



**Chesnara**

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**FY25 Results**

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**Transcript**

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**Steve Murray:**

Welcome to the Chesnara Full Year 2025 results presentation. I'm Steve Murray, Group Chief Executive, and with me is Tom Howard, our group chief financial officer. So what will we cover today? Well, I'll begin with an overview of what has been delivered in a major period of strategic transformation. Tom will then step through the financials in more detail, including how the group balance sheet looks post the completion of Chesnara Life, formerly known as HSBC Life UK. I'll then finish with a recap of what the group's delivered over the last five years, where we are now, and why we believe we're only just getting started. 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 office. And for those of you joining online, you can type questions into the Q&A function via your browsers.

Our focused three pillar strategy set out on this slide has continued to serve the group well. And the last year or so has seen a further increase in the scale and pace of our delivery. We undertook a major restructuring of our Dutch business with a merger of our two main Dutch insurance entities and transfer of our DC pensions portfolio to Allianz. We announced our largest ever acquisition, HSBC Life UK, alongside a £140 million rights issue. Our successful inaugural RT1 bond, raising £150 million, provided additional flexibility to finance further M&A. The group then entered the FTSE 250 for the first time in its history. In January this year, we completed the HSBC Life UK acquisition at an attractive discount to own funds. This business now rebranded as Chesnara Life is expected to add over £800 million of future lifetime cash flows. Then in February this year, we announced the proposed acquisition of Scottish Widows Europe, a Luxembourg-based business that broadens our European footprint and supports our longer term consolidation ambitions.

We're targeting completion in and around the end of 2026 with the acquisition expected to add a further €250 million of lifetime cash flows to the group.

The group has also delivered a strong set of results across all our key financial measures, with the contribution from new business also increasing. You'll see throughout the presentation, we're using our updated financial metrics for the first time. We believe these should allow investors to more easily understand the group's performance and also more readily compare it with peers. Tom will run through these financial results in more detail shortly, included the expected impact of recent M&A on the group's proforma balance sheet. Our strong track record of dividend growth continues. As previously highlighted to investors, we're announcing a 6% increase in the final 2025 dividend, up to 14.8 pence per share. Given the strong financial performance of the group and also the financial benefits that we anticipate from Chesnara Life, we also expect the 2026 interim dividend to rise by a further 6%. This represents a one-off acceleration of the group's historic dividend growth trajectory.

Total shareholder returns for 2025 were also materially higher, demonstrating the value that we continue to create for our investors. So let me hand over to Tom who'll take us through the financial results in more detail.

**Tom Howard:**

Thanks, Steve. And good morning, everyone. So 2025 was a year of very strong performance for the group, achieved alongside significant strategic and operational milestones. We are yet again reporting a strong set of financial results, and we are increasing returns to our shareholders. Before I dive into the detail, it's worth noting that today's results do not include the day one impacts of the Chesnara Life acquisition, as this transaction completed after the year end. We have, however, included pro forma results in this presentation, and I'll cover these later. Also, and Steve has referenced this already, you'll see that we're presenting today's results in line with our updated financial framework. This further simplifies our investor story by moving to a smaller number of financial metrics anchored around our three performance pillars of cash, capital, and value. We held an information session at the end of February to bring some of you through the detail of these changes, and you can find the definitions and more detail in our accounts and on our website.

So, turning to our performance and starting with cash, the group delivered operating capital generation of £94 million, an increase of 19% compared to the prior year. We also saw increased cash remittances from our business units to group centre, increasing to £58 million compared to £45 million in 2024. From a capital perspective, the group's solvency II balance sheet remains resilient to a wide range of economic and demographic shocks. At Full Year 25, the solvency coverage ratio was materially higher than the upper end of our operating range, and the group's own funds increased by 34% to £859 million. And finally, our sources of future value continue to grow. Assets under administration grew to £15 billion, and adjusted operating profits grew by 42% to £56 million. The group is successfully delivering against all areas of our financial framework, and this enables an increase in the final dividend per share of 6% to 14.8 pence per share.

Turning now to operating capital generation in more detail. The group's OCG growth was particularly strong, increasing by 19% to £94 million with increased year-on-year contributions from each of our business units. In the UK, OCG benefited from a combination of positive operating performance and capital optimisation actions. In Sweden, we saw another year of strong operational performance with positive contributions from disciplined expense management and improved persistency experience. And finally, merger synergies, alongside robust operating performance, supported improved year-on-year results in the Netherlands. The group's solvency coverage ratio increased materially during the year to 257%. The two capital raises completed in the second half significantly contributed to growth in the group's solvency surplus, and this was supported by strong operating performance from our business units, as I outlined in the previous slide.

