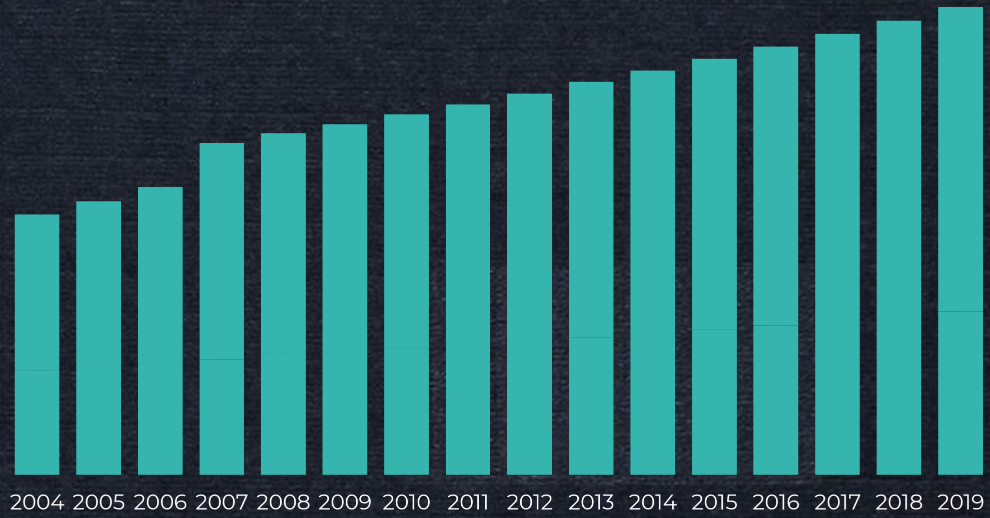
CHESNARA plc

AN INTRODUCTION
NOVEMBER 2020

DIVIDEND TRACK RECORD CONTINUES

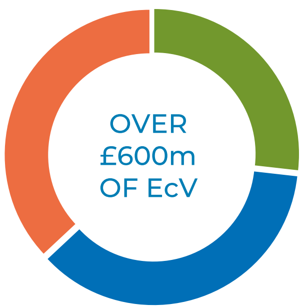


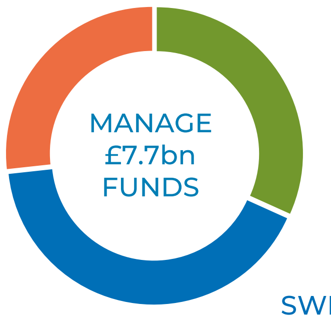
AGENDA

1. AN INTRODUCTION

WHO WE ARE

- Chesnara plc is a life assurance and pensions consolidator. We are a responsible and profitable company engaged in the management of life and pension policies in the UK, Sweden and the Netherlands
- The group comprises both open-book and closed-book operations. We write new business where we are confident that conditions will ensure the sales are value adding.
- Chesnara plc was formed in 2004 and is listed on the London Stock Exchange.
- The group initially consisted of Countrywide Assured, a closed life and pensions book demerged from Countrywide plc, a large estate agency group.
- Since incorporation, the group has grown through the acquisition of three predominantly closed UK businesses, an open life and pensions business in Sweden and both a closed-book group and an open life and pensions business in the Netherlands.



