Chesnara

Interim Results

25th August 2026

Transcript

Steve Murray:

Welcome to the Chesnara half-year 2026 results presentation. I'm Steve Murray, Group Chief Executive and with me is Tom Howard, our Group CFO. So, what will we cover today? I'll begin with a short overview of what has been delivered in the period. Tom will then step through the financials in more detail which now include Chesnara Life, formally known as HSBC Life UK, for the first time under our ownership. I'll then finish with some further detail of what's been delivered so far in 2026 and what to expect going forward. We'll have plenty of time for questions at the end of our presentation, starting with the people here with us in RBC's London offices. And for those joining online, you can type your questions into the Q&A function via your browsers.

The Group has delivered another very strong set of financial results over the first half of 2026, including a substantial increase in the Group's Operating Capital Generation. Tom will run through these financial results in more detail shortly including an overview of where our H1 position is, relative to the Full Year 2025 proforma estimates, that we shared in March. Our focused three pillar strategy, set out on this slide, has continued to serve the Group well. We completed the acquisition of HSBC Life UK in January, which is now rebranded as Chesnara Life UK. And we've been delighted with the early performance of the business under our ownership, with £51m of Operating Capital Generation and £20m of Cash Remittances already delivered. The next phase of integration and migration activity has been continuing at pace. With the migration of data from HSBC on track for delivery, by the end of 2026.

The UK business also completed the migration and associated Part VII of the second Canada Life portfolio we acquired; with these policies now running on our new UK platform. This is the fifth successfully completed migration in recent years. We announced the proposed acquisition of Scottish Widows Europe in February this year, and have completed a significant amount of the preparation required for the expected change of control around the end of 2026.We have continued to proactively evaluate and execute management actions in the period. And we've also taken further steps to integrate teams and processes across our Dutch business, following the merger of our Dutch entities last year. This has helped support Scildon's largest ever cash remittance. And the addition of Chesnara Life UK to the Group has materially increased the contribution from new business in the first half of the year. Movestic has also added around £700m in AuA and expanded its distribution reach, including a new partnership in Norway.

The best track record of continuous dividend growth in UK and European Insurance continues. As previously highlighted to investors, we're announcing a 6% increase in the interim 2026 dividend; up to 8.16 pence per share. This represents a one-off acceleration of the group's historic dividend growth trajectory and follows the 6% increase to the Full Year 2025 dividend that we announced in March. So let me hand over to Tom who will take us through the financial results in more detail.

Tom Howard:

Thanks Steve, and good morning, everyone. I'm delighted to be reporting a set of very strong results for the first half of 2026. Today's results, for the first time, incorporate Chesnara Life, following completion of the acquisition in January. Operating Capital Generation increased significantly by 79% to £96m, and Cash Remittances increased by 31% to £73m. The results reflected robust operating performance from each of our Business Units, incremental value from Chesnara Life, and a contribution from capital optimisation actions. Own Funds increased by 14% to £976m and the Solvency II Coverage Ratio of 185% is comfortably above the upper-end of our operating range. And, this is also above the proforma guidance of 180% that we provided to you at the full year. And our sources of Future Value continue to go from strength to strength. Assets under Administration increased to £21bn, and Adjusted Operating Profits grew by 46% to £31m. The IFRS Balance Sheet also grew, with the Contractual Service Margin increasing significantly from £131m to £327m, reflecting the integration of the Chesnara Life book. This significantly increases the stock of future insurance profits available to the Group. This very strong performance underpins today's announcement of a 6% increase in the interim dividend to 8.16 pence per share.

As I mentioned a moment ago, we're reporting a significant increase in the Group's OCG result today. OCG of £33m arose from robust operating performance across our business units, broadly in line with the prior-year result of £32m. Performance benefited from stronger new business results and our ongoing focus on cost control with partial offsets from adverse mortality experience in the Netherlands in Q1, and adverse persistency experience in Sweden. Our ongoing programme of capital optimisation actions delivered a further £12m in benefits through the extension of existing foreign-exchange hedging arrangements at Group Centre. And as I flagged at our FY results, we expect that ongoing capital optimisation actions will be a recurring source of OCG for the Group and will, on average, comprise around 30% of the annual OCG result. Finally, the acquisition of the Chesnara Life book generated significant additional capital benefits for the Group. These benefits arose as we embedded the Chesnara Life risk profile into our existing UK reinsurance arrangements and into the Group's Solvency Capital framework. These impacts are non-recurring in nature and increased the Group's OCG by a further £51m. We continue to have a strong pipeline of capital management actions to support the 5-year and lifetime cash flow guidance we provided to you at the time of the acquisition.