Non-operating variances were primarily driven by macro factors, namely the impact of a weaker US dollar on the value of customer asset holdings in Sweden and movements in the yield curve in the UK. After factoring in solvency II tiering adjustments and the final dividends, the group solvency coverage ratio remains comfortably above our operating range of 140 to 160%. We expect the coverage ratio to remain above the upper end of this range on a proforma basis after allowing for the day one impact of the Chesnara Life acquisition. The group's own funds increased by 34% year-on-year, reaching £859 million after allowing for the dividends and the impact of solvency II tiering restrictions. Positive contributions from the operating performance of our business units and non-operating contributions from favourable market conditions drove growth in own funds.

Now, in this slide, we showed the group's central liquidity after allowing for the completion of the Chesnara Life acquisition in January. The balance of £266 million remains comfortably above our buffer levels with material headroom available to the group to deploy on further M&A opportunities. Over 2025, liquidity was supported by the capital raises and increased remittances from our business units. And as I pointed out earlier, cash remittances increased by 30% to £58 million, reflecting the sustained improvements in operating performance across the group's business units. Moving next to IFRS, adjusted operating profit increased by 42% to £56 million, and the IFRS capital base grew significantly to £694 million compared to £449 million at full year 24. Again, we saw robust operating performance from each of our business units with a material year-on-year increase in the Netherlands where the insurance results also benefited from merger and simplification synergies.

Leverage reduced by nine percentage points to 22%, comfortably meeting the group's long-term ambition of 30% or less. Now, as I mentioned earlier, the proceeding results reflect the group's full year 25 position, and as such, they don't include the day one impact of the Chesnara Life acquisition which completed in January. And for clarity, these pro formas do not include the impact of our recently announced proposed acquisition of Scottish Widows Europe, or later stage capital and expense synergies from the integration of Chesnara Life. So taking the solvency II and IFRS balance sheets in turn, we expect the group's own funds to increase to circa £1 billion and the solvency coverage ratio to remain above the upper end of our operating range. The IFRS capital base is expected to increase to over £800 million, and within this, the contractual services margin will rise to circa £200 million, materially increasing the store of future value from our insurance portfolios.

The group's leverage ratio will be comfortably within our long-term ambition of 30% or less. So hopefully, this demonstrates how the steps we've been taking are transforming the financial profile of the group, whilst maintaining a robust balance sheet, attractive leverage, and the financial firepower to support further attractive M&A opportunities. Thank you all, and with that, I'll pass back to Steve.

**Steve Murray:**

Thanks, Tom. As Tom and I have highlighted, this has been an exceptional period of strategic delivery for the group. On this slide, I thought it was useful to remind investors about the key areas of activity we've been undertaking over the last four or five years here at Chesnara. Firstly, we restarted the M&A machine and have materially increased the cadence of deals announced, with eight acquisitions, including the recently announced Scottish Widows Europe transaction. This activity has been supported by the raising of further capital from debt investors and shareholders. And as a reminder, together, Chesnara Life and Scottish Widows Europe are expected to contribute around £1 billion of future lifetime cash flows to the group.

Secondly, we've improved the foundations of the business. We combined our two main Dutch insurance entities and also transferred our DC pension portfolio to Allianz. We've been implementing a new UK operating platform with four successful migrations completed so far. We've significantly strengthened the senior leadership team here with 11 out of 12 positions now having new role holders. And we also set ourselves new and ambitious sustainability targets with delivery against these on track. And finally, we've more proactively executed management actions, including FX

hedging for the first time, as well as expanding our new business relationships, particularly in Sweden.

So where does that leave us today? As you can see on this slide, we've significantly increased our assets under administration and customer numbers. We also anticipate a near doubling in the value from new business in 2026, following the addition of Chesnara Life to the group. Our balance sheet has grown substantially, and as Tom highlighted earlier, we retain a strong solvency position well above our normal operating range of 140 to 160%. Cash generation and dividend coverage have also materially improved, including the impact of our recent rights issue. And we've continued to grow the dividend above longer term inflation rates and deliver a higher level of shareholder return.

On Scottish Widows Europe, we expect this deal to further enhance our assets under administration, cash flows, and own funds position. Our solvency is also expected to remain above our normal operating range post-deal completion, and we retain immediately available firepower to execute another Scottish Widows Europe size deal without the need for further external financing. With assets under administration of over £20 billion, own funds of over £1 billion, solvency above our normal operating range, and recent M&A expected to add a further £1 billion in future lifetime cash flows, we have a strong foundation for further growth. The strategic focus we've had over the last few years continues in 2026. It's very important we deliver the integration of Chesnara Life, which we expect by the end of 2026. We then have further work in 2027 on the remaining UK portfolio migrations we have planned onto our new UK operating platform.

We're already progressing the work for the change of control of Scottish Widows Europe, and we have a range of available management actions across the group that we're actively working on to optimise the balance sheet further, including across the businesses that we've acquired. We continue to see a positive M&A pipeline in 2026 and are already assessing some interesting opportunities. We're pushing forward with the next phases of restructuring of our Dutch business, and all of this will continue to be underpinned by the work we're doing to become a more sustainable Chesnara, more details of which can be found in our annual sustainability report on our website.

