

*Acquisition momentum,  
cash generation and strong  
solvency support 3% growth  
in interim dividend*

# 2022 INTERIM RESULTS

31 August 2022

**Chesnara**

OVERVIEW OF STRATEGIC DELIVERY

STEVE MURRAY, GROUP CHIEF EXECUTIVE OFFICER

FINANCIAL OUTCOMES

DAVID RIMMINGTON, GROUP FINANCE DIRECTOR

AREAS OF FOCUS, OUTLOOK AND SUMMARY

STEVE MURRAY, GROUP CHIEF EXECUTIVE OFFICER

## PRESENTERS



**Steve Murray**

Group Chief Executive Officer  
> 20 years of industry experience



**Standard Life**



**David Rimmington**

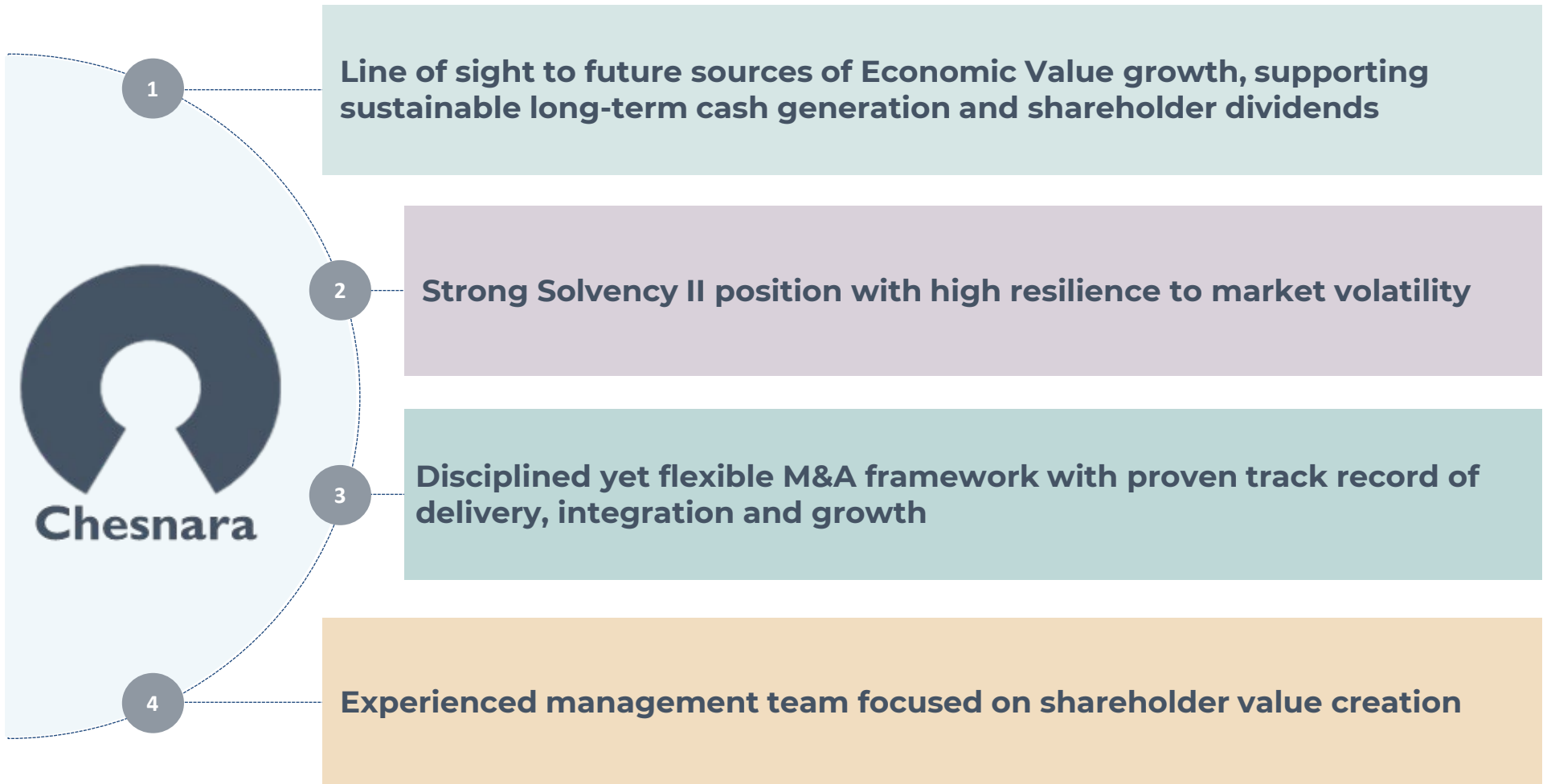
Group Finance Director  
> 25 years of industry experience



# OVERVIEW OF STRATEGIC DELIVERY



*Steve Murray*  
*Group Chief Executive Officer*



## M&A

COMPLETION OF SANLAM UK AND ROBEIN LEVEN ACQUISITIONS

ACQUISITION OF THE INSURANCE PORTFOLIO OF CONSERVATRIX ANNOUNCED IN JULY – OUR THIRD DEAL OVER THE PAST YEAR

## RESULTS

DIVISIONAL COMMERCIAL CASH GENERATION<sup>(1)</sup> OF £18.6M

STRONG SOLVENCY AT 195%, ABOVE USUAL OPERATING RANGE

ECONOMIC VALUE PER SHARE OF 351p

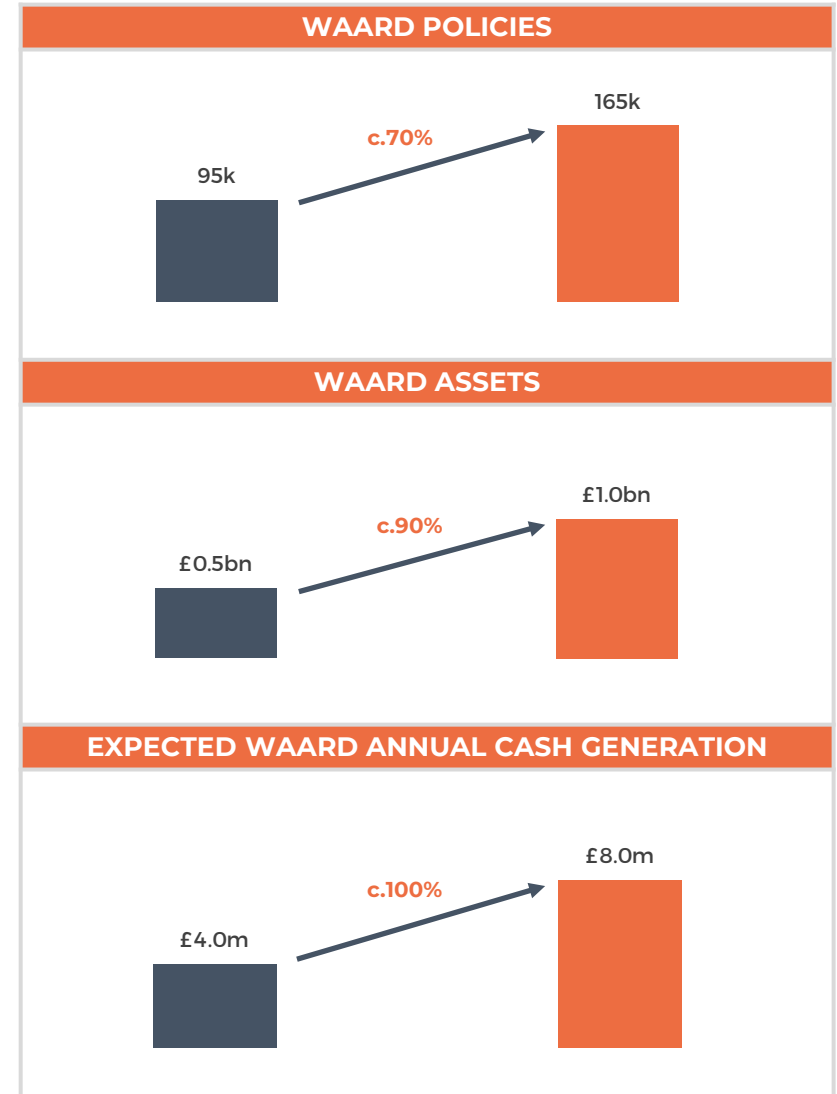
COMMERCIAL NEW BUSINESS PROFITS OF £4.6M

3% INTERIM DIVIDEND INCREASE

**Notes:**

(1) Definition of commercial cash generation included in section D of the 30 June 2022 interim financial statements

- Customers to benefit from becoming part of a well capitalised group with strong levels of customer service
- Capital contribution of £35 million to support the business, utilising Tier 2 proceeds
- Expected annual steady state cash of Waard to double
- Expected increase in EcV of £18 million (equivalent to 12p a share) with future upside from investment return and risk margin run off
- Expected proforma reduction in group solvency ratio of 14% to 181% at 2022 HY



Left hand column represents the FY 2021 position, right hand column represents FY 2021 plus the expected impact of Conservatrix. More information is available in the regulatory announcement.

