



We are taking ESG matters very seriously with good progress to date and plans to do more Investors should have a good degree of confidence in the sustainability of the dividend

We have delivered positive management actions despite the inevitable focus on Covid-19 related short-term priorities

# PRE-DIVIDEND ECONOMIC VALUE MAINTAINED **O GROUP CASH GENERATION OF £27.7M CUMULATIVE FIVE YEAR CASH GENERATION 152% OF DIVIDEND PAYMENTS CONTINUED ROBUST SOLVENCY AT 156%** IFRS PRE-TAX PROFITS OF £24.6M **PROPOSED 3% FINAL DIVIDEND INCREASE O**



# Whilst our core strategic objectives remain unchanged, COVID-19 has required an additional focus on short term priorities

#### Staff welfare

Remote working fully enabled with immediate effect; office environments COVID-19 compliant; and all staff have been paid in full (without any government support)

## Business continuity and customer outcomes

Ensuring good business continuity with no detrimental impact on customer outcomes or the regulatory framework, including no deterioration in service levels and any claims, including Covid-19 claims, have been paid in business as usual expectations

Successful protection of the business and its stakeholders from the impacts of Covid-19

## Sustaining the shareholder dividend without compromising financial stability

Stable pre-dividend value with cash generation that enables the divisions to propose a further c£48m of dividends to the parent company

#### **Protecting the business fundamentals**

AUM increased by £0.7bn; policy counts increased in both Dutch operations and Movestic with run-off less than expected in the UK; and new business market shares have increased in more profitable product lines

#### Strong delivery against all core strategic objectives

MAXIMISE VALUE FROM EXISTING BUSINESS

Value Despite the challenges faced because of COVID-19, we have proposed **3% dividend growth** and **maintained pre-dividend Economic Value** 

Cash generation All divisions continued to generate commercial cash during the year resulting in **group cash generation of £27.7m** 

O2 ACQUIRE LIFE AND PENSION BUSINESSES

The **acquisition** of the Argenta Insurance portfolio at a discount to EcV of 22% was **completed and migrated** into the business **generating £9m incremental value** 

**Three portfolio acquisitions**, including Argenta during the year and one agreed at the end of 2020, have **created incremental value of £13m** and sets a solid base for further synergy-based bolt-on acquisitions

O3 ENHANCE VALUE THROUGH NEW BUSINESS

Total **commercial new business profits of £10.5m**, despite the impact of the pandemic on the market size

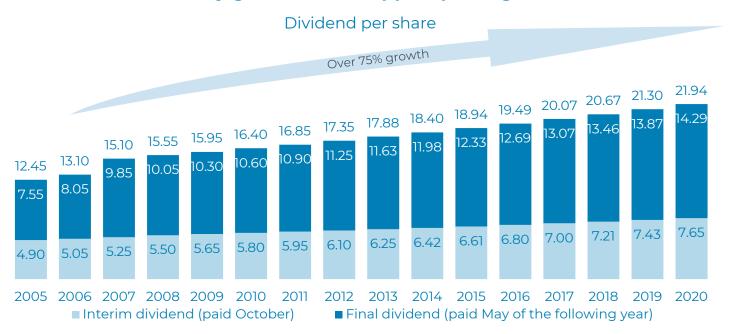
**Scildon has posted record commercial new business profits** of £8.8m, benefitting from an increase in market share, with net promoter scores increasing from +19 to +25

Pension markets in Sweden were heavily impacted by Covid-19 and this, combined with a modest reduction in market share, has resulted in an annual profit of £1.6m

# We have continued to deliver positive enhancements to the business despite an increased focus on business continuity in challenging operating conditions

		What we have done	The outcomes we have created
01	MAXIMISE VALUE FROM EXISTING BUSINESS	<ul> <li>Focused on capital management and value enhancing initiatives to drive value from the business</li> <li>Reduced capital requirements from buffer reductions and enhanced FX capital model. Further capital efficiencies expected in 2021 from catastrophe risk reinsurance and cross group lapse capital optimisation</li> <li>Changes to asset management and associated process re-engineering have created £13m of incremental long term value</li> </ul>	<ul> <li>Business generating sufficient cash to support dividend strategy</li> <li>We have protected the pre-dividend value of the business</li> <li>AuM have increased by £0.7bn or 9% over the year</li> </ul>
02	ACQUIRE LIFE AND PENSION BUSINESSES	<ul> <li>Completed and integrated the acquisition of a portfolio from Argenta Insurance</li> <li>Agreed a further portfolio transaction at year end with regulatory approval to be received in early 2021</li> </ul>	<ul> <li>Adding c£9m of incremental value and a 40% increase in Waard's internal policies in-force</li> <li>Enhanced reputation as a natural acquirer of small portfolios</li> </ul>
ENHANCE VALUE THROUGH NEW BUSINESS		<ul> <li>Continued development of digital solutions and client portals to remain competitive in a digital world</li> <li>Scildon's new pension platform and processes due to go live in H1 2021 with term products following in 2022</li> </ul>	<ul> <li>Record Dutch new business profits and increased market shares</li> <li>Scildon started collaborating with Dazure in a white-labelling relationship</li> <li>Positive Swedish results despite very challenging market conditions</li> </ul>
		Protected business fundamentals	Sustained dividend without compromise