I wanted to provide a further update on where we are on the integration of Chesnara Life and the change of control process for Scottish Widows Europe. On Chesnara Life, we expect the assets under administration and own funds at completion to be a little ahead of the position that we shared with investors in July. The work to migrate policies onto our UK target operate model is in full flight. Jackie Ronson, our UK CEO, is leading a designated internal team here with strong support from SS&C, and this work is expected to complete by the end of 2026. Delivering this important stream of activity will then ensure we have further operational capacity to onboard future M&A in the UK.

On Scottish Widows Europe, under Tom's sponsorship, we're already pushing ahead with the work to deliver change of control and deal completion, as well as the planning required for the business's separation from Lloyd's Banking Group. And we're targeting change of control approval in and around the end of 2026. It's important to highlight that there's relatively limited overlap between the delivery teams on the Chesnara Life integration and those working on changing control for Scottish Widows Europe. Our recent transactions have been conducted with some of the largest financial services firms in the world. Lloyds Banking Group joins HSBC, Sanlam and Canada Life as another major institution that has chosen to trust us to support their customers going forward.

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 we're already seeing interesting targets to assess in the early part of 2026. We remain very focused on ensuring that we successfully complete the work required to onboard our latest acquisitions. Not least as showing that we can continue to safely and efficiently look after these customers will allow us to execute more M&A in the future. Investors will have heard me talk previously about the proactive investments we've been making to build out our leadership capability and wider capacity. This allows us to handle multiple deal processes and the associated integration activity. We've also previously shared that a typical deal tends to take around 9 to 12 months, at least, from initiation to completion. Given that, we're certainly in the position where we can and should be looking at new opportunities now, and we will, of course, remain disciplined in our approach to assessing and executing any acquisitions, ensuring we have a high degree of confidence they will add value for investors.

So we've delivered a strong set of financial results, supporting a 6% increase in the final dividend. We've completed the largest acquisition in our history, the restructure of our Dutch business, and announced another material transaction. And we're continuing to see a positive M&A pipeline as we look forward into 2026 and beyond. These strong results wouldn't have been achieved without the outstanding efforts of colleagues across the group. I want to thank them for all their hard work in what's been a fantastic period of delivery. We begin 2026 with a group in a strong position with further opportunities to grow, and I continue to believe that there's a lot to look forward to here at Chesnara. So with that, let's start the Q&A and we'll begin in the room in London. Abid you are very sharp with your hand up. Must be your new promotion, meaning you're getting your hand up even faster than you were before, so congratulations on that.

**Abid Hussain:**

Takes a lot of practice. Thank you. Abid Hussain from Panmure Liberum. I've got three questions if I can, please. The first one is on the dividend cover. So on my numbers I think the dividend cover looks strong as it is now, and then it gets even stronger reaching around two times, I think, or my numbers, at least anyway, by 2028. So just wondering, how do you think about the dividend cover and then the potential uses of OCG? That's the first question. And then the second one is on M&A pipeline and the current macro drop that we're seeing out in the markets. Just wondering how might the pipeline be impacted by, you know, the volatile markets and particularly the rising bond yields and inflation. And then finally on the firepower. So as the balance sheet expands, does that impact the ability to self-fund future acquisitions at all?

**Steve Murray:**

Okay. We'll take those in order. If I may, Tom, if I do sort of dividend philosophy and then you can sort of talk about how you see sort of coverage and that developing. I'll pick up that sort of broader macro question Abid and then we'll do a double act on how we see sort of future financing of M&A. So just as a reminder, I think, so the way that we've tended to think about the dividend historically is looking at longer term rates of inflation and trying to deliver a rate of dividend growth that beats that. And I think the group has done a fantastic job of that over the last 21 years. You, this may be a surprise to you, Abid, we have the best dividend track record in UK and European insurance.

I think I may have mentioned this a couple of times speaking here to you all. So that's 21 years of consecutive dividend growth with a one-off step up of the final dividend here at 6% as a reminder for people. So we're proud of that track record. As I talked about in my presentation, we've certainly seen the coverage of that dividend improve quite materially. So I think philosophically, we still want to make sure that investors can have confidence that the dividend in the longer term sort of is inflation proof, and that's what we'll continue to look at going forward. Tom, do you want to just talk about coverage more generally and how you see that?

**Tom Howard:**

Yeah, I mean, maybe just wrap some numbers around that. So, I mean, Abid, you're right. So if you look at the 2025 results, certainly coverage when we consider it in the context of OCG, it is a healthy coverage. I think you'll notice I was quite careful to say that we felt that the 2025 OCG results was very, very strong which is my way of encouraging you not to put a 19% CAGR on the OCG from this point forward. But really, if you look at the OCG number, the way we think about it is if you look at the underlying OCG, which is the sustainable level of OCG, excluding management actions you know, we did employ some management actions this year, so mass lapse in the UK, for example you sort of get to about 80% of the reported number broadly is the underlying OCG number in any given year on average.