Waard policies excluding those from outsourcing arrangement (as quoted in the financial statements).

# FINANCIAL OUTCOMES



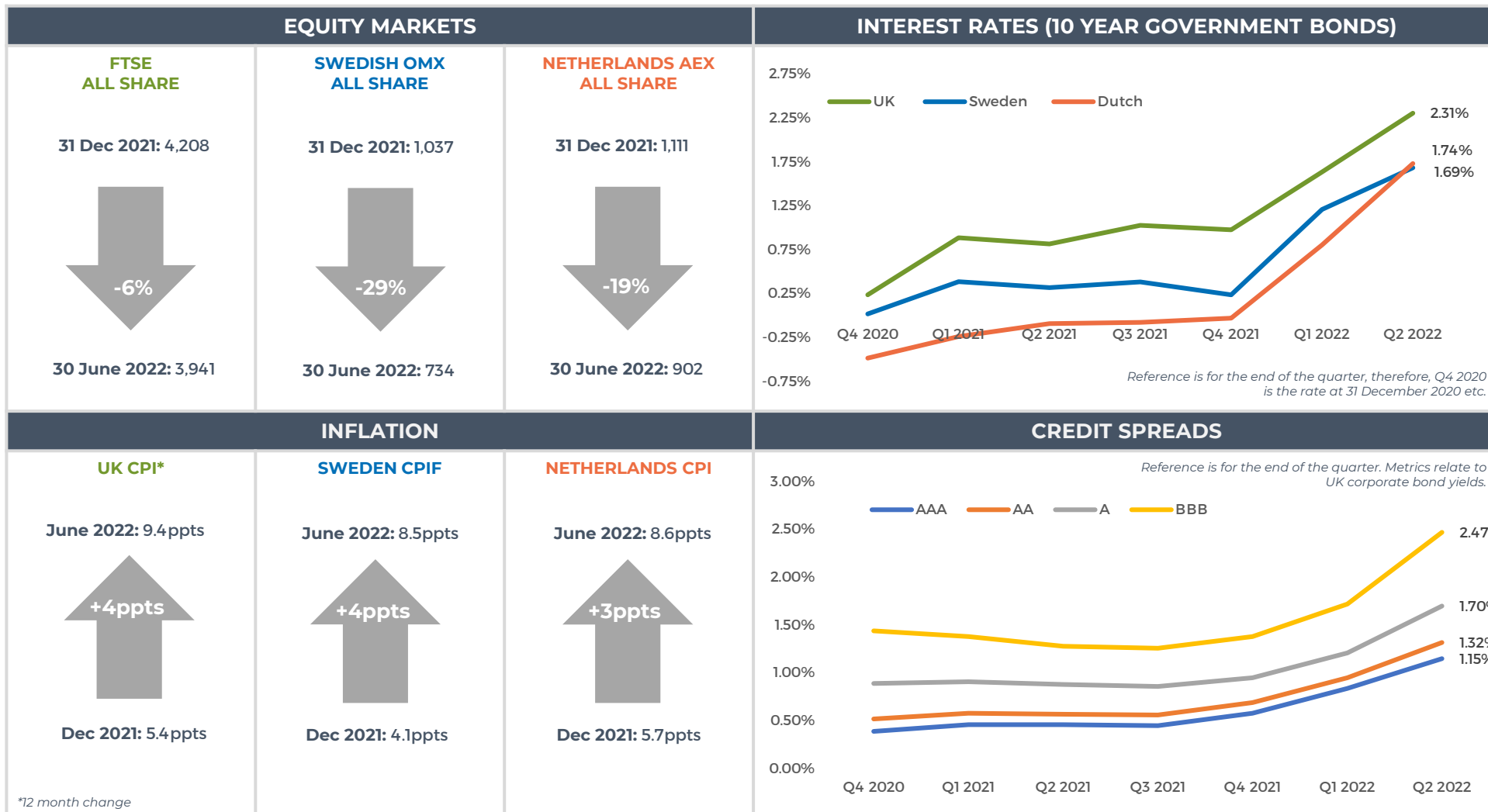
*David Rimmington*  
*Group Finance Director*

## MARKET CONTEXT & FINANCIAL HIGHLIGHTS

CASH GENERATION

SOLVENCY

GROWTH



*Equity market falls have adversely impacted EcV, whilst increases in interest rates have had a positive impact on solvency surplus*

Financial performance			HY 2022	FY 2021	HY 2021
<b>Dividends</b>	Dividends per share <sup>(1)</sup>		8.12p	22.60p	7.88p
<b>Cash generation<sup>(4)</sup></b>	Base	Divisional <sup>(3)</sup>	£60.1m	£31.1m	£11.5m
		Group	£21.9m	£20.3m	£5.4m
	Commercial	Divisional <sup>(3)</sup>	£18.6m	£58.5m	Not available <sup>(2)</sup>
		Group	£(3.0)m	£53.0m	Not available <sup>(2)</sup>
<b>IFRS</b>	Profit before tax		£(104.6)m	£28.8m	£20.8m
<b>New business</b>	Commercial new business profit		£4.6m	£9.6m	£6.6m
Financial position			30 Jun 2022	31 Dec 2021	30 Jun 2021
<b>Solvency</b>	Solvency ratio		195%	152%	153%
	Solvency surplus		£313.9m	£190.7m	£198.7m
<b>Economic value</b>	Economic value		£526.7m	£624.2m	£629.6m
	Economic value per share		£3.51	£4.16	£4.19
<b>Assets</b>	Assets under management		£11.2bn	£9.1bn	£8.7bn
<b>Leverage</b>	Leverage ratio		35.1%	6.4%	6.1%