The strength of our business model has enabled us to continue our dividend strategy and propose to increase our dividends by 3%. We have delivered this without the need to utilise any government support packages



Dividend increased every year

Proposed 2020 increase of 3%

Cumulative increase of over 75%

Cumulative five year cash generation 152% of dividend payments

# There are several financial metrics and factors that provide a level of comfort regarding dividend sustainability

#### **New business**

Has minimal positive impact on short term cash due to the associated acquisition costs and capital strain. New business does however create future positive cash flows. Incremental future cash flows at the end of 2020 as a result on new business in the year are £20.7m (2019: £23.6m)

Ongoing cash generation expectations from the existing portfolios

The cash generation model continues to show a good level of resilience to difficult conditions. Longer-term the Economic Value offers a useful proxy to the total level of future cash. The closing Economic Value (which assumes risk free asset returns) represents 19 years' coverage of the current full year dividend

Sustainability of the investor proposition

### Strong and stable solvency

Underpinning the proposition is a business that is well capitalised at both a group and subsidiary level, with a solvency ratio of 156% and £167.6m of surplus over and above the internal capital management policy

### Management actions and acquisitions

Potential for capital management actions and acquisitions to create material future cash generation and capital releases. Actions are scheduled for 2021 including catastrophe risk reinsurance in Scildon and in crossgroup lapse capital optimisation. These actions is particular have a material positive impact on the prospects of future dividends from Scildon

#### Chesnara plc cash reserves

In the medium term, the existence of £59.9m of cash and instant access liquidity funds on the parent company balance sheet provides cover for approximately two years' dividend. The group has a low gearing ratio of 7.4%



# 2020 saw us take further strides forward in building our ESG strategy across all of our operations, including some of the key activities noted below

Providing responsible and sustainable investment choices

- We take responsibility for having a long-term sustainable business model focused on long-term profitability, not short-term maximisation
- Movestic became a signatory of the UN's Principles of Responsible Investment (UNPRI)
- Completed our UK fund rationalisation to Schroders, with a key part of this decision being their commitment to UNPRI and sustainability/ESG investment management and reporting

Reducing our environmental impact

- The group takes steps to operate with zero emissions where possible, and where not possible mitigates by carbon offsetting
- The group has fully offset its carbon emissions for 2020 and so is carbon neutral
- This occurs via a tree buddying scheme planting new trees in the north west of England alongside supporting projects to minimise deforestation in Brazil

Investing in people

- Long-term sustainability for our workforce, suppliers, outsourcers and wider society
- Our UK operations became an accredited Living Wage Foundation Employer
- Funding and training for Foxton Centre, a Preston-based charity working with vulnerable adults and young people
   www.thefoxtoncentre.co.uk
- Scildon continuing partnership with local children's charities, Sherpa and Cliniclowns

In our Swedish division, the development of our sustainability strategy is being based on the UN's Sustainable Development Goals (UNSDG) and we have selected five to initially focus on. This is being considered more widely across the group:













#### **DELIVERY AGAINST STRATEGIC OBJECTIVES**

#### FINANCIAL OUTCOMES

OPERATIONAL DELIVERY AND TRANSITION

**CUSTOMER OUTCOMES** 

**NEW BUSINESS** 

**ACQUISITIONS** 

# The financial stability during the year combined with a clear expectation of future divisional dividends means we continue our dividend strategy with a proposed 3% increase

Financial performance	2020	2019	
Dividends	Dividends per share (1)	21.94p	21.30p
Cash	Group cash generation	£27.7m	£36.7m
Economic value	Economic value earnings(2)	(£0.9m)	£75.2m
IFRS	Profit before tax	£24.6m	£96.1m
New business	Commercial new business profit Incremental long term cash generation	£10.5m £20.7m	£14.4m £23.6m

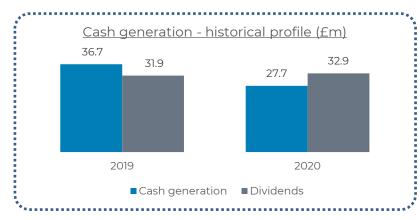
Financial position	31 December 2020	31 December 2019	
Solvency	Solvency ratio Solvency surplus	156% £204.0m	155% £210.8m
Economic value	Economic value Economic value per share	£636.8m £4.24	£670.0m £4.46
Assets	Assets under management	£8.5bn	£7.8bn
Leverage	Leverage ratio	7.4%	11.0%

- (1) Dividends per share represent those paid/declared/proposed in relation to that year
- (2) Economic value earnings include the impact of foreign exchange



# The group has generated £27.7m of cash in the year. Chesnara Plc had a closing cash balance along with other highly liquid assets of £59.9m at 31 December 2020

#### **GROUP CASH GENERATION**



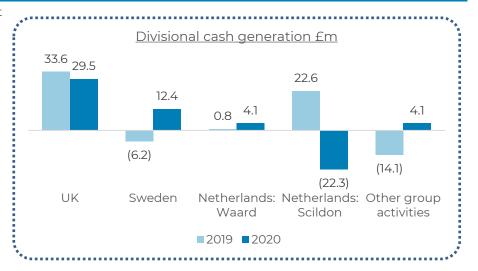
The UK and Swedish businesses delivered solid cash generation, supporting a total group result of £27.7m. This figure reflects a challenging year operationally and significantly lower economic returns than the prior year.