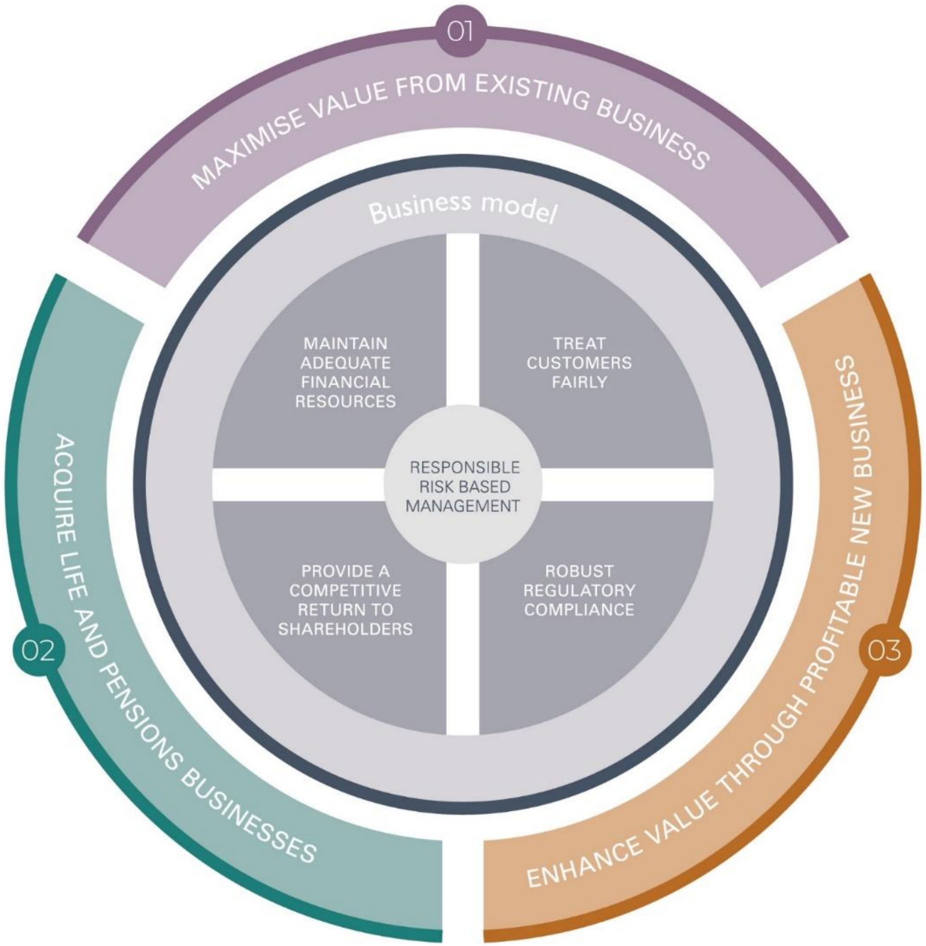


UK
SWEDEN
NETHERLAND

2. OUR BUSINESS & OPERATIONAL MODEL

OUR BUSINESS & OPERATIONAL MODEL

We aim to be an investor's least troublesome share whilst offering a competitive return, dividends delivered through solid cash generation and with new business and acquisitions increasing value as represented by the Economic Value of the group.



OUR BUSINESS MODEL

- Chesnara devolves management to its divisions which operate within a centrally defined governance and risk management framework.
- A central UK-based team has significant experience and a proven track record in governing, acquiring and successfully integrating life and pension businesses.
- In the UK, we adopt an outsourced operating model to the fullest extent possible, whereas our overseas divisions use outsourced services on a more limited basis.
- Acquisitions are assessed against stringent financial criteria adopting a robust risk-based due diligence process.

HOW WE CREATE VALUE

FOR OUR POLICYHOLDERS

- Effective customer service operations, clear communication and competitive fund performance, with full regard to all regulatory matters, support our aim to ensure policyholders receive good returns and services in line with fair outcomes for customers.
- Provide security through strong solvency

FOR OUR SHAREHOLDERS

- Surpluses emerge from the in-force books of business through efficient management of the policy base and good capital management practices. These surpluses enable dividends to be paid from the subsidiaries to Chesnara, which fund the attractive dividend strategy and support our wish to be a share held for the long term by our shareholders.
- Growth from both the proven acquisition model and from writing profitable new business in Sweden and the Netherlands has a positive impact on the Economic Value of the business.