**Notes:**

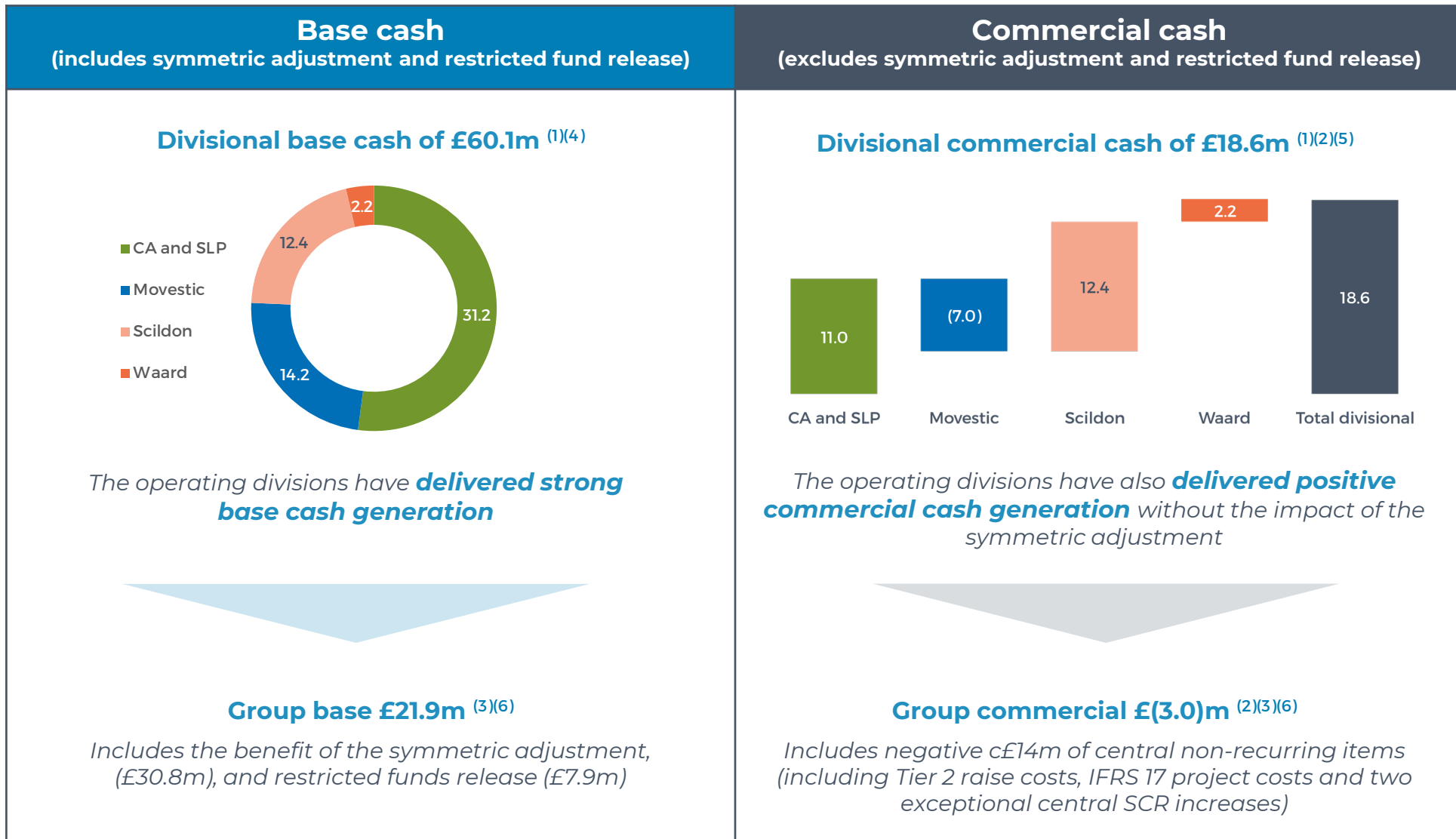
- (1) FY 2021 represents the total dividend for the year. The half year results represent the interim dividend.
- (2) Commercial cash calculation not produced for half year 2021.
- (3) Divisional excludes: 'Chesnara and other activities', and all day 1 acquisition impacts
- (4) 2022 HY cash generation excludes the day 1 impact of acquisitions
- (5) For definitions of all APMs, please see section D of the 30 June 2022 interim financial statements

MARKET CONTEXT & FINANCIAL HIGHLIGHTS

CASH GENERATION

SOLVENCY

GROWTH



**Notes:**

- (1) Divisional cash generation excludes: 'Chesnara and other activities', and all acquisition impacts
- (2) Definition of commercial cash generation included in section D of the financial statements
- (3) Excluding the day 1 impact of acquisitions
- (4) Base divisional results best illustrate the level of dividend paying potential that has emerged in the period
- (5) Commercial divisional total better reflects how effective the businesses have been at generating surplus from business operations
- (6) Group totals are more relevant if we are focusing on the headline solvency movements

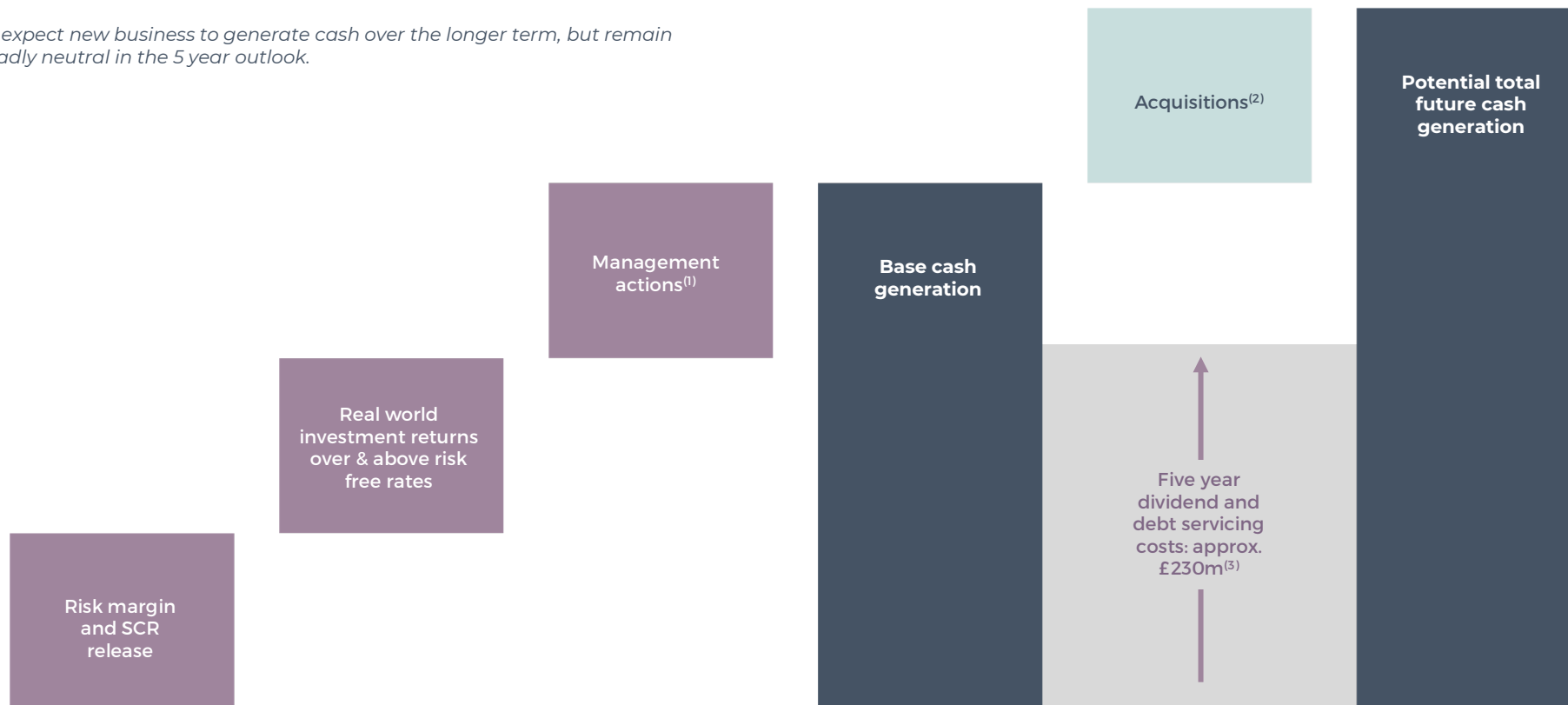


\*The closing cash balance includes a dividend payment made by Scildon to a group holding subsidiary representing total cash available at holding companies

*Chesnara has firepower of over £100m to fund future acquisitions*

## Sources of future cash generation composition (5 year estimate)

We expect new business to generate cash over the longer term, but remain broadly neutral in the 5 year outlook.



*We have a strong line of sight to sources of cash generation that more than cover our estimated cumulative dividend and debt servicing costs*

### Notes:

- (1) Management actions are not drawn to scale, but the bar indicates that we have a positive line of sight to further management actions that we can take.
- (2) Cash generation from acquisitions are not drawn to scale.
- (3) Dividend cost is based on historical growth levels which are then rolled forward. The board will review our approach to dividend each year deciding on what an appropriate level is.