So if you take that rule of thumb, what we're reporting today becomes something like 1.5 to 1.6, and that's kind of how we think about it into the longer term when we're planning our underlying OCG. So that kind of how I would guide you using those parameters.

**Steve Murray:**

I think more broadly, just in terms of uses of OCG, which was part of that, I think you managed to get six questions as part of three there, so well done. Look, as you've seen from us historically, I think we've done a good job of sort of balancing that support for the dividend and having a good, strong sort of dividend growth track record, but ensuring that we're creating capital resources that can be used for strategic purposes. I talked about already in 2026, us seeing sort of positive opportunities to look at on M&A and I would certainly expect to be looking to deploy capital on further M&A in the sort of medium term. How might this current sort of macro environment impact the M&A pipeline? So sat here today, I don't think we're seeing a material impact in our part of the market.

What we've tended to find historically, I think, is when you've seen much larger transactions, so it's sort of up in the billions and you can see sort of bond yields moving or equity markets moving, whatever it might be, that can tend to mean that people maybe pause taking those to market, particularly if you were going to go and do an IPO or something like that, you'd probably look and time the market a little bit. We've seen a little bit less of that happening in our part of the market, certainly deal sizes up to sort of the half a billion level or maybe, maybe slightly above. And I think particularly if we've already started sort of kicking off processes, you tend to find that people continue with those. And, I mean, the volatility at the moment has been for a relatively short period.

If you saw something continuing and the expectation of that being for years, maybe people might think again. But again, if you look at even the last five years, there's been quite a few market periods there have been very volatile and you can see what we've been able to deliver quite a material uptick in M&A. So there's nothing there that worries us from a sort of impact on pipeline perspective. So final question was sort of then a financing capacity. So I talked in my part of the presentation around the fact that we've raised some capital, we obviously deployed a lot of capital. Our sort of best view of how we see internal capacity at the moment is that we could do another Scottish Widows Europe size deal, so something around the hundred million of consideration level.

And look, the reason that we can do that having done two large deals is because we've got a very strong balance sheet. If you look at where we're entering 2026 and then if you add on broadly the impact of SWE, we're seeing the own funds position that has sort of increased dramatically over the last five years. Solvency will remain above the target operating range. Tom talked about us having good levels of central liquidity. So when you look at the financial framework that we've talked about historically, we continue to have sort of big ticks in all of those in all of those areas. If we continue to see the sort of positive growth in OCG that we've seen as well, we should assume that that sort of financing position will improve a little bit as we go, given that we're not distributing it sort of, the dividend covers not one times is above, above one time.

So all of that we think puts us in a good position and we clearly have the opportunity for larger things to speak again to debt markets and ultimately to shareholders. And we were delighted with the support that we received from both of those sets of investors in 2025 as we prosecuted the strategy. I don't know if there's anything else you'd say on.

**Tom Howard:**

I mean, the only thing I'd say is I mean, we have full capital fungibility from the business units into group centre. So you notice the, it's quite a step up in the cash remittance profile from 24 to 25. We do expect that to continue. And that's obviously, you know, OCG is a lead indicator to cash. Cash then is really what, you know, it fills up the hopper at group centre to help us do deals. And you know, so we've got a clear line of sight on those cash remittances and as, as I say, you know, no dividend traps and full fungibility from the business units up to group centre.

**Mandeep Jagpal:**

Hey, morning everyone. Mandeep Jagpal, RBC Capital Markets. A couple from me as well, please. Firstly, just a more specific question on the M&A pipeline composition. Two deals delivered in the last 12 months including one in a new country. How does the pipeline look in terms of size of deals, geography types of policies? And I think you said it's 10 to 12 months to complete a deal. So could we expect one sooner than that? And then on Chesnara Life the new business component, any update on how you'll proceed with the open element there now that you've seen you've got you on board. And then finally on AI how are you using AI in your existing business and does it have the potential to materially improve the DD and pricing process for acquisitions, given all the data involved?

**Steve Murray:**

Thanks for the questions. I think most of those for me, but as always, I'll ask for Tom to chip in as we go. So M&A pipeline, so what can we say? So probably the last update that we gave investors, we talked about the fact that overall sort of the average deal size was a bit higher than we've seen in it historically. So I think particularly if you look back four or five years ago, we were seeing smaller deals. You could see we'd done a sort of few portfolio transactions with sort of single digit millions. If we look at the pipeline at the moment, I'd say it's a bit bigger still. So we're seeing a sort of range of opportunities certainly of the sort of level of Scottish Widows Europe, maybe some a little bit bigger than that to give you a sense.