OUR BUSINESS & OPERATIONAL MODEL

KEY STAKEHOLDERS

R REGULATORS

C CUSTOMERS

I INVESTORS

E EMPLOYEES

D DISTRIBUTION

STAKEHOLDER OBJECTIVES

Financial stability and regulatory compliance

Fair outcomes

Competitive return

Chesnara

Cash generation through divisional dividends and value generation through EcV growth

DIVISION	UK	NETHERLANDS		SWEDEN
OPERATING COMPANY	Countrywide Assured	Waard Group	Scildon	Movestic
STRATEGIC OBJECTIVES	01, 02	01, 02	01, 03	01, 03

Responsible risk-based management for the benefit of all our stakeholders

OUR STRATEGIC OBJECTIVES

01 **MAXIMISE THE VALUE FROM EXISTING BUSINESS**
Managing our existing customers fairly and efficiently is core to delivering our overall strategic aims.

02 **ACQUIRE LIFE AND PENSIONS BUSINESS**
Acquiring and integrating companies into our business model is key to continuing our growth journey

03 **ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS**
Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book

3. OUR FINANCIAL MODEL

OUR FINANCIAL MODEL

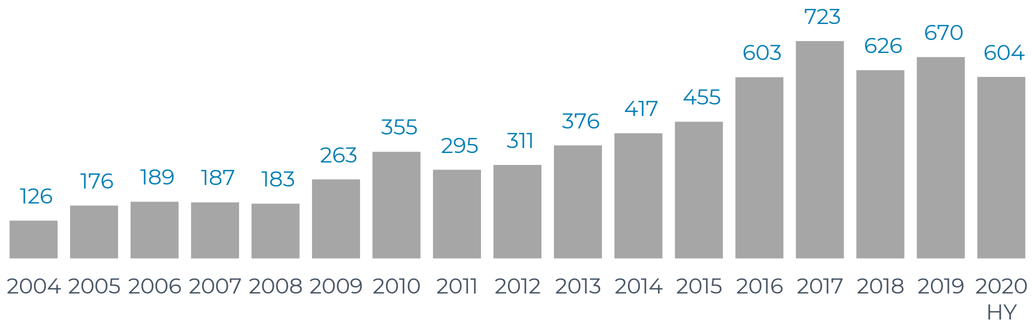
We administer life and pension contracts earning fees higher than the operating costs thereby generating value which we distribute to shareholders in a disciplined manner.

The financial metrics of a Life and Pensions business are not naturally aligned to the measures used to assess financial performance in other sectors. Chesnara manages two financial metrics, namely **Economic Value (Ecv)** and **Solvency II surplus**.

ECONOMIC VALUE

- This represents a commercially realistic assessment of the value of the business. It is the combined value of the existing net assets and the expected future profits from the policies in force.
- We can increase EcV through value adding acquisitions, writing profitable new business, investment returns greater than risk free and out-performing the operating assumptions that the opening EcV is based upon.