MARKET CONTEXT & FINANCIAL HIGHLIGHTS

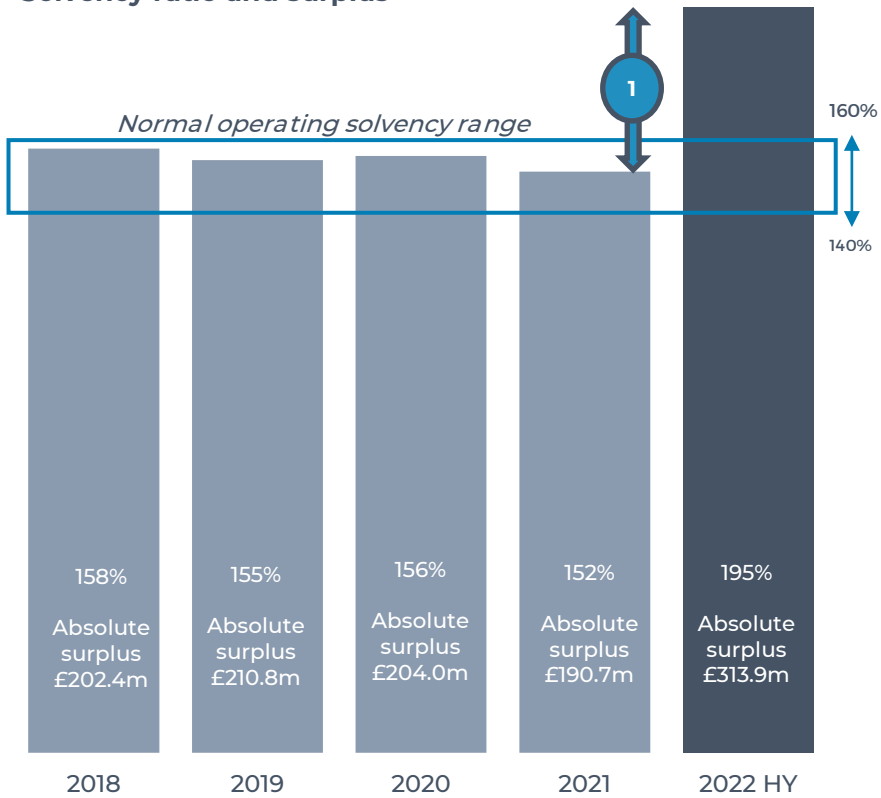
CASH GENERATION

**SOLVENCY**

GROWTH

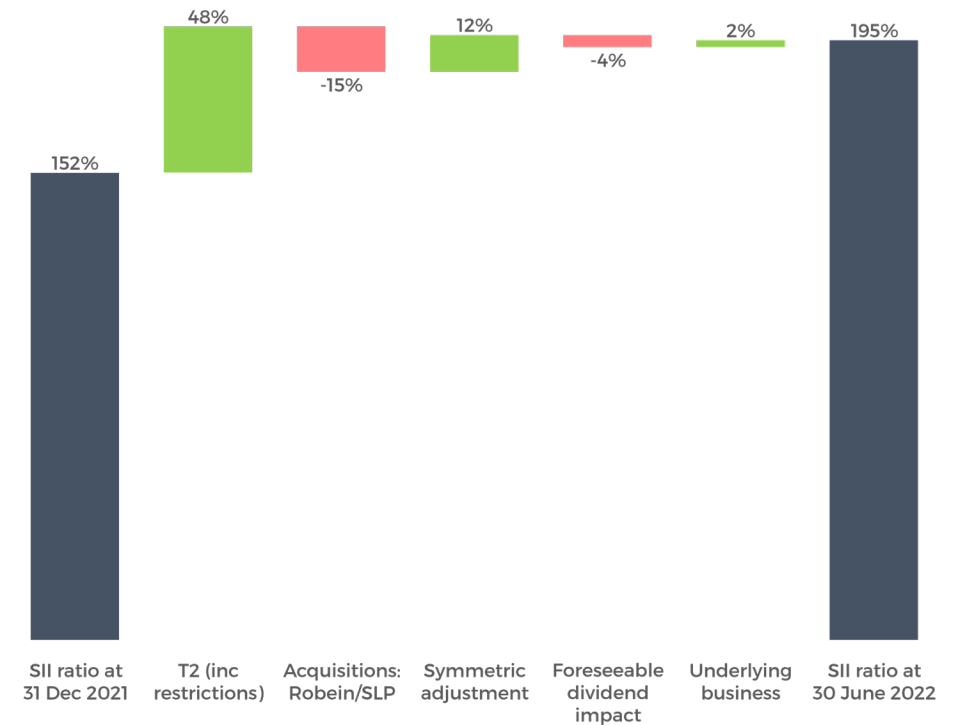
Between 2021 YE, and 2022 HY, the solvency ratio has increased from 152% to 195%, which is the result of several key items, as shown in the waterfall diagram below:

## Solvency ratio and surplus



1

## Reconciliation of Solvency II movement



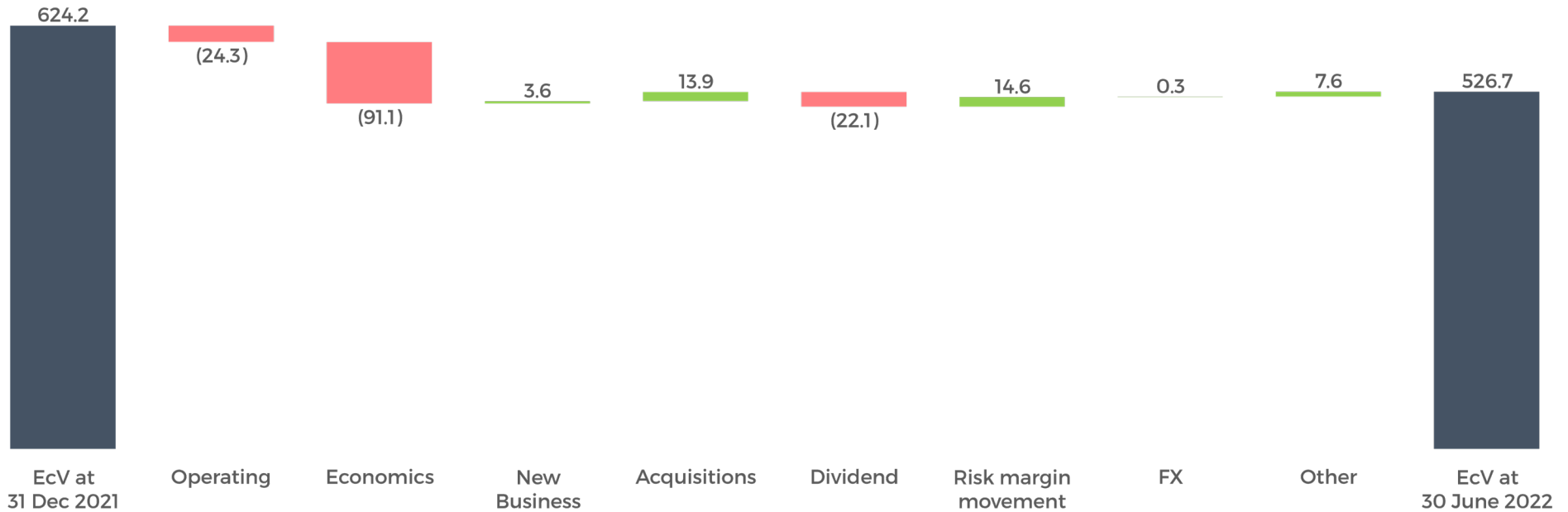
*Solvency remains robust despite tough economic conditions and some one off exceptional items during the first half of 2022*