Turning to the balance sheet. Over the half year, OCG contributed 73 percentage points to the Group's Solvency Coverage Ratio. Non-operating capital items provided a further 5 percentage point benefit, with positive investment variances from favourable markets more than offsetting the impact of Integration and Restructuring costs over the period. After allowing for the completion of the Chesnara Life acquisition the Group's Solvency Coverage Ratio of 185% is higher than the proforma guidance of 180% that we provided at our FY25 results. It also remains significantly above the upper-end of our operating range of 140% - 160% and as a result, we retain headroom to support M&A and other growth opportunities. We also expect the Solvency Coverage Ratio to be above the upper-end of this range after allowing for the impact of the Scottish Widows Europe acquisition, subject of course to market conditions and any other significant developments through the second half of this year. The Group's Own Funds increased by 14% to £976m. As I referenced earlier, operating performance was robust and broadly in line with the prior year. Favourable market conditions supported growth in the value of the Group's Assets under Administration, positively contributing to the non-operating result. The most significant component of the Own Funds growth arose from the Chesnara Life acquisition, with Group Own Funds increasing by £79m on Day 1. And, we expect Own Funds growth to emerge from further synergies as the integration and migration activities continue. We'll provide further details on our progress at our year-end results.

Group Centre liquidity stands at £271m after allowing for the funding of the Chesnara Life acquisition earlier this year.Over the half, Group Centre balances benefited from higher levels of cash remittances from the Business Units to Centre. Total remittances increased by 31% to £73m, including £30m from the Netherlands - driven in part by merger synergies - and £20m from Chesnara Life.

Moving next to IFRS. The IFRS Capital Base grew significantly by 22% to £850m. Adjusted Operating Profit increased by 41% to £31m, reflecting robust operating performance across our Business Units. Favourable market conditions also supported the Investment result, further improving the IFRS Profit before Tax, after allowing for the impact of Integration and Restructuring costs. Tax charges were higher in the period, but this increase was driven solely by higher policyholder tax relating to investment gains on UK Bond policies. These charges are deducted by Chesnara at source on behalf of our customers and so the net impact to our P&L is broadly nil. Finally – and importantly – the Group's Contractual Service Margin increased significantly from £131m at FY25 to £327m at the half-year. This increase was primarily driven by the inclusion of the Chesnara Life book, where the CSM recognised on acquisition was higher than assumed in our proforma estimates. This represents a significant increase to the stock of future profits we expect to emerge from the Group's insurance business.

So, in summary. This has been a period of very strong financial performance for Chesnara. Today's results show growth across all areas of our financial framework and exceed the proforma guidance that we provided at FY 25. Our sources of future value go from strength to strength, and we have multiple levers at our disposal to further optimise the capital base and to deliver strongly against the guidance we provided at the time of the Chesnara Life acquisition. Finally, the balance sheet remains strong and resilient, and we retain capacity to invest for further growth. This all bodes well for strong, sustained financial performance into the longer term. Thank you all, and with that I'll pass back to Steve.

Steve Murray:

Thanks Tom. The strategic focus we've had over the last few years has continued in 2026. At our full year 2025 results presentation, I underlined the importance of ensuring we deliver the migration and integration of Chesnara Life UK well, alongside the work required to support the anticipated change of control of Scottish Widows Europe. And I am pleased to report that we continue to make great progress on both fronts, which I'll cover in slightly more detail shortly. Together, Chesnara Life UK and Scottish Widows Europe, are expected to contribute around £1bn of future lifetime cashflows to the Group. Tom highlighted earlier a number of the actions we've already taken this year to optimize the Group's balance sheet further, including in Chesnara Life. And across the Group, we continue to have a very full pipeline of management actions at our disposal through into the medium term.

We've also been progressing the next phase of restructuring of our Dutch business, where run rate synergies delivered are above our initial estimates. And we expect the remaining anticipated cost savings to come through in the second half of the year. We continue to see a positive M&A pipeline and have already had a number of interesting opportunities to assess and evaluate so far this year. The addition of Chesnara Life has materially increased the contribution from new business to £12m. Movestic have continued to see positive net client cashflows into their unit linked and risk offerings and Scildon has also delivered robust term life sales. Whilst we continue to anticipate the vast majority of our growth will come from M&A, we expect the value from new business for Full Year 2026 to be around double that of the previous year. A useful additional value generator for the Group. And finally, the work we are doing to become a more sustainable Chesnara has also been progressing well. We've continued to reduce emissions from our investment portfolios along with more proactive investment in more sustainable solutions.