Although the headline cash generation does not cover the group dividend for 2020, divisional cash generation supports the total proposed dividends to the Chesnara parent company of c£48m with a dividend cover ratio of c150%.

In addition, Chesnara Plc has cash and other highly liquid assets of £59.9m at 31 December 2020 and expects c£48m of divisional dividend receipts. Short term future outflows include payment of the final dividend of £21.4m and 2021 debt and interest payments of £16.2m.

#### **DIVISIONAL PERFORMANCE**

- Scildon cash generation for the year was burdened by the impact of reducing yields (much of which reverses out on consolidation), new business strain and model enhancements. The underlying result of c£16m is more reflective of the core cash expected to be generated from the in force book in more benign economic conditions
- CA remains a relatively predictable core source of cash generation even in the absence of economic tailwinds
- Movestic economic gains largely due to equity growth and FX gains have more than offset operating strains relating in the main to the impact on transfer rates resulting from regulatory change
- Waard yet another year with positive cash generation contributing to the overall group result, with much of the growth due to the Argenta policy portfolio acquisition



#### FINANCIAL OUTCOME: CASH GENERATION - COMMERCIAL ANALYSIS



#### COMMERCIAL CASH GENERATION ANALYSIS

BASE CASH
GENERATION: £27.7m

COMMERCIAL CASH GENERATION: £27.7m

DIVISIONAL COMMERCIAL CASH GENERATION: £38.0m The analysis draws out the components of the cash generation result relating to technical complexities, modelling issues or exceptional/corporate activity to generate a commercial cash result

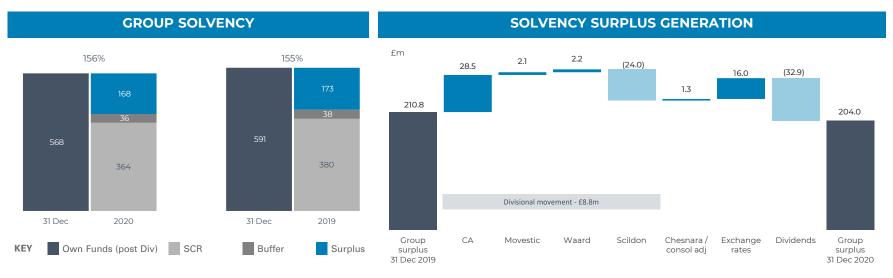
#### NETHERLANDS

			NETHE	RLANDS		
	UK	SWEDEN	WAARD	SCILDON	GROUP	TOTAL
Base cash generation	29.5	12.4	4.1	(22.3)	4.1	27.7
Symmetric adjustment	0.5	0.8	-	(O.1)	-	1.2
With-profits restrictions	(9.2)	-	-	-	-	(9.2)
Acquisition activity	-	-	(1.4)	-	1.0	(0.4)
Lapse SCR reversal	-	-	-	15.4	(15.4)	-
Model changes	(2.1)	-	-	10.5	-	8.4
Commercial cash generation	18.7	13.1	2.7	3.5	(10.3)	27.7
Analysed as:						
Economic	1.1	23.6	3.6	(2.7)	(0.9)	24.7
Equities	3.5	12.5	-	(0.8)	-	15.2
Spreads	(0.6)	(1.5)	1.4	3.6	0.1	3.1
Forex	-	6.0	1.9	1.2	5.1	14.1
Yields	(5.8)	(2.1)	(O.1)	(6.0)	(2.4)	(16.4)
Other economics	3.9	8.7	0.5	(0.7)	(3.7)	8.7
Core operating New business strain Other operating	7.9 - 3.0	2.0 - (12.5)	(2.5) - -	18.8 (13.0) (2.2)	(18.1) - (10.1)	8.0 (13.0) (21.8)
Management actions & other exceptional	6.7	-	1.6	2.5	18.8	29.7
With profit strategic asset allocation	6.7	-	-	-	-	6.7
Buffer reduction	-	-	1.6	8.4	-	10.0
Scildon cash to mortgages	-	-	-	(5.9)	-	(5.9)
Currency SCR methodology	- )N	-	-	-	18.8	18.8

- At a total group level, the total commercial cash generation is the same as the headline result; at a divisional level there are however some significant differences:
  - Scildon is significantly better than the base result when adjustments are made to give credit for components that reverse on consolidation and one-off model enhancement impacts
  - The UK commercial cash generation remains significant but it is lower than the base result which includes the benefit from transfers from the WP fund
- Commercial cash generation includes £24.7m of economic benefits with notable losses from reducing yields being more than offset by foreign exchange and equity-related gains
- The divisions have delivered core operating cash generation of £26.1m
- The central core operating cash generation includes uncovered central expenses, changes in central provisions for future expenses, interest payments, increases in counterparty capital and consolidation adjustments for capital requirements
- As an open operation selling relatively capital intensive term contracts, Scildon is impacted by new business strain. The strain in Movestic is less material so not drawn out separately
- Other operating includes operating items that were individually material
  - Movestic includes the impact on transfer rates resulting from regulatory change plus the temporary impact due to both Covid conditions and competitor pricing
  - Scildon has adopted revised standard mortality tables which suggest higher mortality than our specific portfolio experiences
  - The group figure relates to IFRS 17 expense reserves. This is mainly due to an internal policy decision to centralise the programme and hence there are corresponding releases in the UK and Scildon results of £3.0m and £3.4m respectively.
- Management actions have had a notable positive impact