MARKET CONTEXT & FINANCIAL HIGHLIGHTS

CASH GENERATION

SOLVENCY

GROWTH

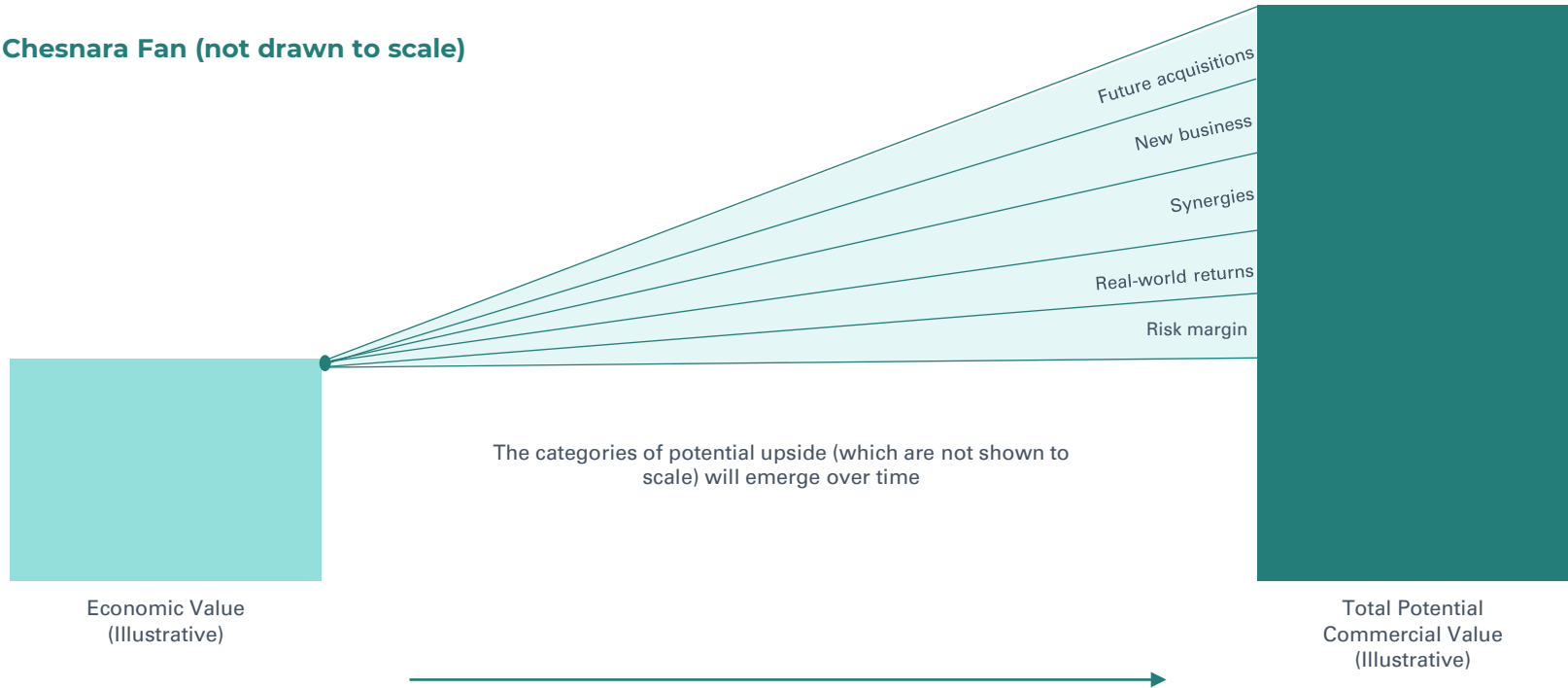


- Operating result includes:
  - £8m of non recurring developmental investment
  - An expected but vastly reduced transfer out loss in Sweden; by the end of the period, transfer out rates had recovered to the long term base assumption
- The acquisitions completed in the period have created £13.9m of Economic Value
- Based on equity market recovery since the 30 June 2022, we would expect some of this economic loss to have reversed

*In line with our sensitivities, economic value has been impacted by significant equity falls*

Chesnara's reported Economic Value does not recognise a number of further areas of potential future growth

Chesnara Fan (not drawn to scale)



*Chesnara has several levers available to support the delivery of further commercial and cash flow upside over the coming years*

VALUE DRIVER	VALUE CREATED DURING 2022 HY	VALUE	INSIGHT
1) Risk margin run off	✓	£14.6m	Normal run off of risk margin inherent within EcV
2) Real world returns	✗	£(91.1)m	Total economic loss in 2022 HY due to investment market performance
3) Synergies	✓	>£10m	Acquisitions in the UK and the Netherlands are driving cost and capital synergies
4) New business	✓	£4.6m	Despite tough markets, profits of £4.6m generated in 2022 HY ( <b>Scildon</b> : £3.1m; <b>Movestic</b> £1.5m)
5) Acquisitions	✓	Day 1 gain: £13.9m	Completion of acquisitions of Sanlam and Robein generated day 1 EcV gain of £13.9m

*The components of the Chesnara Fan continue to drive value in the business, despite short term volatility arising from economic movements*

A lighthouse on a rocky island in the middle of the sea at sunset, framed by a large circular graphic.

# AREAS OF FOCUS, OUTLOOK AND SUMMARY

*Steve Murray*  
*Group Chief Executive Officer*

01

MAXIMISE THE  
VALUE FROM  
EXISTING  
BUSINESS

- 1 million group customers as at 2022 HY following Sanlam and Robein Leven acquisitions and announced acquisition of Conservatrix, allowing Chesnara to benefit from economies of scale
- Focus on management actions to enhance and accelerate cashflows
- Strong customer service record

02

ACQUIRE LIFE  
AND PENSION  
BUSINESSES

- Three transactions announced in the past 12 months
- Financially robust with strong solvency position
- £200m Tier 2 Bond issue provides financing capacity for M&A
- Strong governance structures and track record with regulators

03

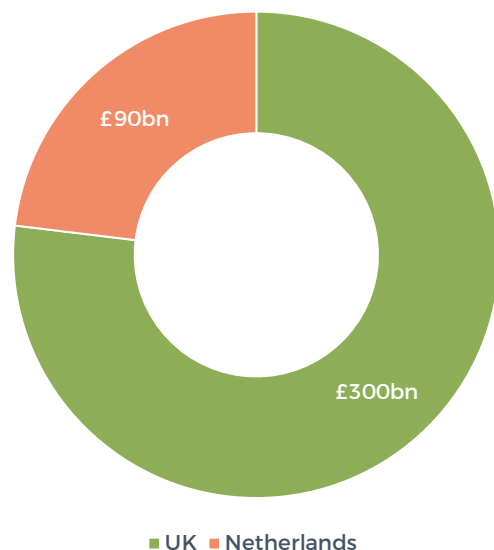
ENHANCE  
VALUE  
THROUGH  
PROFITABLE  
NEW BUSINESS

- Swedish transfer rates normalising
- Continued strong market share in Dutch term assurance market
- Increasing market share in the Swedish custodian market

*We have the skills and capabilities to run insurance books of business at scale for the benefit of customers, shareholders and our other stakeholders*

## M&A pipeline: market opportunity by geography

Back-book FUM by geography<sup>(1)</sup>



*It is estimated that approximately 80% of opportunities have FUM of £10bn to £50bn. The remaining 20% have FUM of less than £10bn*

## Strategic priorities

### Deal size and financing

- Chesnara has been in a strong position to derive value from opportunities with <£10bn of FUM
  - Usually less competition/ better value and lower execution risk
  - Likely to correspond to transaction values of c.£500m and below
- Fire power to fund a deal of over £100m from existing resources

### Geographic focus

- Primary focus on UK and Dutch markets currently
- Appetite to expand into further European markets depending on the opportunity

## Our key strengths

- ✓ UK listing and high standards of governance
- ✓ Positive and long-standing relationships with multiple regulators
- ✓ Comfortable managing books of unit linked, life insurance, with profit and individual annuities providing broad flexibility
- ✓ Less likely to be a material competitor on new business than some other consolidators
- ✓ Flexibility on approach to managing assets / investment management