In terms of geography, so it's a similar split actually to the sort of geographies that we've talked about before. So certainly still seeing things come into market in the UK. We're seeing some opportunities in sort of broader Benelux across potentially the Netherlands and elsewhere as well. We're still seeing slightly less in the Nordics overall. I think we do still, if we take a sort of slightly longer time horizon, say 12 to 18 months out, I think there are some possibilities there that we expect to come to market, but if we look sort of here and now, that hopefully gives you a bit of a feel for the sorts of things that, that we're having the opportunity to look at.

So in spite of doing two large transactions, you'd like another one very quickly, Mandeep. So thank you for that feedback. So I think I've got even more grey hair probably than the last time I spoke to you, so I'm never going to be drawn on exactly when things would come in. But if we look at the ingredients that we need to be successful, so I think just firstly, I think the M&A that we've conducted and the counterparties we've done that with has been very helpful for the profile. So we're probably getting even more inbound now or certainly invitations in than we would have been getting two or three years ago. So I'd see that as a positive, particularly just thinking about the top of the hopper. We've talked about the financial strength of the balance sheet, you know, the fact that we continue to retain good internal firepower, the solvency range is in a strong position, we've grown the balance sheet, all of that is helpful, and we are seeing, you know, multiple opportunities to look at at the moment.

So we'll remain very disciplined. It's really important that we deliver what we have on our plates internally from an operational perspective, but we believe we've got the capacity to be looking at other things just now and we'll obviously update you as and when we come through, but I'll, I certainly won't be making a prediction as and when that lands. On AI, I mean, there's obviously a, a huge amount of focus on this. Just a couple of areas that, that we've been utilising AI. So we have been developing customer services assistant in part of our business with AI. The results of that have been very, very good. I think in terms of both the speed of development and deployment of that, but also how accurately the AI is now able to sort of deliver results and not just on simple things, on some quite complicated things as well.

So it's an area that sort of myself and the rest of the leadership team are interested in. And what we particularly like about that is I don't need to build a huge amount of infrastructure to enable that technology. So we can potentially acquire that in a licence based cost so I don't have a sort of multimillion pound setup cost in terms of being able to utilise that. Jackie and the team have been utilising AI as part of some of the migrations in partnership with SS&C. Whilst that's early stages, I

think there is opportunity to expand that as we go. And I suppose part of what the AI has been doing is sort of acting like a pseudo business analyst. And the speed, again, and the accuracy at which the AI can be utilised there is really quite impressive.

So we're already seeing opportunities. We are seeing opportunities to use AI on some of our collateral. We used AI to test some of the results materials that we had as well. So you should certainly expect us to be embedding some of those things within the business. And it should mean, and if you take a medium term view, that we're able to grow more efficiently than we certainly were able to do a few years ago. So that's an exciting opportunity for us.

Chesnara Life open. Yeah, I avoided your second question, but not on purpose. So when we spoke to you all about the Chesnara Life, formerly known as HSBC UK acquisition, actually HSBC Life UK acquisition, sorry, we said that there was still a decision pending there. We were going to look at the returns that we felt were available from the new business franchise, both in the short, medium and long term. So we've taken the decision we're going to be keeping and enhancing the onshore bond franchise that business has. You might remember that we already write onshore business within the UK business. We acquired that capability through Sanlam and that's been a helpful contributor to the new business result this year. There's been a couple of million pounds worth of value of new business that we've written.

And having sort of looked at both the distribution arrangements, the sort of margin and the return available, we think that is a franchise that under Jackie's leadership, we can grow. On the protection side we the final evaluation there is that we couldn't make the required return, so we've closed that to new business. That decision was made in the early part of the year, so we're no longer taking new business from the open market. We've communicated that to distribution partners. They were pleased with the way that we did that. We were quite upfront with them and tried to give them a bit a reasonable sort of lead time on that. So hopefully it's another example, Mandeep, of us being disciplined around how we're deploying capital, but that's the decision that we've taken there on Chesnara Life.

Go on. Substack superstar Gordon Aitken.

**Gordon Aitken:**

Thank you, Steve. I don't need to introduce myself now. So I've got three questions, please. The first of all, I mean, I like your dividend slide. I know you like it too. And, you know, you go all the way back to 04, so, and people might look at that slide and think, "Oh, how did you manage to grow your dividends through 08, 09?" Because that was a pretty hard time. I hear a lot of people talking about 08, 09 at the moment and saying how the current situation we're in is, is kind of similar. So when I think we were both at Standard Life at the time and we grew our dividend at that point in time. So maybe you can just say why, why is everything fine because a lot of people obviously saying it's not fine and, you know, your yield is 8% and an 8% yield would tell you that a lot of people think that dividends, well, you've just grown at 6%, but people think it's not going to grow or think it's going to get cut. So where, why is it fine? Related to that, the second question is, I mean, the last three weeks, obviously we've seen a massive upheaval in the geopolitical situation. You can just say to what extent has that impacted the business, if at all? And then finally, your solvency ratio is 140% to 180% that's,

sorry, your ideal range. Now, I think it's very difficult for everyone these days with stochastic models to know, what is 140, what is 180?