# The group continues to be well capitalised with surplus and solvency ratio remaining consistent with the prior year



#### **INSIGHT**

- **SURPLUS**: The group has £167.6m of surplus over and above the internal capital management policy (£172.8m at the end of 2019). The group solvency ratio has increased from 155% to 156%. Solvency surplus has fallen as a result of own funds falling slightly more than the capital requirements, after the proposed dividend is taken into account.
- **DIVIDENDS**: The closing solvency position is stated after deducting the £21.4m proposed dividend (31 December 2019: £20.8m), and reflects the payment of an interim dividend of £11.5m.
- **OWN FUNDS**: Own Funds have risen by £9.7m (pre-dividends). Drivers of growth include a UK with-profit net transfer of £9.2m and completion of the Argenta acquisition. These factors were partly offset by the impact of the fall in yields and operating strains.
- SCR: The SCR has fallen by £16.4m, mainly due to a material reduction in equity, currency and lapse risk; partially offset by an increase in expense and catastrophe risk.



#### Prior to any dividend payment impact, the total Economic Value remains largely unchanged from the prior year

#### What is economic value?

Own funds are deemed to underestimate the commercial value of Chesnara due to contract boundaries, excessive risk margins and ring fenced fund restrictions. Therefore, we have adjusted our SII valuations for these items to create Economic Value (EcV). EcV is risk-free and so does not include future investment returns in excess of this nor does it include any value for the group's capability to write new business or complete acquisitions in the future.



Prior to any dividend payment impact, the total EcV remains largely

unchanged from the prior year.

prior years.

- The closing position includes an EcV earnings loss of £37.6m, heavily impacted by the pandemic's effect on both business conditions and the economic environment, with operating losses in Scildon and Movestic and only modest investment market returns compared to
- The change in EcV over the year includes the impact of the payment of the final 2019 and interim 2020 dividends.
- · Foreign exchange gains arose on translation of the Dutch and Swedish divisional results, representing the weakening of sterling against both the euro and Swedish krona.

#### **EcV EARNINGS**

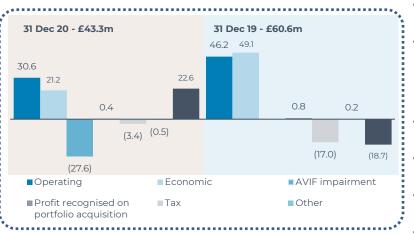
- Economic earnings were more modest than in 2019, owing to muted equity market returns, falling bond yields and widening bond spreads, largely due to the impact of Covid-19. This explains much of the year-on-year movements
- The Movestic loss is largely due to the impact of regulatory changes and of Covid-19 on short and longer-term transfer rates
- The Scildon result is largely driven by the impact of reducing yields as well as the adoption of revised mortality tables. CA and Waard delivered modest positive operating earnings
- The other group activities include a c£9m increase in the provision for the IFRS 17 project (of which about half is a transfer from amounts previously provided at divisional level), central expenses and interest payments, and movements in centralised expense reserves

	2020 £m	2019 £m
Countrywide Assured	11.8	48.9
Movestic	(23.1)	44.0
Scildon	(13.4)	12.0
Waard	5.3	4.6
Other group activities	(18.0)	(5.3)
EcV earnings	(37.6)	104.0
Forex	36.7	(28.8)
Pre-dividend EcV earnings	(0.9)	75.2



# The IFRS results reflect the natural dynamics of the group, which can be characterised in three major components: stable core; variable element; and growth operation

#### **ANALYSIS OF MOVEMENT**

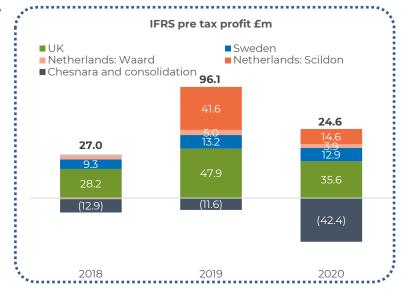


- Solid profits were delivered in each of the operating divisions, despite the challenging year and impact of Covid-19 on investment markets.
- The operating profit includes the negative impact of the liability adequacy test biting in Scildon, amounting to £10.0m, which is driven by a combination of economic and operating assumption changes. In the absence of this, operating profits have remained broadly in line year-on-year, demonstrating the stability of the core business.
- Economic earnings reflect the pandemic-related low equity growth environment compared with the previous year.
- The AVIF impairment charge has arisen from reassessing the future profits from Scildon, which has been hit by the current low yield environment.
- Profit on acquisition represents the gain of £0.4m on acquiring the portfolio of policies from Argenta.
- Sterling weakened against both the euro and Swedish Krona, resulting in an exchange gain of £22.6m.