*There are a substantial number of M&A opportunities in our target markets*

**Notes:**

1. Based on total FUM disclosed within company SFCRs for a range of UK and Netherlands insurance companies as at 31 December 2020


- Each of our divisions has **sustainability as a fundamental principle** of its operations and we are taking real-world positive actions:

**CA**  
  
 Active engagement with our asset manager, Schroders, who are a leading manager in the decarbonisation transition and the path to net zero financed emissions



**Movestic**  
  
 Offering innovative sustainable fund options in Sweden



**Scildon**  
  
 Has in place an exclusions policy based on a “do no harm” principle



**Waard**  
  
 Announced the completion of the Conservatrix acquisition, bringing policyholders into a well capitalised group with strong levels of customer service



- Along with the rest of the industry and the wider world, **there is so much more to do** and our priorities are:
  - Build on the work done by the divisions to make Chesnara **a sustainable business and a positive contributor**
  - Consider **the impact on our business** but just as importantly, consider the **impact of our business on all stakeholders**
  - Finalise **net zero targets** and **transitions plans**
  - **Continue to engage** with ratings agencies and external parties to better **articulate our story**

Considering the impact on our business from our investments and operations



Considering the impact on all stakeholders of our business and investments

*Sustainability is and will continue to be a key part of our group strategy*

Strong divisional commercial cash generation of £18.6m and 3% increase in interim dividend

Clear line of sight to future cash generation more than covering potential future dividend and interest payments

Strong and resilient solvency at 195% including the impact of our two recently completed acquisitions



Further value to come from Conservatrix acquisition with a positive outlook for further M&A activity

New business profits of £4.6m despite tough market conditions over the first half of 2022

The 'Chesnara Fan' shows the future growth levers available to us

**Chesnara**

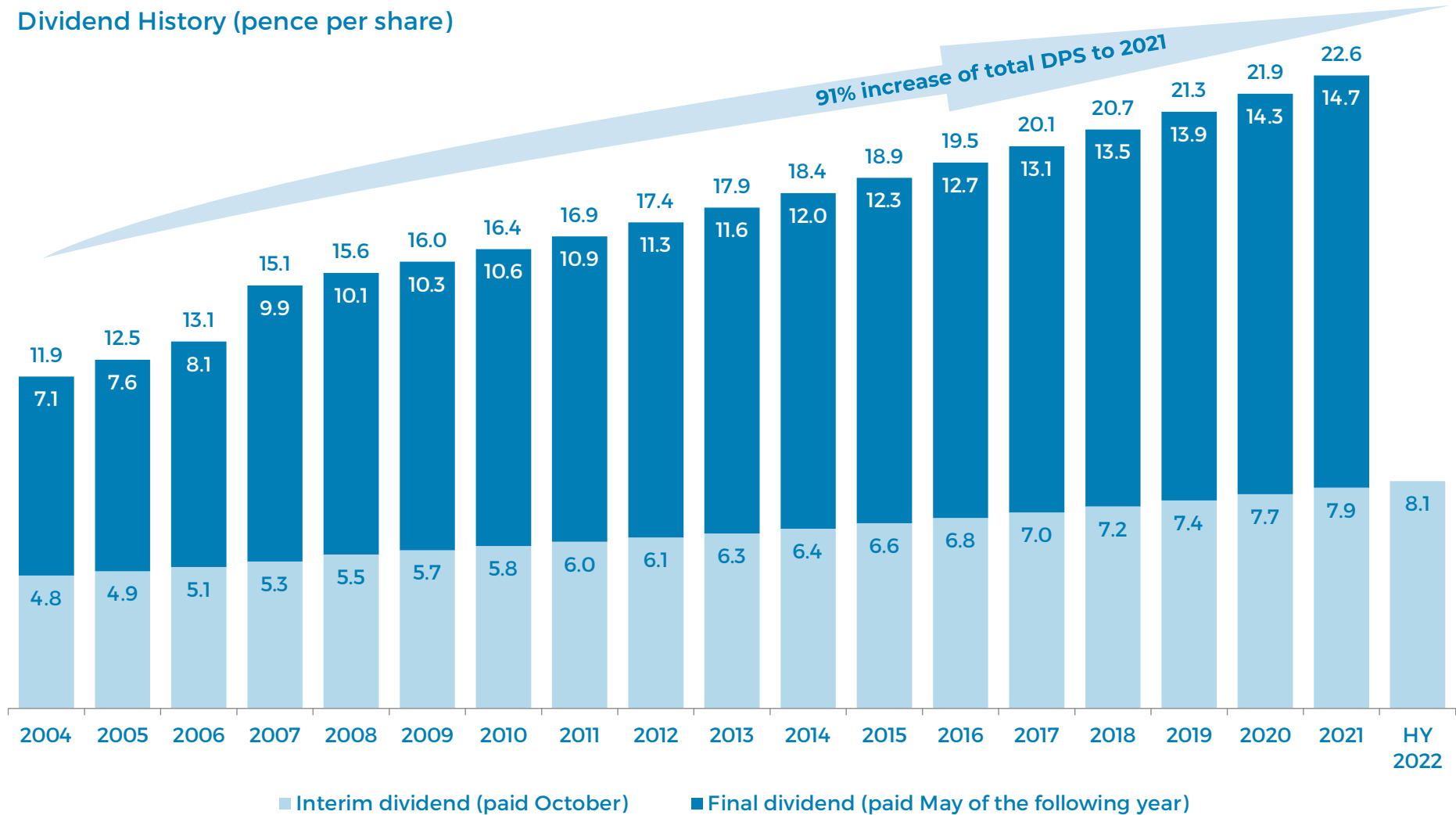
# QUESTIONS



# APPENDICES

A scenic photograph of a lighthouse on a stone pier at sunset. The lighthouse is a small, white, conical structure with a dark top, situated at the end of a long, narrow pier made of large, dark stone blocks. The pier extends from the foreground into the water. A metal railing runs along the right side of the pier. The sun is low on the horizon, creating a bright orange and yellow glow that reflects on the water. The sky is filled with dark, dramatic clouds. A large, semi-transparent circular graphic is overlaid on the image, framing the lighthouse and the sunset.

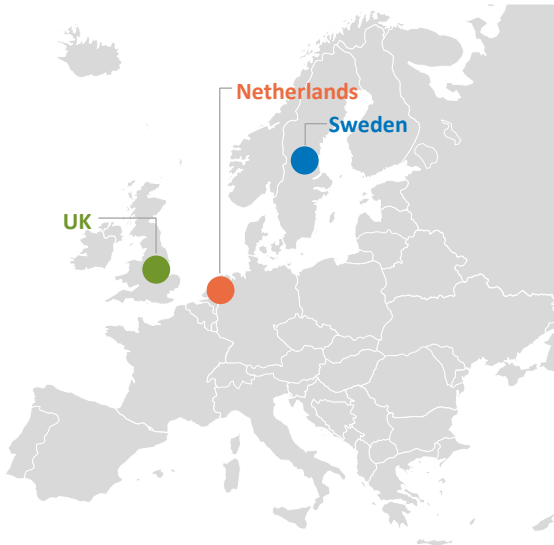
## Dividend History (pence per share)



*The strength of our business model has enabled us to increase our dividend by 3% and we have strong line of sight to future cash generation*

## WHO WE ARE

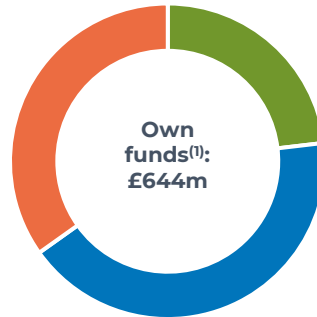
- Chesnara plc was formed in 2004 and is listed on the London Stock Exchange
- The group is a European life and pensions consolidator, having successfully completed eleven acquisitions to date, with the acquisition of Conservatrix expected to complete during H2 2022
- We are focused on three key markets: UK, Sweden and the Netherlands
- Our new business franchises in Sweden and the Netherlands complement the group's long-term cash flow generation