I wanted to give a further update on where we are on the integration of Chesnara Life UK, and the change of control process for Scottish Widows Europe. On Chesnara Life, Assets under administration and own funds remain ahead of the estimated Full Year 2025 proforma that we shared with investors in March. We were also able to take certain planned balance sheet actions in H1, which helped support £51m of OCG and £20m of cash remittances, from the business. We remain firmly on track to deliver the £140m of cash generation we guided investors to expect, in the first 5 years of our ownership.

So whilst we only completed the acquisition 5 months ago, we're really pleased with the performance delivered so far. Jackie Ronson, Our UK CEO, and her team have continued to make great progress on our Chesnara Life integration and migration programme of activity. We've completed the staff consultation required in order for us to take the next steps towards implementing our new UK target operating model. We've confirmed who the role holders will be in our combined UK leadership team and also completed the first planned TUPE transfer of staff to SS&C. We remain on track to complete the required data migration from HSBC by the end of 2026. Tom and the separate team working on Scottish Widows Europe, have continued to push ahead with the work to deliver change of control and deal completion. As well as the planning required for the business's separation from Lloyds Banking Group. The change in Control application has been submitted, and we're progressing through regulatory review with the CAA. Legal completion readiness testing with Lloyds has also been successfully completed, with a large number of completion planning activities also substantially progressed. We continue to anticipate change of control approval around the end of 2026.

The financial framework on the left hand side of this slide will be familiar to a large number of our investors. It has served us well and continues to form a core part of our deal assessment criteria. And as Tom highlighted in his presentation: We have material solvency headroom above our target operating range. Our leverage is substantially below the long term target of 30%. We have material liquid resources at plc. And we retain significant readily available fire power with a successful track record of financing more material transactions. We continue to see a positive M&A market and pipeline, that provides great opportunities to build on our track record of strong deal execution. And in H1 we have already had the chance to work actively on a number of opportunities both in Europe and the UK. The eight deals executed over the last five years, has provided additional confidence to potential sellers that Chesnara is a company they can trust to get deals done.

So, we've delivered a very strong set of financial results, supporting a 6% increase in the interim 2026 dividend. We completed the largest acquisition in our history in January, with the migration of data from

HSBC remaining on track for delivery, by the end of 2026. We've continued to proactively seek out and execute wider management actions, to optimize the group's balance sheet and resources, which have contributed materially to the Group's Operating Capital Generation. We continue to anticipate change of control for Scottish Widows Europe around the end of 2026. Our M&A pipeline has remained positive and we are continuing to actively assess acquisition opportunities. I want to thank colleagues across the Group for their continued drive and commitment which has delivered a very strong financial performance. The Group is in a strong position with further opportunities to grow. And I continue to believe there is a lot to look forward to here at Chesnara. So that ends our presentation. We'll turn now to questions and we'll start in the room in London. I know there's a number of people with new roles here, which we might congratulate them on shortly. Al Lonie will find a microphone to pick somebody. Who put the hand up first, Tom? Who do you want to start?

Tom Howard:

It's always Abid.

Steve Murray:

Always Abid. Congratulations on your promotion, Abid, if we haven't said that probably before.

Abid Hussain:

Thank you. You can always congratulate me next time as well. I've got 3 questions if I can. The first one is on OCG. So the OCG was very strong. What elements do you think are repeatable and how should we think about that for the full year 26 and full year 27? And if I can ask a sort of sub part to that, the OCG delivery from the HSBC deal was very strong. And I don't know if that's optically, if it was very strong. So if you could just talk to how you're tracking against the £140 million that you were looking to deliver over the first 5 years, because I think there's a number out there, £51m. I just want to get a sense of how those two compare. And then the 2nd question is on people. I think you have a new group CRO joining the business next month.

And I might be reading too much into this, but does that investment into people signal some intent and ambition to be a larger FTSE business going forward? And then finally on the firepower, can you update us on the level of available resources that you have to self-finance another deal before you come back to the markets for additional capital?