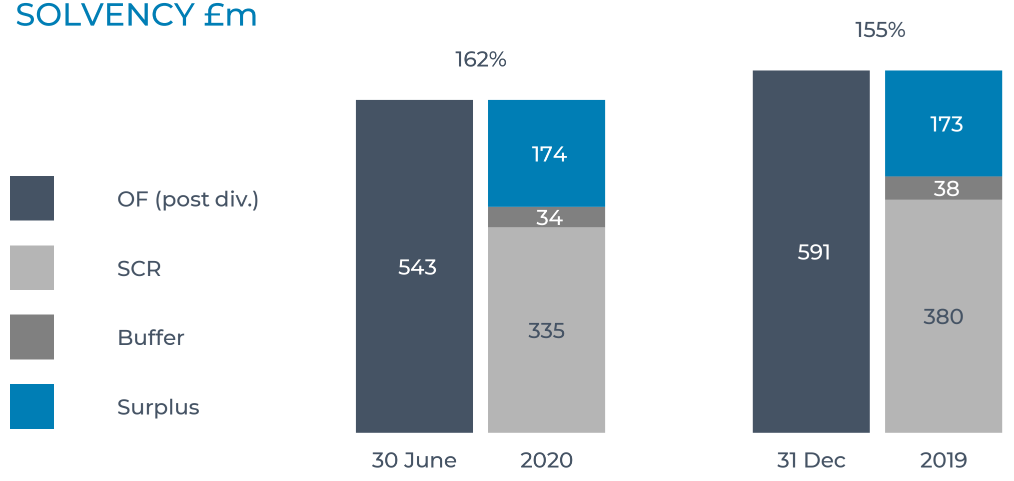
VALUE GROWTH £m



SOLVENCY II SURPLUS

- Solvency II is the regulatory regime by which we manage the Solvency of the company, in simple terms the surplus is the amount by which the value of the company (referred to as Own Funds and which is akin to EcV) exceeds the regulatory capital we are required to hold (Statutory Capital Requirement, SCR).
- We report the movement in the solvency II surplus as a form of cash generation. Subject to other constraints the surplus represents the amount we would have available to distribute to shareholders.
- We can increase the solvency surplus (or generate cash) by adding value (see above) or reduce the capital we are required to hold.

SOLVENCY £m



4. BUSINESS CHALLENGES

BUSINESS CHALLENGES & MITIGATING FACTORS

As a life insurance and pensions consolidator, we face a number of challenges, both industry specific and more general. Chesnara is well placed to address each of these challenges with a range of mitigating factors inherent to the business.

CHALLENGE	MITIGATING FACTORS
FINANCIAL COMPLEXITY Life companies are complex in terms of how they are accounted for. Simple concepts such as "sales less expenses equals profits" do not apply and this at times can make the sector less attractive to generalist investors. It is generally deemed that there is a complexity discount in valuations.	This "complexity discount" implies there is a level of value available for investors who are able to get comfortable with the figures or who are acceptant of the fact that they will perhaps not understand the financial dynamics quite as deeply as other investments. We at Chesnara are very sympathetic to this complexity challenge and have invested lots of effort in being as transparent and educational in our Report and Accounts as possible.
RUN OFF Where certain books are in run-off the fact is that in isolation and without management action unit costs will increase, that said the fact that in-force books do inevitably run-off over time can create an overly negative perception of the outlook for Chesnara.	Even where policy counts are running off the total funds under management tends to stay much more unaffected which protects total fee levels. We are open to new business in 2 of our 3 territories with new business volumes that ensure portfolio volumes remain flat or modestly increasing. Acquisitions plug the policy gaps from run off. Ultimately were certain blocks of business to run off to the point they are non-economic there is always the option to consider tactical divestments.

BUSINESS CHALLENGES & MITIGATING FACTORS

CHALLENGE	MITIGATING FACTORS
VALUE VOLATILITY The reported long term value is sensitive to changes in economic conditions. This can cause a level of investor concern.	The volatility is short term to the extent the economic conditions are temporary and over time economic returns tend to out-perform risk-free thereby adding value. Whilst EcV is fully exposed to movements in economic conditions (even if only temporary), the Solvency surplus is somewhat sheltered because as asset values fall, the capital we are required to hold tends to fall too. Hence, our ability to sustain dividends through economic cycles is good.
BREXIT Clearly investors are conscious to the potential challenge from Brexit	Despite a significant element of our business being based outside of the UK the fact is we are relatively immune to the impact of Brexit other than through the impact on our results from associated wider investment market impacts. We have very little cross bounder operational or regulatory activity because each division operates independently with direct relationships with local regulators.
COVID-19	Of course Covid-19 has created some operational challenges and our results have been impacted by the aforementioned volatility from market conditions that said the impact has in fact been relatively limited. Customer engagement is predominantly remote and phone and desktop based and hence there has been minimal impact to customer servicing. Governance operations have responded extremely well to home working. Whilst we do write new business the fact is our results, in the short term, are not so dependent on face to face sales activity or wider consumer spending levels.