#### **DIVISIONAL PERFORMANCE**

IFRS pre tax profits are significantly lower than 2019 with the primary change being driven by Scildon and CA results.

- Scildon delivered a positive result, due to investment value growth from spread and interest rate movements (albeit lower than 2019), coupled with a positive insurance result due to favourable mortality experience and offset by a strengthening of reserves of c£10m arising from the liability adequacy test.
- CA posted a strong result, albeit down on the prior year, which saw strong
  investment related returns late in 2019. In addition to positive economic
  returns, CA also benefited from positive operational impacts arising from
  mortality assumption changes, expense modelling impacts and favourable
  policyholder tax deductions.
- Movestic continues to contribute positively to the overall group IFRS result.
   Positive investment returns, strong claims development and reduced
   operational expenses produced a favourable result year to date.
- Waard reflects weaker investment performance due to market volatility. It also includes the impact of the purchase of the Argenta portfolio.

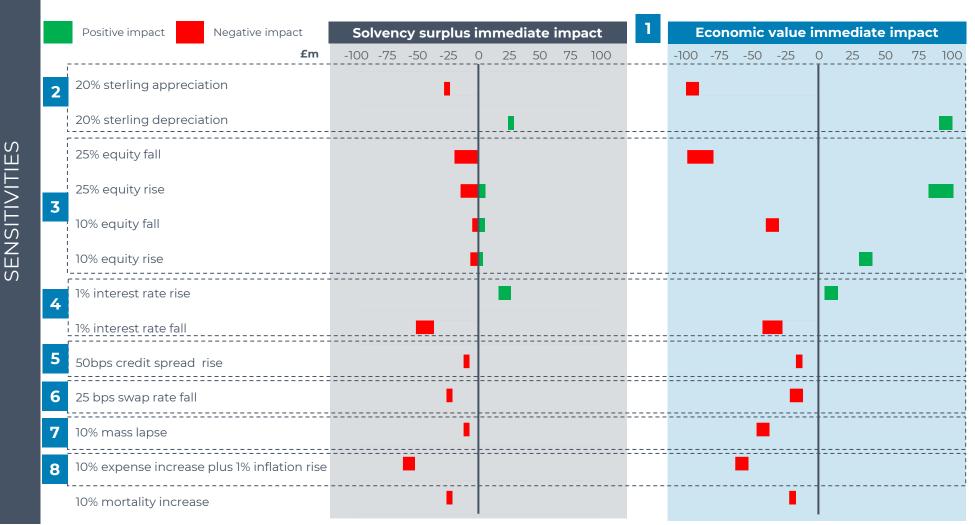


**IFRS** 



#### The charts below provide some insight into the potential range of impacts of certain sensitivities that the group is exposed to, covering solvency surplus and economic value

Whilst cash generation has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation. Each individual bar in the diagram illustrates the estimated impact range (£m) of the respective sensitivities and whether that impact is positive (green) or negative (red). Further details are provided on the following slide.



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# The charts on the page above provide some insight into the potential range of impacts of certain sensitivities that the group is exposed to, covering solvency surplus and economic value

Explanatory notes on the sensitivities on the previous slide are provided below:

- EcV tends to take the "full force" of adverse conditions whereas solvency surplus is often protected in the short term due to compensating impacts on our required capital.
- A material sterling appreciation reduces the value of surplus in our overseas divisions. It also reduces the value of projected Own Funds growth in our overseas divisions and also reduces the value of overseas investments in CA.
- The equity rise sensitivities cause both Own Funds and SCR to rise as the value of the funds exposed to risk is higher. The increase in SCR is larger than Own Funds, resulting in an immediate impact on surplus. Conversely, in an equity fall, Own Funds and SCR both fall. The extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£21m to the SCR, 25% equity rise: +£30m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business.
- An interest rate rise is generally positive across the group. An interest rate fall results in a larger impact on Own Funds than an interest rate rise, given the current low interest rate environment. CA, Movestic and Scildon all contribute towards the total group cash generation impact.
- A credit spread rise has an adverse impact on surplus and future cash generation, particularly in Scildon due to corporate and non-local government bond holdings that form part of the asset portfolios backing non-linked insurance liabilities. The impact on the other divisions is less severe.
- This sensitivity measures the impact of a fall in the swap discount curve with no change in the value of assets. The result is that liability values increase in isolation. The most material impacts are on CA and Scildon due to the size of the non-linked books.
- This sensitivity has a small impact on surplus as the reduction in Own Funds is largely offset by the SCR fall. However, with fewer policies on the books there is less potential for future profits. The division most affected is Movestic; the loss in future fee income following mass lapse hits Own Funds by more than the SCR reduction.
- The expense sensitivity hits the solvency position immediately as the increase in future expenses and inflation is capitalised into the balance sheet.



#### **COMPANY HISTORY**

#### 2004

Chesnara is born. EEV of £126m.

#### 2005

First acquisition. City of Westminster Assurance adds £30m of EEV.

#### 2009

Chesnara moves into Europe acquiring Movestic in Sweden. Group EEV now £263m.

#### 2010

S&P acquired. Group AuM over £4bn.