Steve Murray:

I think that was 4 questions technically Abid, but as always, we'll allow it. Absolutely. Yeah, an actuarial 3. Shall I start with people? And then do you want to pick up firepower and OCG, including the HSBC part? Yeah. So it was a good spot. So we went into the market earlier on in the year for a new group CRO. The previous role holder held both the CRO function and part of what normally is called the sort of chief actuarial sort of responsibilities. So we took the decision to sort of split that role, beef up a sort of first line chief actuary role that's become more commercial.

We've also invested in another person that's going to join Tom's team to support M&A and broader development alongside, as you say, the new CRO, Sue Ann, who's coming in. She's got an extensive CV, tonnes of relevant experience. She's been working previously in a business that was also trying to do M&A cross jurisdictionally. That business was doing it across 20 territories. So Chesnara looks pretty simple, I think, in comparison to what she was covering before. And I think what you've seen from us over the last 5 years is make a significant investment in the top team. Jackie came in almost 3 years ago now and is driving that UK business forward. And we've got new leadership right the way across the group that we're doing a terrific job driving the performance. So I think it's a good spot. And certainly our ambition is to become a much larger sort of FTSE 250 company. I think that's very safe to say. Tom?

Tom Howard:

OCG. So yeah, I mean, if we deconstruct the OCG a little bit, which I think we certainly tempted to do in the presentation of the £96m, £51m is one-off in nature. So that is the day one acquisition impact of bringing Chesnara Life in. That arises from things like diversification benefits. And I think as I mentioned, by moving the Chesnara Life solvency framework onto the Chesnara solvency framework. So it's very much a structural benefit we get from bringing that on. It's material and it's one off. And I'll come back to that in the context of the £140m, which is your 2nd question. So then if you move that to one side, the other components are what we call the recurring OCG of £m33 and then management actions. So the recurring OCG of £33m is very much as the name suggests. So we expect that to be a very reliable indicator going forward.

So £33m in the first half, I think, not to tell you about to factor into your models, but I think you can take from that, that something of that nature would be reasonable for the second half. And then if I draw you back to a comment I made at full year 25 about how to think about recurring management actions, what I said at the time of this still holds is that in any given year, we would expect that the recurring management actions will make up about 30% of the total OCG result. So I won't do the math for you, but I'm sure you can work out with a recurring plus 30% sort of gets you to what we would call a recurring sustainable level of OCG before any of these acquisition one-offs. Then turning to how we think about the £140m, look, we've made a great start against that.

So £51 million on what I call day 1 alone. We frankly, I mean, I'm sure my team will thank me for saying this, but we haven't had to do a huge amount to get there because a lot of this was by virtue of bringing the portfolio into our business. We sort of automatically generate quite a bit of that benefit. It hasn't yet given us pause for though around the £140m. What we will do is we'll come back at full year 26 and issue an update on how we're thinking about the £140m and the £800m. Not least because we've got, Jackie will attest to this, we have a little bit of work to do between here and the end of the year to finish the migration programme and so on. So we'll have a much clearer line of sight around the timing of some of the further synergies we expect to get.

And I think what we had been saying as well actually at the time of acquisition was for that £140m and £800m, we weren't expecting that to emerge linearly over the 5 years in the lifetime.

It would be a little bit uneven. And the reason for that is frankly, we like to be a little bit judicious about when we exercise some of those capital management actions. So timing can be better sometimes if we delay from a commercial perspective. But we'll come back full year 26 with some more colour.

Firepower. So the way we've been running the balance sheet pre, again, when we talked about the Chesnara Life acquisition was we expected that post the acquisition, we would still retain enough firepower to do another Scottish Widows Europe type of transaction. And that sort of triangulated back to about a 100 million roughly sterling level of headroom before thinking about alternative options like debt and equity financing. That position is unchanged. In fact, it's increased, I would say, a bit over the first half. So that £100m, you could factor up to maybe something like £130m.

And that's because the solvency ratio has, as we said in our presentations, the 185% is a little bit ahead of where we expect it to be at 180% because we've had favourable trading and decent markets over that half year. So that's positively bled into solvency headroom. And as you've seen from the liquidity presentation, we've got ample liquidity as well. So yeah, slightly higher than we were at full year, but in and of that sort of ticket size around that kind of SWE type size is still roughly where we are.

Steve Murray:

Michael?