We know that 100% is a one in 200 event. So why is 140 the right number? Why is 180 the right number? I mean, what drives that? I'd love to know what 140 and 180 are equivalent to in terms of one in, you know, because it's obviously a lot less than one in 200 and, and why does the board think that's the right number?

Is it driven by the maths of all? Is it driven by what regulators would see? Is it driven by what your shareholders would see? But I think it's a, I think this is a problem at the moment. It's just very, very hard for shareholders to understand what your solvency ratio, what it means.

**Steve Murray:**

Yeah. So I'll do a little bit of the history around dividend and solvency and then I'll maybe pass to Tom to talk about, so what does that mean for us now and why do we have a high degree of confidence in continuing that track record? So I think part of the reason that Chesnara has done such a great job of growing the dividend is we've taken a very prudent approach to the way that we've run the balance sheet. And that's not just on the liability side, it's on the asset side as well. So in the appendix of the presentation, we're showing everybody where the asset portfolio is and it's pretty conservative. You can see there's not anything that's particularly sort of exciting and racy that we're doing there. So that means that when we go through these cycles, we're not there saying, "Goodness me, have we got some sort of liquidity crunch that's coming here because there's a lot of strain on that part of the portfolio." And you can see the sort of way the balance sheet moves.

It's through a relatively narrow range and it's sort of, it's well understood. And I get that some of that's quite boring, but we like boring in that circumstance because you've got a balance sheet that's pretty predictable and because we've set that sort of dividend policy to beat inflation, but have that sort of consistency of it as well, what we're not trying to do is sort of over distribute when cash generation and capital generation is very strong and then when it's not. So that's really what we've seen historically sort of coming through. And what we think we've done at the business in recent time is we've added to the longer term cash generation, we've strengthened the balance sheet, we think we've improved the operational performance. So we've got really good line of sight through to those underlying sources of capital generation, but at the same time still taking this sort of prudent conservative approach in areas.

I think in terms of the 140% to 160%, that sort of flows a little bit out of that sort of prudent philosophy. And some of the things sometimes we forget to remind people about. So we have no transitionals in the balance sheet, so we're not still working through that sort of 16 years worth of solvency II transitionals that other people can. If you look at the UT1 position, it's very, very clean. If you look at the asset portfolio, it's pretty conservative. So again, when we run the stresses and scenarios on the balance sheet and Tom can talk a little bit more about that and maybe how the recent markets sort of flow through into sensitivities that 140% to 160% range we think is pretty conservative and gives us plenty headroom to think about doing things like M&A as well.

And I know it's hard for people to look across the market because insurance companies are writing very different risks, but we've had a lot of opportunity, particularly off the back of Chesnara Life and Scottish Widows to look again at the capital models, stress test that, and we're very, very confident with that 140 to 160 range. And it's helpful, actually, that after two major deals in capital raising, we're still materially sort of above that that level, which is great. Do you want to add just onto sort of the dividend, why should Gordon be confident that it continues going forward, recent markets and then your views on 140 to 160? Yeah.

**Tom Howard:**

Well, I'll start at the end if it's okay. So on the 140 to 160, maybe just to round that Steve's point, because it's really a philosophy, right? I mean, you're spot on. If we were to reverse calibrate almost the approach here, you would be far less than one in 200 for the reasons that Steve outlined, we don't have transitionals, we don't have matching adjustments, et cetera. So in the discussions that we have with the board in particular, it's about, you know, does the range give us the right level of strategic flexibility? And the 140 to 160 is, absolutely does that. So rather than sort of approaching it from a very purist way, which is to say, should we calibrate it to X, we look at that corridor and we say, does that give us enough flexibility and therefore, you know, do we have enough prudence then within that?

I think in terms of, you know, looking at what's kind of happening right now and how that affects other things, I mean, it's really interesting. It won't surprise you to know that the things that we look at most closely will be equity markets, interest rates, spreads, kind of the three key areas. And sort of going back to the solvency ratio, the interesting feature of the standard formula approach which we use is that actually in periods of stressed equity situations, the solvency ratio actually goes up albeit the surplus falls because we have this symmetric adjustment impact, which gives us capital relief. So in really broad terms, for every 1% equity market under performance against our assumptions, our solvency ratio actually goes up by 1%, which is an interesting feature of the rules.