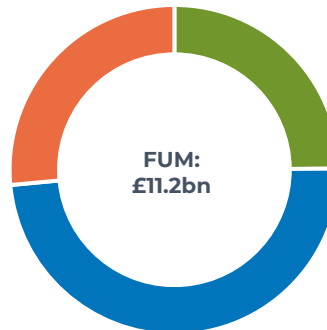
## FINANCIAL KEY METRICS

30 June 2022

UK NETHERLANDS SWEDEN



Group Solvency II Ratio: 195%



Record level of FUM reached in the first half of 2022, and will grow again with the acquisition of Conservatrix before the end of the year

## THREE CORE STRATEGIC OBJECTIVES

01

### MAXIMISE THE VALUE FROM EXISTING BUSINESS

- Efficient management of existing customers and financial resources to optimise long-term cash flow
- Key strategy across all three geographies – UK, Netherlands and Sweden

02

### ACQUIRE LIFE AND PENSION BUSINESSES

- Disciplined M&A framework identifies opportunities that enhance value over the long-term
- UK and the Netherlands are the key target markets

03

### ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

- New business franchises in Sweden and the Netherlands
- Focused on delivering long-term cash flow accretion for the group

**Notes:**

1. Geographical split for UK includes other group activities

BASE CASH  
GENERATION: £21.9m

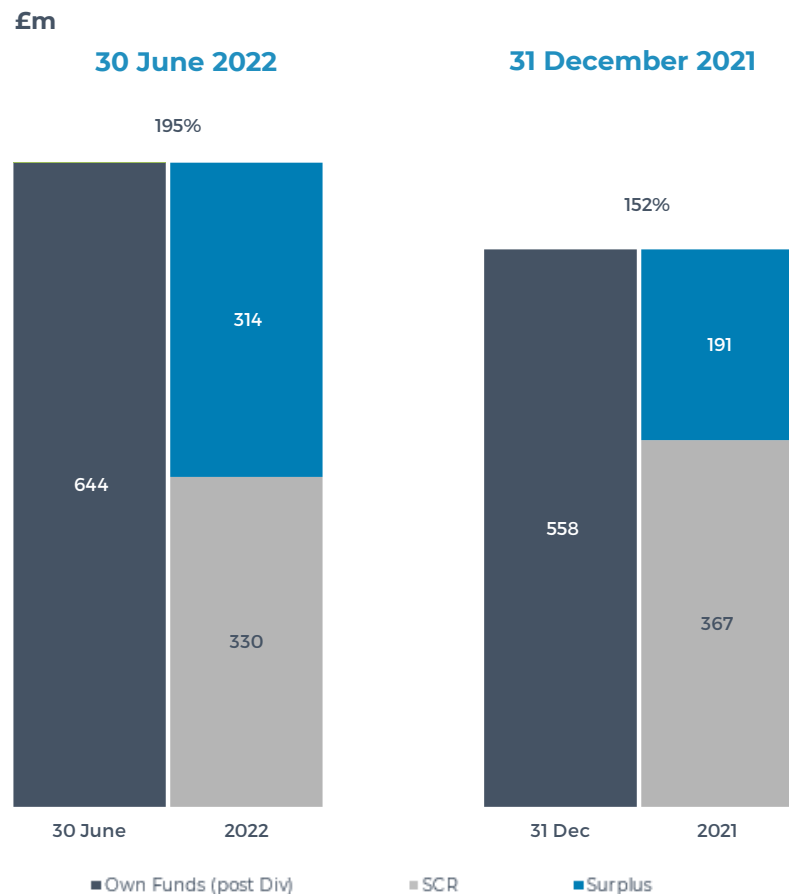
DIVISIONAL BASE CASH  
GENERATION: £60.1m

COMMERCIAL CASH  
GENERATION: £(3.0)m

DIVISIONAL  
COMMERCIAL CASH  
GENERATION: £18.6m

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	DIVISIONAL TOTAL	GROUP ADJ	TOTAL
Base cash generation	31.3	14.2	2.2	12.4	60.1	(38.2)	21.9
Symmetric adjustment	(12.4)	(21.2)	-	-	(33.6)	2.8	(30.8)
With profit restriction look through	(7.9)	-	-	-	(7.9)	-	(7.9)
Group buffer difference	-	-	-	-	-	13.8	13.8
<b>Commercial cash generation</b>	<b>11.0</b>	<b>(7.0)</b>	<b>2.2</b>	<b>12.4</b>	<b>18.6</b>	<b>(21.6)</b>	<b>(3.0)</b>

For more information on the basis of prep and what is included within each category, section D of the 30 June 2022 interim financial statements.



- Increase to 195% driven largely by **Tier 2 debt**
- **Impact of acquisitions** of Sanlam Life and Pensions UK Limited and Robein Leven estimated at **-15%**
- Our normal solvency operating range remains **between 140% and 160%**
- The group does **not utilise transitionals** in its results.
- Closing solvency stated **after** deducting the £12.2m **interim dividend**

*We remain well capitalised at both a group and subsidiary level*

**Notes:**

(1) More information on the impact of the symmetric adjustment can be found in the financial statements including an explanation of the basis of preparation which can be found in section D of the 30 June 2022 interim financial statements.

IFRS result breakdown	HY 2022 £m	HY 2021 £m
Operating activities	(10.4)	28.3
Economic activities	(105.1)	(7.4)
AVIF impairment	-	-
Portfolio acquisition impact	10.9	(0.1)
(Loss)/Profit before tax	<b>(104.6)</b>	<b>20.8</b>
Tax	36.4	(3.0)
(Loss)/Profit after tax	<b>(68.2)</b>	<b>17.8</b>
Foreign exchange	1.7	(15.9)
Other comprehensive income	-	-
Total comprehensive income	<b>(66.5)</b>	<b>1.9</b>

Pre-tax losses reported in each territory with economic conditions underpinning the results.

The loss on economic driven by various economic factors such as rising interest rate and reductions in bond values, coupled with falling equity markets and negative investment returns.

It is important to remember that inherent within the result there is an accounting mismatch in Scildon because assets are fair valued but liabilities have some locked assumptions.

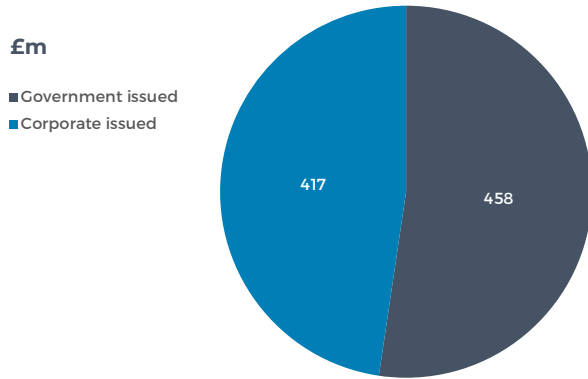
A smaller loss on operating activities was also incurred.

The result includes the profit on acquisitions of £10.9m (Sanlam Life and Pensions UK £10.6m, Robein Leven £0.3m).