Michael Huttner:

So a lot to follow on, but one which is the only critism that I could find is Sweden. So I know we discussed it and you were saying no, there's some good stuff as well. But every time, not every time, but a lot of the times Sweden kind of is the one number which is a bit lower. So the questions on why isn't the regulator doing what is expected there or what could you do to kind of prompt them a little bit? On the cash, just to push you a little bit harder, my number's bigger than yours. So I was hoping you would say £200m rather than £100 million plus. But that's because clearly you need some cash to run the business. You can't run the business without cash. I'd be interested to know how much you actually need as a base number. And then the management actions, but here you obviously said you'd tell us more and you've told us a little bit.

Just two side questions. 1, the 30%, is it over total or is it 30% on top? It makes a small difference on a big one. But also what kind of management actions? Thank you.

Steve Murray:

Yeah. Should we maybe take those in order? I'll start with Sweden and we can talk about. Michael, we can talk about both the cash capacity, but also where some of the debt capacity also is in the balance sheet because I think it's useful to understand that and then management action point as well. So when we look at the performance of Sweden the first half of the year, so we've seen very strong net client cash flows sort of come in. So within the overall economic result, we've seen a sort of negative because the strong levels of business coming in haven't offset some of those sort of outflows going out. But I think what we always look at there is what can we control? And I think the fact that the team have expanded distribution, brought in more business. We have this new sort of partnership which has just started up in Norway.

All of those things I would take as sort of positive signs about flow coming in. And that £700 million of assets under administration increase in the first half of the year as well is quite a material addition to the size of the business. But it has continued, as you've pointed to, to be a market where we've seen a lot of this sort of transfer and lapse activity going on. We know lots of people are looking at that and sort of saying it doesn't feel like that's sustainable longer term. And we certainly share that view. But all we can do is make sure the team's focusing and controlling what they can, making sure the cost management remains strong, which it has in the first half of the year. And the team are actively working on expanding that sort of distribution opportunity further and seeing if they can drive some further efficiency from the business.

Do you want to cover cash and management actions?

Tom Howard:

So you're right, Michael. We do hold back a buffer within sort of our treasury management policy. And that's broadly to cover expected 12 months worth of expected debt outflows, shareholder dividends, working capital, et cetera. So that's why you will see a difference. And that's why your number will be higher than my number, for example, because I like to manage that on quite a prudent basis. In terms of the management actions, 30% of total, so that's probably a slightly higher number than the alternative. And then on the management actions, the types of things that will feed into that recurring management action. So we have a programme of management actions that we look at over the longer term. So sort of 5 years plus. And the types of things that we're looking at are an extension of things we already do. So you've heard us talk a lot about foreign exchange.

There's still a bit more I think we can do on that. You've heard us talk about things like mass lapse reinsurance where we can reinsure very extreme tail risk events. Again, there's more we can do on that. Other areas that we have been less developed on, I would say historically that we're looking very seriously at, actually more focused on the investment side of the balance sheet. So we can up-risk elements of our portfolio. Our portfolio is now bigger. It's more diverse because we've brought new books into the group. We have another book coming into the group later this year as well, assuming we are successful on regulatory approval. So that increases the scope and the opportunity around that investment up-risking piece in particular. So expect to hear and see more on that going forwards. And that is the kind of thing that lends itself very much to a recurring management action as well, just given the nature of the sort of thinking behind some of the levers we have at our disposal there.

Steve Murray:

I think Michael, just on sort of M&A more broadly in that capacity, I think Tom's spoken very well about that cash piece. We do clearly now have more capacity in the balance sheet to look at debt. And that's probably in the order of sort of c.£150 million, that sort of number. It's never quite exact, depends on the business coming in. And certainly our appetite isn't capped by the available firepower in that capacity. I think we've gone at the market, had great support from investors. So we're looking at a very broad range of deal sizes, but just to give you a sense I suppose of how we sort of see that building up. And when Tom's looking at sort of the financial framework and the available firepower, we're not just looking at sort of cash at bank. We're looking at these other sources as well.

Ben.

Ben Cohen :

Hi.

Steve Murray:

Congratulations on your new role. It feels like a little bit of a step back into the past, doesn't it? But back into the future.

Ben Cohen:

Backwards to go forwards. Yes. Thank you. Yeah, Ben Cohen, obviously. I just wanted to ask a couple of things. The first really maybe more of a clarification. I think in your prepared remarks, Steve, you said that you've got multiple levers to further strengthen the capital base. Is that a reference to the bigger debt raise, presumably it's debt, it's reinsurance, is there anything that is almost coming out of the book itself that gives you more confidence there? The 2nd question was just in terms of the M&A environment, could you maybe talk a bit more about the different markets in continental Europe versus the UK in terms of size of deals, level of competition, the sorts of things that are interesting at the moment, kind of what's changed maybe since the full year? Thanks.