#### 2013

Direct Line's life assurance acquired end of 2014. Group EEV now above £400m.

#### 2015

Expansion into the Netherlands. Waard group acquired.

#### 2016

Building on our entry to the Dutch market, we announce the acquisition of Legal & General Nederland (LGN).

#### 2017

Completion of LGN acquisition, renamed Scildon, at a 32% discount to its EcV of £202.5m.

#### 2019

Completion of the acquisition of a portfolio from Monuta, under Waard Group.

#### 2020

Completion of the acquisition of 44,000 policies from the Dutch branch of Argenta Bank, also under Waard Group.

#### WHAT WE HAVE DONE

#### 8

**SUCCESSFUL ACQUISITIONS** 

#### 3

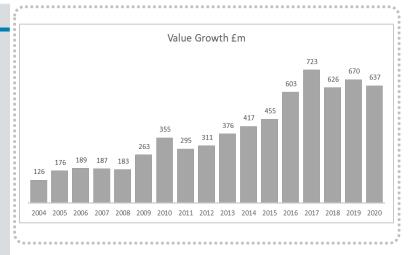
#### **TERRITORIES**

Our deals **demonstrate flexibility and creativity** where appropriate:

- Tactical "bolt-on" deals to more transformative deals
- Open minded regarding deal size
- Willingness to find value beyond the UK
- Flexible and efficient deal funding solutions
- Capability to find expedient solutions to de-risk where required

#### We are **not willing to compromise** on **quality, value or risk**. All deals have:

- been at a competitive discount to value
- satisfied our dual financial requirements of generating medium term cash and enhancing long term value
- been within Chesnara's risk appetite
- been subject to appropriate due diligence
- been either neutral or positive in terms of customer outcomes
- supported Chesnara's position as an income stock



Value growth is achieved through a combination of efficient management of the existing policies, acquisitions and writing profitable new business. The growth includes £148m of new equity since 2004 but is net of £360m of cumulative dividend payments.

The value of the group is affected by investment market conditions at any given point in time.

#### **DELIVERY AGAINST STRATEGIC OBJECTIVES**

FINANCIAL OUTCOMES

OPERATIONAL DELIVERY AND TRANSITION

**CUSTOMER OUTCOMES** 

**NEW BUSINESS** 

**ACQUISITIONS** 

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## 2020 has been a year of significant and continued operational delivery and transition across all divisions

Countrywide Assured

Movestic



Scildon and Waard



Continued to meet the needs of our customers and support our staff during the ongoing Covid-19 pandemic

Completion of the **fund manager rationalisation** project

Application to the PRA for the use of the **Volatility Adjustment** 

**Customer strategy** programme completed

Changes implemented to allow customers to contact us in new ways

**Operational resilience** programme has continued

Completion of the **digitalisation programme** delivering enhanced digital service and functionality

Expansion of direct distribution capacity

New transparent and personalised unit-linked pension and savings solutions and insurance products

Liquidation of Modernac and the move of the fund operation in Luxembourg to Sweden to reduce costs and increase capability

**Migration and integration** of the portfolio acquired from Argenta

Establishment of a **white labelling relationship** with Dazure as an additional route to market

Continued asset **de-risking and reinvestment** into mortgage funds

Continuation on the migration and digitalisation of the policy administration system

Continuing with the group-wide IFRS 17 implementation programme

#### **DELIVERY AGAINST STRATEGIC OBJECTIVES**

FINANCIAL OUTCOMES

OPERATIONAL DELIVERY AND TRANSITION

CUSTOMER OUTCOMES

**NEW BUSINESS** 

**ACQUISITIONS** 



# Customers are central to our strategy and their fair treatment across the group is a key priority

## Delivering through the pandemic

A key focus was ensuring that the ongoing needs of customers were met, including the swift payment of Covid-19 death claims, which has meant adapting our processes where necessary

# Creating financial security now and in the future

We are a financially secure group that provides the agreed standards of products and services as shown by our solvency position and customer service levels throughout 2020

Customers and their outcomes

# Providing responsible and sustainable investment choices

We have listened to our customers and the market and are introducing a wider range of investments to ensure that customers can choose sustainable options

# Broader and improved methods of communication

We have enhanced our digital offering to ensure that we communicate with customers in the manner in which they want, whilst maintaining vitally important existing methods

#### **Enhanced propositions**

During 2020, we have launched new funds and products for customers, including new transparent and personalised unit-linked pension and savings solutions

#### **DELIVERY AGAINST STRATEGIC OBJECTIVES**

FINANCIAL OUTCOMES

OPERATIONAL DELIVERY AND TRANSITION

**CUSTOMER OUTCOMES** 

**NEW BUSINESS** 

**ACQUISITIONS** 



In light of the uniquely challenging conditions, as a result of COVID-19 and its impact on total market sizes, we are pleased to report continued new business profitability including record commercial new business profits in Scildon

New business

Investment return above risk free

	Commerci new bu	al value of usiness	Incremental long term cash generation		Market share*		Total policies in force	
	2020	2019	2020 2019		2020	2019	2020	2019
Scildon	£8.8m	£7.5m	£15.9m	£15.0m	14.2%	11.6%	203k	190k
Movestic	£1.6m	£6.9m	£4.8m	£8.6m	4.5%	6.5%	365k	350k
Total	£10.5m	£14.4m	£20.7m	£23.6m			568k	540k