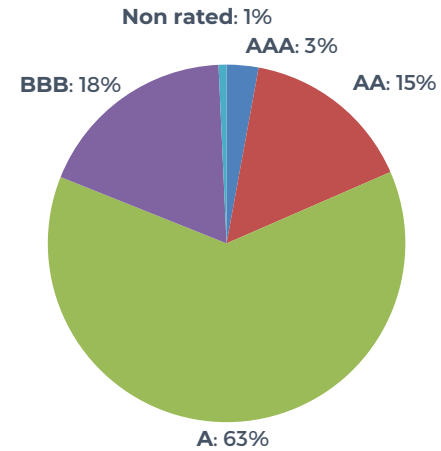
*Tough economic conditions have created IFRS losses across all divisions*

## BREAKDOWN OF INVESTMENT PORTFOLIO BY ASSET CLASS

Total non linked assets of **£875m** at the end of H1 2022

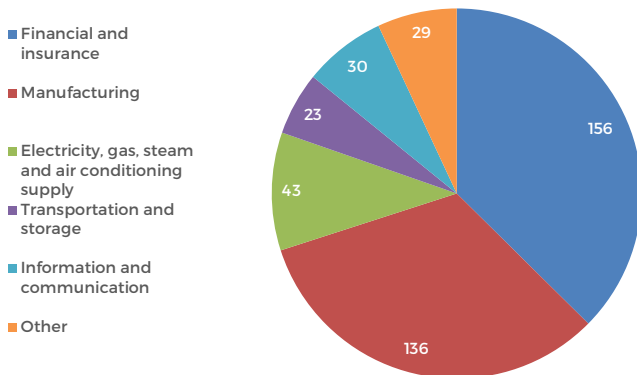


## CREDIT QUALITY OF NON-LINKED & SHAREHOLDER DEBT SECURITIES



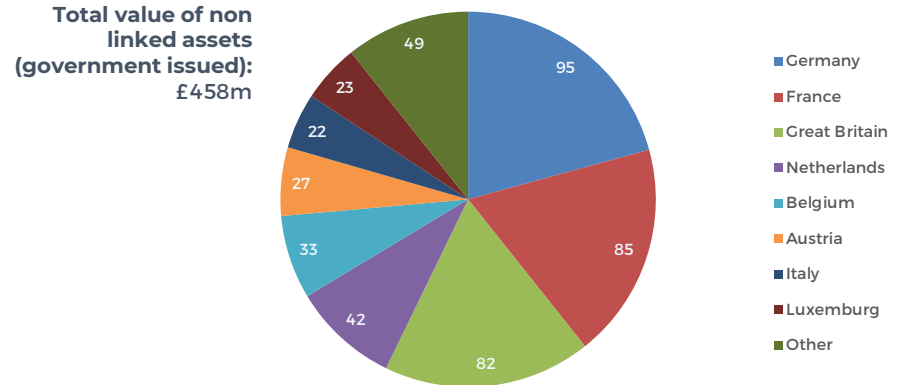
Total value of non-linked assets (corporate issued): **£417m**

## CORPORATE ISSUED - SECTOR SPLIT (£m)



Total value of non-linked assets (corporate issued): **£417m**

## GOVERNMENT ISSUED - GEOGRAPHICAL AREA SPLIT (£m)

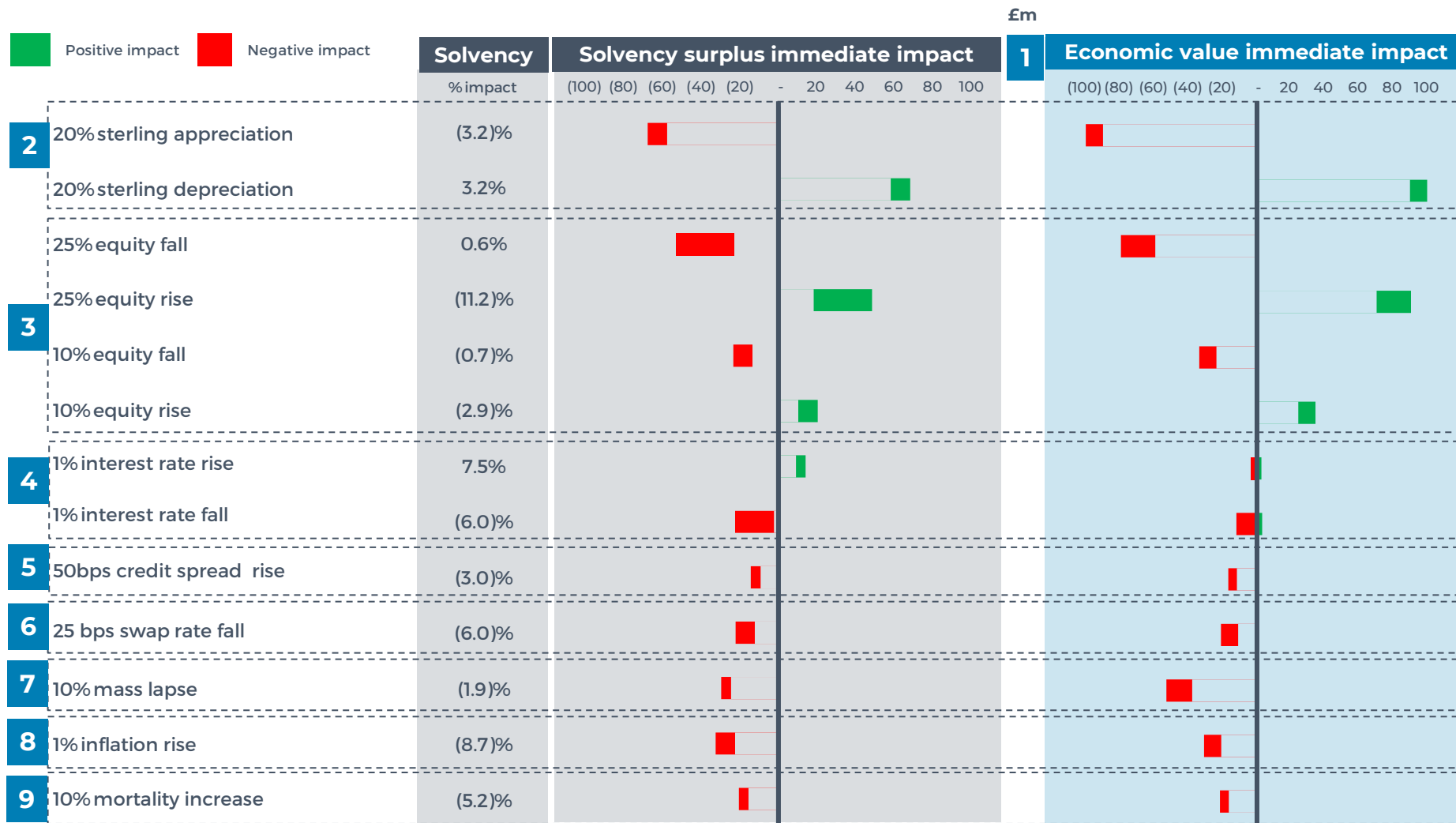


Total value of non-linked assets (government issued): **£458m**

*Low risk investment portfolio, with strong weighting towards high quality fixed income assets*

## The charts below provide some insight into the potential range of impacts of certain sensitivities that the group is exposed to, covering 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.



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

- 1 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.
- 2 **20% sterling appreciation/depreciation:** A material sterling appreciation reduces the value of surplus in our overseas divisions and any overseas investments in our UK entities, hence has an immediate impact on group solvency surplus and EcV. There is also a large fall in the amount of Tier 2 capital that can be recognised, due to the reduced size of the balance sheet.
- 3 **Equity sensitivities:** 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 can be larger than Own Funds, resulting in an immediate reduction in surplus, depending on the starting point of the symmetric adjustment. The converse applies to an equity fall sensitivity, although the impacts are not fully symmetrical due to management actions and tax. The Tier 2 debt value also changes materially in these sensitivities. The change in symmetric adjustment can have a significant impact (25% equity fall: -£9m to the SCR, 25% equity rise: +£37m 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, much of which is invested in equities.
- 4 **Interest rate sensitivities:** 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, SLP, Movestic and Scildon all contribute towards the total solvency surplus impact.
- 5 **50bps credit spread rise:** 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.
- 6 **25bps swap rate fall:** 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 book.
- 7 **10% mass lapse:** In this sensitivity Own Funds fall as there are fewer policies on the books, thus less potential for future profits. This is largely offset by a fall in SCR, although the amount of eligible Tier 2 capital also falls. The division most affected is Movestic as it has the largest concentration of unit-linked business.
- 8 **1% inflation rise:** A rise in inflation increases the amount of expected future expenses. This is capitalised into the balance sheet, thus hits the solvency position immediately.
- 9 **10% mortality increase:** This sensitivity has an adverse impact on surplus and cash generation, particularly for Scildon due to their term products.

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