5. THE INVESTMENT CASE

THE INVESTMENT CASE

- DIVIDEND TRACK RECORD THROUGH SEVERAL DIFFICULT ECONOMIC PERIODS
- CURRENT YIELD OF 7.7% (BASED ON 2019 DIVIDEND AND SHARE PRICE AS AT 30 SEP 2020)
- POSITIVE DIVIDEND OUTLOOK:
  - ✓ EVEN DURING DIFFICULT CONDITIONS SUCH AS IN THE FIRST HALF OF 2020 THE BUSINESS REMAINS CASH GENERATIVE
  - ✓ SUFFICIENT LIQUID RESOURCE AT THE PARENT COMPANY TO FUND APPROXIMATELT 2 YEARS DIVIDEND
  - ✓ THE TOTAL EcV WHICH REPRESENTS THE ULTIMATE DIVIDEND PAYING POTENTIAL REPRESENTS c20 TIMES COVERAGE OF THE MOST RECENT DIVIDEND
- COMPANY CURRENTLY UNDER VALUED COMPARED TO EcV AND ANALYST TARGET PRICES
- LOW GEARING
- ABILITY THE MAINTAIN POST DIVIDEND EcV WITHOUT ACQUISITIONS OR GROW IT WITH GOOD ACQUISITIONS
- RESILIENT TO COVID AND BREXIT

6. APPENDIX

FINANCIAL REVIEW: SENSITIVITIES (1 of 2)

The table provides some insight into the immediate and longer term impact of certain sensitivities that the group is exposed to, covering solvency, cash generation

1 EcV tends to take the "full force" of adverse conditions whereas cash generation is often protected in the short term due to compensating impacts on our required capital.

2 A material sterling appreciation reduces the value of surplus in our overseas divisions and hence has an immediate impact on group cash generation. It also reduces the value of projected Own Funds growth in our overseas divisions and also reduces the value of overseas investments in CA.

3 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. Since the year end, the equity stresses have become more sensitive due to a change in the starting position of the symmetric adjustment (2019 y/e: -0.08% compared to 2020 HY: -6.72%).

4 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.

1		SOLVENCY SURPLUS IMMEDIATE IMPACT	CASH GENERATION 5 YEAR IMPACT	ECV IMMEDIATE IMPACT
2	20% sterling appreciation	2	2	5
3	25% equity fall	2	4	4
	25% equity rise	1	4	4
	10% equity fall	1	3	3
	10% equity rise	1	3	3
4	1% interest rate rise	2	3	1
	1% interest rate fall	3	3	2