#### Key messages

#### Scildon

Acquisitions

Record commercial new business profits. Resilience of the sales of the Scildon term product has resulted in continued growth in profits Both Scildon and Movestic continue to generate positive VNB, and with policy growth and underlying market share, they are well positioned to take advantage of any market recoveries

#### Movestic

Historically, the Movestic proposition tends to be less attractive in difficult equity markets when traditional product options with guarantees and smoothed returns tend to be preferred. Therefore, whilst the deterioration during 2020 is disappointing, it is not unexpected and we would expect a level of recovery in more stable equity conditions

 $<sup>^</sup>st$  Market share for Scildon shown for the core term product and for Movestic for the occupational pension products

#### **DELIVERY AGAINST STRATEGIC OBJECTIVES**

FINANCIAL OUTCOMES

OPERATIONAL DELIVERY AND TRANSITION

**CUSTOMER OUTCOMES** 

**NEW BUSINESS** 

**ACQUISITIONS** 

# **ACQUISITIONS**

#### We are continually assessing opportunities for growth through well considered and appropriately priced acquisitions

**Growth potential** 

Acquisitions

New business

Investment return above risk free

#### Criteria Cumulatively our future acquisitions must be suitably cash generate to continue to fund the Chesnara dividend Cash generation strategy Acquisitions are required to have a positive impact on the Economic Value per share under best estimate and **Value** enhancement certain more adverse scenarios Customer Acquisitions must ensure we protect, or ideally enhance, customer interests outcomes Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside Risk appetite our risk appetite, the financial returns must be suitably compelling

#### Track record



Completed **three acquisitions** in addition to the original Countrywide Assured business acquired on inception of the group



Entered the market in 2015 and have completed four acquisitions

2020 saw the completion of the acquisition and successful migration of the Argenta portfolio at a 22% discount to **Economic Value.** This is the third recent portfolio acquisition, creating incremental value of over £13m

In December 2020, we announced an agreement to acquire a portfolio from Brand New Day - our fifth acquisition in the Netherlands in five years

#### Outlook

- We remain optimistic that more **substantial opportunities exist** and are aware that the merits of simple, well priced, lower value transactions should not be underestimated
- We are developing a reputation as a natural acquirer of small portfolios no longer seen as core by vendors
- Small deals will not transform Chesnara but they can mean that, along with other actions mean we can deliver gradual EcV growth whilst continuing the dividend payment strategy
- Our balance sheet and existing debt arrangements which create a 7.4% leverage ratio, provide sufficient **funding capacity for numerous small deals or a larger deal** of up to approximately £120m without the need for additional funding sources such as Tier 2 debt or equity



#### 2020 CONCLUSIONS AND FUTURE PRIORITIES

# PRIORITIES CONCLUSIONS AND FUTURE

#### **2020 CONCLUSIONS**

In challenging economic and wider conditions, the business maintained its value and its dividend strategy, providing proposed **3% dividend growth** 

The business also focused on a number of short term priorities as a result of the Covid-19 pandemic to ensure that the business continued to serve its customers, shareholders, employees and regulators and is well established to maximise the potential for post-COVID-19 recovery

ACQUIRE LIFE AND PENSION BUSINESSES

**MAXIMISE** 

**EXISTING** 

**BUSINESS** 

01

02

**VALUE FROM** 

The business continued to acquire and integrate portfolios of business into the Dutch division, whilst focusing on identifying larger scale opportunities

O3 VALUE
THROUGH NEW
BUSINESS

The business continued to adapt to changing market conditions and to deliver increasing returns from the Dutch business and is well placed to take advantage of the expected recovery in the Swedish market

#### **FUTURE PRIORITIES**

- Drive capital management actions to deliver value from the existing book, such as cross-group capital optimisation
- Deliver regulatory and statutory projects such as IFRS17
- Continue to review the operating design of the business to ensure that we have the structure best placed to deliver the strategy of the group in the most capital and cost efficient manner
- Further develop our ESG strategy and implement enhancements for the existing business and operations
- Focus on the at-retirement market to retain assets
- Focus on retention in the Swedish market
- Leverage our growing reputation and momentum as a company able to integrate policy portfolios
- Further develop financing and capital optimisation capabilities to enhance position in the market for larger deals
- Introduction of a custody product in Movestic and Easy B in the Netherlands
- Continue to assess our offerings against our sustainability and ESG strategy
- Complete the migration and digitalisation of the Scildon policy administration system and client-facing portals
- Engage with brokers to maximise recovery potential as Covid-19 restrictions lift and brokers return to more normal operating models

# The Chesnara business model and solid foundations of solvency and liquidity continue to support the investor proposition

Despite parts of the portfolio being in run-off (which is good for organic cash emergence), the Chesnara Group as a whole has delivered growth in terms of AuM and policies in force. This growth has positive connotations in terms of the sustainability of the business model



In terms of cash generation, the organic cash projections together with a clear line of sight to further capital optimisation opportunities means that we expect sufficient cash to emerge from the existing business to sustain the dividend model

Further acquisitions, incremental value from new business and investment returns over and above risk free are expected to further enhance growth potential

Longer term, the EcV offers a useful proxy to the total level of future cash emergence. The closing EcV (which conservatively assumes risk free asset returns) represents over 19 years' coverage of the current full year dividend





#### FINANCIAL REVIEW: MEASURING OUR PERFORMANCE

Throughout the Report & Accounts and this presentation, we use measures to assess and report our performance.