Steve Murray:

Sure. Shall I pick up M&A and then do you want to talk about some of the actions available, which might be a little bit of what we've just said with Michael? So the sort of M&A environment we like is an active one because what we tend to find is when more deals are happening, it encourages people to come forward with portfolios. A deal being done here sometimes has a knock on impact over here. So the fact that we've still been seeing in the first half plenty of M&A happening, we've seen a very large deal in the UK with the Aegon UK and Standard Life transaction, which was very well received by the market. We've seen transactions in continental Europe, including in Germany being announced as well. So I think across the broader sort of jurisdictions, both in UK and Europe, we think there's still plenty of activity.

If I suppose I cover our sort of territories and I'll include Luxembourg and then maybe just give a little bit of territories outside of where Chesnara currently operates. So UK continues to be active, certainly in our part of the market. So we still see some large international firms, large financial institutions looking to optimise their book. We're still seeing this huge trend of large insurers going after the bulk purchase annuity space. Some interesting transactions that have sort of happened there recently, but people seeing if they can deploy more capital. So we believe they'll continue to look at portfolios that they believe maybe don't make a return, maybe they don't fit with some of the new operating platforms that they're coming in. So when we sort of map that pipeline out over sort of a 3 year period, we think there's going to be plenty for us to look at.

And the fact that Jackie and the team have made positive progress on that integration and migration activity means we're looking at opportunities now. We believe that given the sort of lag time that you tend to have, as I talked about full year 25, we're absolutely in a position that we can be assessing opportunities now with a view to those sort of completing somewhere in 2027 in all likelihood. In Europe, so in Sweden, we sort of talked at the full year about there potentially being a couple of opportunities in that market. I think that position remains the same. We haven't seen sort of material transactions. We've seen 1 or 2 small ones where you've seen some risk books sort of moving around in the market. We're seeing a little bit more than outside of Sweden as well, but it continues to be sort of less active than the UK.

But there's a couple of things there that we'll have a choice around whether we want to participate in. The Netherlands has seen, having seen a very active market, I'd say at the moment, is just less active in the short term. Medium term, I still think the middle part of that market will ultimately consolidate. And we do have options with the Netherlands of some sort of surrounding territories that we could use the operating platform as well. And then Luxembourg, I think we'll just repeat what we said at the time of the Widows acquisition. We do believe there's a significant sort of tail of businesses in that market and we expect to have the opportunity to look at assets there. We do also keep an eye on other jurisdictions. We've talked about other offshore territories before. Germany is a market that's very large in Europe that's sort of impossible to ignore, particularly you have the sort of growth ambition that we do.

Belgium has been a territory that we've also looked at as well. So our challenge remains being candid given that positive M&A environment to ensure that we're focusing on a small number of things. It'd be quite easy for us to be spending a huge amount of time and a very large number of opportunities. And part of Tom and I's job is to make sure that we remain focused on the things that are sort of higher probability and we think will move the dial for the group. On balance sheet, I suppose, sort of levers that you might want to.

Tom Howard:

Yeah. I mean, we've covered some of them when we've covered capital optimization actions and we've been quite focused up to this point in looking at opportunities to optimise the solvency capital requirements in some areas. So like FX hedges, like mass lapse and so on. I think on the own funds side of the balance sheet, there are probably 2 levers that are most interesting for us. I talked about investment up risking. There's general efficiency initiatives across the group that we're embarking on as well, which will be accretive to own funds over time. But actually in many ways, one of the best ways to strengthen the balance sheet is via scale and sensible scale. So if you look at what happened post the Chesnara Life acquisition, actually the sensitivities, the resilience of the balance sheet has actually improved post the acquisition. So we're now a bigger group with a more resilient balance sheet.

And actually some of the scale benefits that we got from the Chesnara Life acquisition allowed us to recognise more own funds that previously we weren't able to recognise because frankly our SCR, solvency capital requirement, was too small. So we were running up against some of those restrictions. So as we build more scale, and I would call sensible scale that diversifies really efficiently into the group, that will be a source of further capital strength as well. So when you have that successful M&A strategy alongside a range of capital optimization actions as well to boost SCR, you end up really broadening the jaws between that own funds growth and SCR optimization.