Key

1	2	3	4	5
£0m-£15m	£15m to £30m	£30m to £50m	£50m to £90m	£90m to £140m

Positive impact | Negative impact

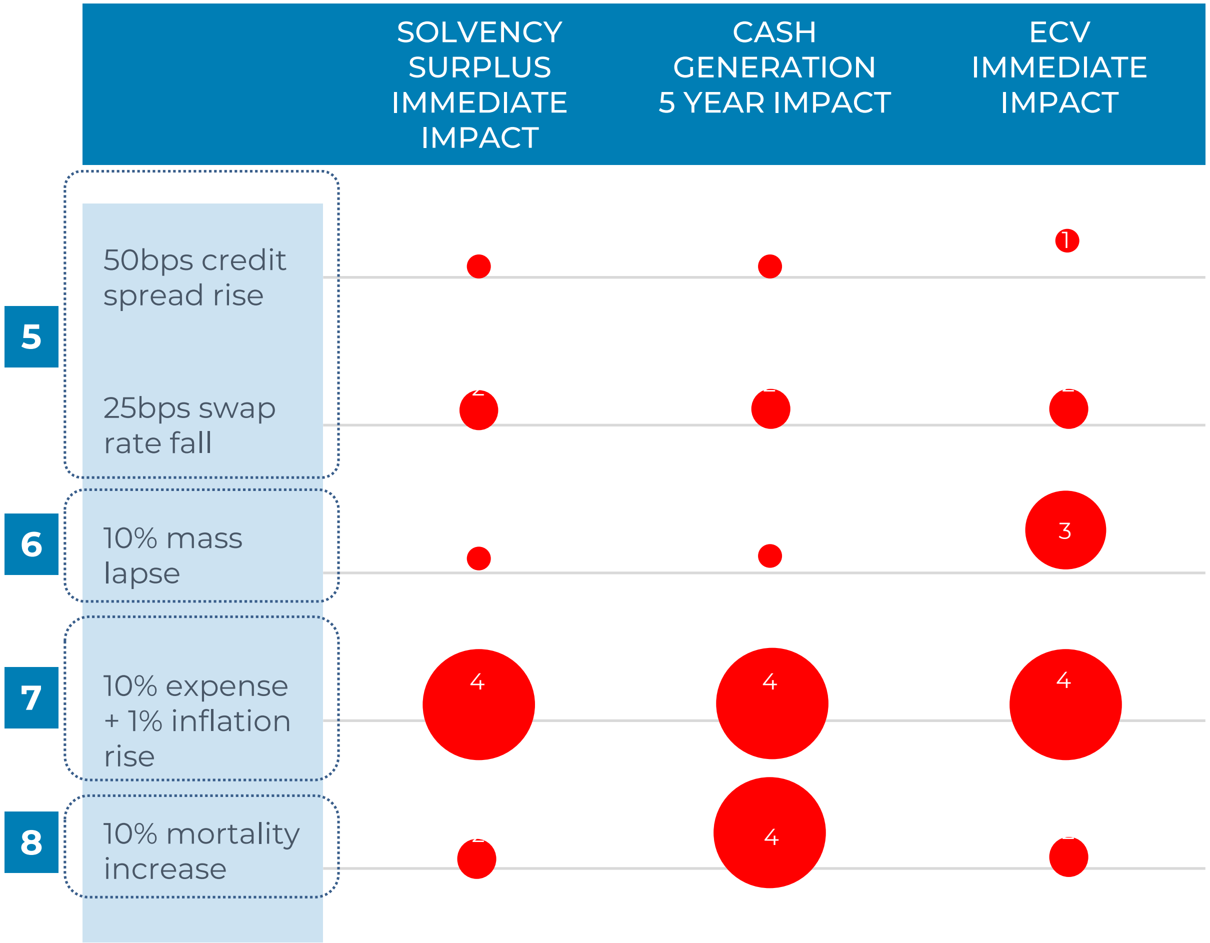
FINANCIAL REVIEW: SENSITIVITIES (2 of 2)

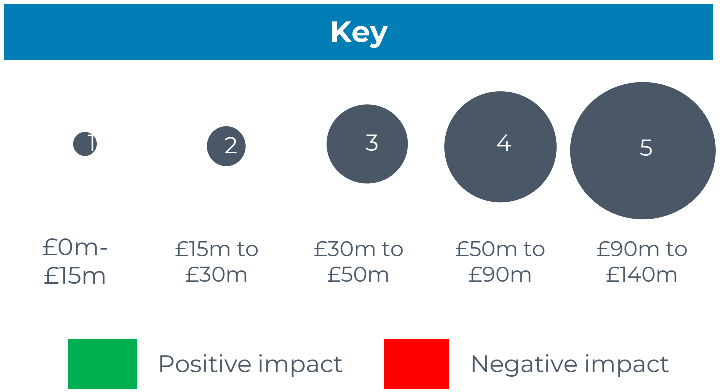
5 Scildon has an exposure to credit spreads and both Scildon and CA are adversely affected by swap rate falls.

6 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 a mass lapse hits Own Funds by more than the reduction in SCR.

7 The expense sensitivity hits the solvency position immediately as the increase in future expenses and inflation is capitalised into the balance sheet.

8 This sensitivity has an adverse impact on surplus and cash generation, particularly for Scildon due to their term products.





BASIS OF PREPARATION ON REPORTING: Although it is not a precise exercise, the general aim is that the sensitivities modelled are deemed to be broadly similar (with the exception that the 10% equity movements are naturally more likely to arise) in terms of likelihood. Whilst sensitivities provide a useful guide, in practice, how our results react to changing conditions is complex and the exact level of impact can vary due to the interactions of events and starting position.

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