The range of measures is broad and includes many that are not based on IFRS.

The financial analysis of a life and pensions business also needs to recognise the importance of Solvency II figures, the basis of regulatory solvency.

#### **FINANCIAL ADDITIONAL METRICS STATEMENTS** Solvency II valuation **Capital requirements IFRS** net assets (own funds) Solvency SCR plus capital management reauirement buffer **Economic Value** R Solvency **IFRS** profits В **Balance Earnings** sheet **Absolute STAKEHOLDER FOCUS:** Policyholders Investors Regulators **New business Cash generation** Business partners EcV Commercial Key performance Group **Divisional** Basis Basis indicators

#### **SOLVENCY**

Solvency is a fundamental financial measure which is of paramount importance to investors and policyholders. It represents the relationship between the value of the business as measured on a Solvency II basis and the capital the business is required to hold. Solvency can be reported as an absolute surplus value or as a ratio.

Solvency gives policyholders comfort regarding the security of their provider. This is also the case for investors together with giving them a sense of the level of potential surplus available to invest in the business or distribute as dividends (subject to other considerations and approvals).

#### **ECONOMIC VALUE (EcV)**

Economic Value (EcV) is deemed to be a more meaningful measure of the long term value of the group and it generally approximates to Embedded Value reporting. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations from long term policies.

#### New business

An element of the EcV earnings each period is the economic value of new business. Factoring in the real world investment returns and removing the impact of risk margins is used by the group to determine the value of new business on a commercial basis.

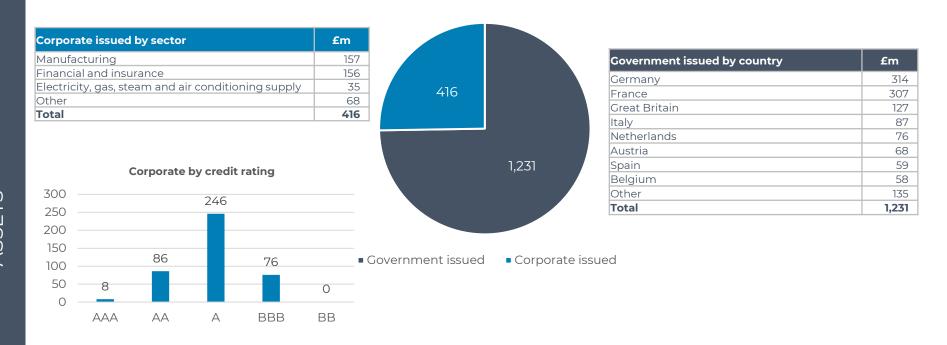
#### **CASH GENERATION**

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Group cash generation is calculated as the movement in the group's surplus own funds above the group's internally required capital.

Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.

Analysing the group's £1.6bn of non-linked assets, 75% (£1,231m) is invested in government issued bonds and 25% (£416m) in corporate stock. The government issued bonds are spread over a number of countries and the corporate issued stock is spread across different sectors.



#### **INSIGHT**

The group has £1.6bn of non-linked debt securities.

82% of the corporate investments are in assets graded A or above and these investments are split across a range of sectors, with approximately three quarters invested in manufacturing and financial services.

Of the £1,231m government-issued debt securities held, the top three are Germany, France and Great Britain respectively. In aggregate, these three countries cover 60% of the total portfolio (£748m).

	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
IFRS profit £m (pre-tax)	24.6	96.1	27.0	89.6	40.7	42.8
EcV / EEV profit / (loss) £m (after tax) <sup>1</sup>	(37.6)	104.0	(60.9)	139.5	72.5	57.5
EcV / EEV Shareholder equity £m <sup>1</sup>	636.8	670.0	626.1	723.1	602.6	453.4
Solvency II ratio (UK) <sup>3</sup>	130%	131%	130%	130%	128%	135%
Solvency II ratio (Sweden) <sup>3</sup>	158%	155%	174%	153%	140%	154%
Solvency II ratio (Netherlands - Waard) <sup>3</sup>	438%	501%	624%	483%	712%	597%
Solvency II ratio (Netherlands - Scildon) <sup>3</sup>	178%	210%	203%	231%	n/a	n/a
Solvency II ratio (Group) <sup>2, 3</sup>	156%	155%	158%	146%	158%	146%

<sup>&</sup>lt;sup>1</sup> From the 1st January 2016 we have moved from reporting on an embedded value basis to an economic value basis.

<sup>&</sup>lt;sup>2</sup> December 2016 Group solvency includes the impact of the capital raise and associated costs for the acquisition of LGN, removing this, the ratio is 144%.

<sup>&</sup>lt;sup>3</sup> All solvency ratios above are stated post dividend

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