Steve Murray:

I'll just check if there's any more question follow up, Michael. Yeah. And then we'll go to the phones.

Michael Huttner:

It's just a very little one. The £140m or the £800m, do the management actions come on top of that or are they already included in that? And then also really small in the number, the 140, 800, does one include the £20 million cash actually remitted or the £51m operating capital generation? Those would be my 2 questions.

Tom Howard:

Yeah. So on management actions, so the £140m, £800m had a limited amount of management actions in there. And as I said earlier, we will come back at full year 26 when we've got a much better line of sight on what we can deploy and when. I mean, the £50 million is, in terms of what's emerging compares to that £140m, OCG is the best proxy to look at. The cash remittance is almost a consequence of the OCG because with cash remittances, basically you have to generate the OCG to generate the space to remit the cash. But sometimes we will choose not to remit the cash or maybe not all of the cash because we will decide to leave some of those resources within the business unit, at least temporarily to fund growth. So the £20m is a very, very early proof point, but I would see it as a consequence of the £50 million as opposed to it being the key driver itself.

Michael Huttner:

Just one more. So you did. I'm always interested in mortality because obviously I'm getting there. But you mentioned Netherlands was not quite as positive. Yeah.

Tom Howard:

So we had some seasonality in the Netherlands. And look, we see that across the book. So the way we are actually set the assumptions is on the basis of a long-term expectation. And you will have periods, and it's often the winter periods where you see these little spikes in short-term activity relative to those long-term assumptions. So what we did was we recorded that negative variance in the first quarter. What we saw in the second quarter actually was the experience pretty much reverted to that longer term mean. So you will tend to see those bumps. And sometimes it's actually positive. You'll have periods where the sort of emerging mortality is actually better than your long-term assumptions. But we thought it was appropriate to call that out because it is a feature of the experience in the first half. But I think the pleasing thing from our perspective is that it did confirm our view that that was likely to be seasonal rather than symptomatic of a longer term deterioration in the Dutch mortality rates.

Steve Murray:

Okay. Should we go to questions online?

Operator:

Yeah. We've got some questions on the webcast. 1st question is from Brian at Hardman & Co. Can you expand on the mortality experience in Scildon? Are the H2 cost savings from the Netherlands merger already accounted for in OCG capital?

Steve Murray:

Do you want to pick up both? I think we've probably just dealt with mortality. Brian, I'm conscious you probably typed that before Tom's last answer, but do you want to pick up the cost savings?

Tom Howard:

Yeah. So the short answer is yes. And it really feeds through in two ways. So it feeds through in the OCG numbers that we're recording for Scildon, which is our Dutch business. We saw those come through last year actually more significantly than this year because that's when the bulk of those savings were delivered. But where you also see it, and I talked a moment ago about the fact that cash, there's a little bit of a lag effect on cash remittance. So you have to generate the OCG and then you decide to remit it. The reason why we've had remittance of £30 million, one of the reasons why we've had a remittance of £30 million from Scildon, which is actually the highest remittance in its history, is that that additional OCG, which was generated over the last 2 years as the management team went through that process is now available for distribution as cash.

And that's been a really helpful contribution to this first half year's result as well.

Steve Murray:

The second half, the remaining synergies are sort of lower than what we've delivered. So there'll be a little bit more to come through, but not at the same sort of level that Tom's alluded to over the last 18 months. So thank you, Brian.

Operator:

Thank you. Next question comes from Ming at Times Capital. Could you please provide some colour on Sweden's adverse lapse experience? This seems to be more frequent. I recall 2021 benefited from a reinsure of mass lapse experience, but since then it's adverse lapse experience in most years. Was this reinsurance a one-off or could you do more like you do in the UK?

Steve Murray:

So you're absolutely right, Ming. And that sort of mass lapse reinsurance that we deployed is very, very similar to the mass lapse that we've been using in the UK as well. And what that allows us to do is reinsure particularly some of the tail risk that you can have to hold a lot of capital around. So there'll be some things that we can do in Sweden to sort of optimise that, particularly if we can continue to grow policy numbers. But ultimately we've already put that treaty in place there. So there isn't a significant amount more that we can do there. In terms of what's driving some of these trends in the market, there's a lot of business sort of being transferred around by some of the large brokerage firms into sort of newer solutions. And we've seen that sort of spiking up and down a little bit.