So we're not complacent about that because if that's sustained, obviously it has a long-term impact on our own funds, but right now, you know, it's not something that we are overly concerned about. From an interest rate perspective, we've seen interests actually go up, which is actually net positive for us. Now if the curve twists a bit, you know, you can see some little things happen there, but again, that's broadly neutral. So it's really, right now it is credit spreads. So we've seen, you know, some broadening of credit spreads in IG and that will have an impact, but again, it's relatively contained. So we disclose sensitivities in here, which from memory have us at about 50 basis points, cost us about five percentage points in solvency. So coming off of you know, the level we're at 5% on that sort of 250% plus, again, it's immaterial as things stand right now.

So we're keeping an eye on it and obviously if, if the three of those components moved in the wrong direction for a sustained period of time, you know, that would give us pause for thought. But right now we are very, very far away from that. And the other thing I would just say as well is that, you know, we stress the business a lot through the ORSA process. So we look at combined stresses where we take situations that are actually far more extreme than what we're seeing right now in the markets, we combine them and we look at the long term impact of that over the next five years on

the balance sheet. And that actually shows that we can, you know, support the planned level of investment we have for the business over the next five years, even in that stress scenario.

**Mandeep Jagpal:**

Hey couple more please. Just on OCG would there be any seasonality in the development between H1 and H2 going forward? I'm just trying to think about how to forecast for 26. And then related to that Steve talked about a range of management actions available, maybe some potential later stage Chesnara Life management actions. So what specifically is in the toolkit there? And those management actions not in the £800 million cash flow guidance. And then I think one of the slides you showed 180% solvency ratio that does not include SWE or these later stage synergies from Chesnara Life. What would that ratio look like, including these two?

**Steve Murray:**

I'll do three, because I'll just repeat what I, I said during the presentation, I think the which I'll probably disappoint Mandeep, but, and then, yeah, OCG and management actions.

So we expect once the SWE deal to complete to be above that 140 to 160 that doesn't include the benefit of a range of further management actions, some of which Tom will come on and talk about what they might be. So that's why probably when you've been hearing some of the answers we're very, very comfortable and confident in the position of the balance sheet, particularly entering into 2026, but also thinking about that impact of SWE, and that gives us plenty headroom to do further M&A. That means we've got plenty sort of internal resources to deploy in M&A up to about that sort of £100 million level. The reason we're not giving more prescriptive numbers is firstly, that SWE deal, as a reminder, was a lockbox structure that was locked at the end of 2024, and given that we don't expect this to complete until 2026, as we start to get closer to that, we'll be in a position to give more of an update and also on where we get to with some management actions, but hopefully that gives investors a good degree of confidence that the group continues to be very well capitalised.

**Tom Howard:**

Yeah. On OCG, Mandeep, so in terms of the seasonality question, so there isn't an inherent seasonality within the business, so we don't, because we don't write, so for example, BPA, you see that a lot where you have backended activity within that type of product class. So if you look at the underlying OCG that I referred to earlier, that actually emerges in a very smooth fashion. We will be selective about when we choose to apply capital management actions. And the reason for that is that sometimes it may well just be commercially advantageous for us to wait or to do something a little bit earlier. So you might see a bit of bumpiness between half one and half two because we sort of choose to put that bumpiness in because there's just more long-term value to be generated by doing that.

But if you look at the core elements of OCG, which are, you know, the runoff of the SCR the variances in terms of persistency, mortality, expenses and so on, that emerges, you know, pretty linearly over the course of a calendar year. And then in terms of the management actions and the types of

management actions that we are looking at and will look at for the portfolios we're bringing on, you really should expect us to be a bit boring here, which is we're kind of proud of, right? So we talk a lot about the management actions that we've been deploying, particularly within, so far within our UK business and our group centre, mass lapse, foreign exchange hedging. These are things we're actually frankly quite good at and have given us quite a bit of optimisation benefit over the last two years in particular.

So we see quite a bit of opportunity to do more of the same on the new portfolio. So that will be the first block of actions you'll see come through over the next 12 to 24 months. We're also looking at others that shouldn't surprise you. I think we're, you know, a little bit underweight in terms of actions on the asset side of the balance sheet. So we'll look at opportunities to potentially look at, you know, selected re-risking opportunities within those portfolios as well. But I think when we're next talking about the types of capital management actions we've been deploying on the newer portfolios, they're probably going to sound pretty familiar.

**Steve Murray:**

Should we maybe go to some questions online?

**Operator:**

Yes, we've got a few questions from online. Just a reminder, if you'd like to ask a question, please do so by typing it into the bottom of your browser. Given this from Ming Zhu given your share capital base, under what circumstances would you consider a share buyback? And the second question is, what is the plan for Luxembourg? Are you really going to do M&A from there, or is it just a diversion of management's time and focus?

**Steve Murray:**

Thanks, Ming, and thanks for joining us. So on buybacks, you've probably heard us talk about this before. So what we always do against any sort of material capital allocation decision is we run that against things like a buyback and look at those returns. We've been in the fortunate position where we've had a number of very attractive opportunities in front of us, particularly with regards to M&A. So we haven't seen a scenario whereby sort of not doing M&A and doing a buyback has made sense for the group, not least to ensure that we've been retaining the sort of capital and firepower to execute that M&A strategy. I suppose the circumstances in which we'd look at that would be if we were no longer confident there was an M&A pipeline available and also an M&A pipeline that was available that generated better returns than something like a buyback.

And certainly, I think you've probably already heard from us this morning that entering sort of 2026, I mean, neither of those things are the case. There's plenty of things for us to look at building on the track record of execution that we've done and the early things we're looking at, we would expect to materially deliver better returns than a buyback. So plan for Luxembourg for the first plan is to get through change of control working very closely with the CAA under Tom's sort of sponsorship. We're expecting sort of completion hopefully in and around the end of 2026. We do see broader strategic

opportunities in that market. So look, the SWE deal, we like the financials, we think it represents a very attractive return for investors as a sort of standalone investment, but one of the other interesting things was potentially giving us access to Luxembourg and adjacent territories.

There's a sort of modern operating platform and associated team in that market that are certainly very keen to work with us to look at M&A. So we'll see how that develops over time, but we certainly think there are a number of opportunities there for us to look at. And just on the sort of management distraction, I talked in my presentation about having built out sort of capability, I think we've brought in some fantastic leadership into the firm, so that does mean that we can be looking at a number of things at the same time. So rest assured we certainly have the sort of management bandwidth to be looking at multiple things as we push the strategy forward.

**Operator:**

Thank you. The next question is from Brian Moretta from Hardman & Co. Can I ask about the new UK FX hedge? What financial effect do you expect? What's the synergy plans for the Netherlands now the merger is complete?

**Steve Murray:**

So shall I take the Netherlands and do you want to do FX hedge? So the legal merger, as you rightly say, Brian, and thanks for joining online, is complete. A large part of the first phase of integration, which really was bringing together the management teams of the two organisations is complete as well. There is still more to go in terms of sort of looking at operational processes and bringing those together, bringing other teams together and those sorts of things. So we would still expect the potential for some further sort of synergies and efficiency improvements as we look into 2026, albeit we've already seen probably, you know, two thirds to three quarters of that coming through into the 2026 result. And Pauline and Edwin have done a super job sort of managing the business through that.

So I think in terms of the broader plan, so organically I think the sort of market certainly pre the Middle East conflict had started well. We continue to write term insurance business in that market. As a reminder, we write about 10 to 12% of the broker term insurance in the Netherlands, which provided a good return from his last year, and we do also see opportunities to grow through acquisition as well, and that's the mandate very much that the that the team has within that market. Tom, do you want to talk about UK FX hedge?

**Tom Howard:**

Yeah. So this is a new hedging arrangement we've put in place in the UK business. And what it deals with is any FX volatility associated with GBP and dollar within the policy holder unit linked funds. So to the extent that there is an FX variance, that will impact on the level of own funds and ultimately capital generation within the UK business. So what this allows us to do, two things really. Firstly, is to hedge away some of that own funds volatility and secondly, it actually reduces our solvency capital

requirement as well because it reduces the level of FX stress that we need to include within the solvency capital requirement as well.

**Operator:**

Thank you. We've had a few questions around leverage levels. So just combine a few of them. How are you thinking about your leverage levels? Do you consider your solvency II leverage ratio as well?

**Steve Murray:**

Do you want to pick that up, Tom?

**Tom Howard:**

Yeah. So I think we've been quite explicit about working towards a long-term ambition of 30% or less on our main leverage measure, which is the Fitch measure. So, you know, you'll see the results today, you know, we're clearly within that and on a pro forma basis, we're also, you know, materially lower than that 30% level. That's the key metric, you know, we look at. From a solvency II perspective, we also look at solvency II ratio as well that's slightly higher, so that's in the 30s. But, we're comfortable at that level because for two reasons really. Firstly we've issued debt ahead of acquiring these businesses and the businesses will complete and that will basically increase the own funds position of the firm post completion, which will reduce that solvency II leverage.

But more importantly, we've just got very strong line of sight on the level of cash flows from the business units and we're amply covered, you know, from interest coverage perspective on both bases. So yes, we absolutely look at the solvency II leverage ratio as well as the IFRS leverage ratio, but in terms of its positioning no concerns around where that is and we think that's actually in a very good place and, you know, direction of travel as it happens is likely to be down as we move through the integration processes.

**Operator:**

Thank you. No further questions from the webcast at the moment. So Steve, maybe I can hand back to yourself for your closing remarks.

**Steve Murray:**

Yep. So thanks everybody for joining us this morning. As you can see, as we enter 2026, the group's in a very strong financial position with attractive opportunities to grow. So thanks for joining and have a great rest of your day.

ENDS