We strengthened, you might remember, our long-term assumption around transfer rates a couple of years ago. And we've seen periods where actually that transfer activity has been sort of very close to back in line with that longer term assumption. And this period's been a little bit higher again, but certainly not as significant as we saw a couple of years ago.

So that's really the activity that we're seeing on some of the longer standing parts of the unit-linked book. What we look at is sort of the in and the out around that. So as I said earlier, we've seen very good sort of flows into the business. So we're winning more than our fair share of the market. Historically, our market share has been around sort of 4 to 5% of that particular part of the market. And I would say at the moment, based on our intel, that we're doing a little bit better than that in terms of transfers in. The net economic impact though has remained slightly more negative in the period because what's leaving the business is at a higher margin than what's coming in. The team are very focused on continuing that sort of successful expansion of distribution, managing their costs well. And I think those are the two key actions that we need to ensure we keep taking with Movestic.

Operator:

Thank you. Next question comes from Visu at TCS Diligenta. How does Chesnara Group view its strategic priorities for new business growth and open book product propositions, particularly in areas such as onshore investment bonds?

Steve Murray:

Yeah. So on the onshore investment bond particularly, I think we've been very clear with the market that that remains and will continue to be a priority for us in the UK. We've been really pleased with the performance both of the Countrywide bond and the Chesnara Life bond in the first half of the year. That sort of £7 million new business contribution that you'll see in the results is a strong result, not least given that we sort of changed the brand on that Chesnara Life business in the early part of the year. So the sales and business development teams have had to be out there sort of talking about that, making sure people understand who Chesnara Life are. So I think that result is a good one. And look, that is adding some additional value to the group that we didn't have access to before. One of the things that Jackie and the team will evaluate in the medium term is whether there might be some adjacencies off the back of that sort of onshore bond.

But that's been a nice sort of add-on and that capability that came from the Chesnara Life deal has been very helpful in the first half. More broadly, we've seen a good performance from Sweden and the Netherlands in the first half of the year. And provided that we can demonstrate to ourselves that there's a sustainable level of return that meets our hurdles. We're very happy to keep writing that new business. I did say in my prepared remarks, however, that we did feel still that acquisitions are going to drive a very large part of the growth in this business given the positive M&A pipeline that we're seeing. But it remains an important part of the strategy as that 3rd strategic pillar that we have.

Operator:

Thank you. There are no further questions on Webcast, so hand over to you for any closing remarks.

Steve Murray:

We'll go back to Michael for one more.

Michael Huttner:

Just one. I'm trying to think in terms of operating leverage. You have a deal with SS&C that effectively you share in the economics. So the more cost saves they drive, the more you can share in as well. Is there a kind of discontinuity upwards? In other words, where you suddenly jump up and say, "Woo, we suddenly got an extra 50." I'm going to make numbers up. And how far are you away from that point?

Steve Murray:

So post the, and I'll be slightly careful of what I say because obviously there's commercial agreements in place and Jackie, our UK CEO is in the room. So she can throw something at me if I go too far on this. But the way that we set that arrangement up is you're absolutely right. We wanted to make sure that if we grew the business further, we'd get a benefit from scale, but also that SS&C would make more money as well. And I think we've certainly been party to arrangements in the past where if you don't have that win-win scenario, you don't get the investment, the support from your partner in this space. And I think that arrangement feels like it's been working quite well. We're starting to see, we will see with the HSBC Life UK book, now Chesnara Life coming on. We get into the sort of next tier of sort of efficiency in rate cards and things like that.

So that will sort of open up that operational leverage that you talk about. And look, obviously if we then bring other books in as well, we'll get that sort of compounding benefit. One of the benefits that we continue to get is working alongside SS&C on acquisitions. So the more work that they can be doing with us upfront, it gives us more confidence both in terms of the pricing of the deal, but also the timelines for migration and integration. And we've got a sort of busy sort of pipeline obviously, particularly for that very large migration happening this year, but there are still further books to pull onto the platform. So we're pleased with that relationship. They'd really like to support us elsewhere across the group. Jackie and I are continuing to say to them, show us that there's going to be great delivery this year and we'll be very happy then to have those follow on conversations.

And I'm sure they'll continue to provide us strong support through the second half of the year. Well, I think that's all for just now. So thank you everybody for joining our half year results presentation. We appreciate you attending and thanks for the questions in the room. We hope you have a great rest of the day and we will see you if not before at the full year results presentation in March 2027. Thanks very much. Thank you.