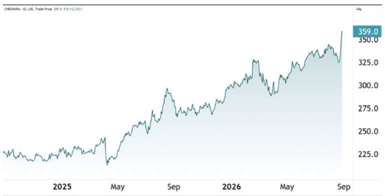
Life assurance



Source: LSEG, 2026

Market data

EPIC/TKR	**CSN**
Price (p)	**359.0**
12m high (p)	359.0
12m low (p)	264.7
Shares (m)	230.7
Mkt cap (£m)	827.6
SII Own Funds (£m)	976
Country of listing	UK
Market	London

Description

A FTSE250 European life, pensions and investment company with specialist expertise in consolidation. The Group administers 1.3m policies across its business units in the UK, Netherlands and Sweden.

Company information

CEO	Steve Murray
CFO	Tom Howard
Chairman	Luke Savage

www.chesnara.co.uk

Key shareholders

Hargreaves Lansdown	8.6%
Columbia Threadneedle	8.5%
Interactive Investor	7.8%
M&G	6.0%
Aberdeen	4.8%
Royal London	4.6%
Janus Henderson	4.1%

Diary

16 Oct	Interim dividend paid
31 Dec	Year-end

Analyst

Brian Moretta bm@hardmanandco.com

CHESNARA PLC

Acquisitions show immediate benefits

Chesnara has announced its 1H'26 results. The figures were dominated by the acquisition of HSBC Life (UK), now Chesnara Life UK, which contributed for five months and increased group scale. OCG rose 79% to £96m, cash remittances were up 31% to £73m and AOP grew 46% to £31m, although acquisition effects and management actions supported much of the OCG growth. SII Own Funds increased to £976m, from £859m, while solvency, at 185%, exceeded the 180% pro forma indication. As previously indicated, the interim dividend increased 6% to 8.16p, including a one-off additional 3ppt. uplift.

- **Acquisitions:** The completion of the acquisition of Chesnara Life UK brought immediate financial benefits, with £51m of immediate OCG and a £79m gain added to SII Own Funds. Progress is being made towards the purchase of Scottish Widows Europe around the year-end.

- **Estimates:** The gains from Chesnara Life UK led to figures that were well ahead of our estimates, although our OCG estimate for 2027 is almost unchanged. We have increased our 2026E OCG from £99m to £146m and our net SII Own Funds per share from 282p to 312p.

- **Valuation:** With a price at 1.1x of its forecast post-transaction net SII Own Funds, Chesnara is trading a little above its asset value. However, a prospective dividend yield of 6.6%, with good prospects of continued growth, will be attractive to many investors, in our view.

- **Risks:** Ultimately, the company remains tied to movements in financial markets and adverse developments in operational areas. Making a large acquisition also brings some execution risk, but Chesnara has good experience in managing smaller deals successfully.

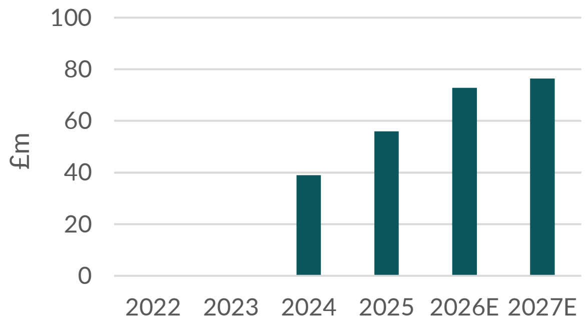
- **Investment summary:** Chesnara has three pillars for delivering value, under a responsible risk-based management. A close analysis reveals that Chesnara is making good progress in delivering these pillars. In our opinion, the yield appears high for a dividend that is both secure and growing.

Financial summary and valuation

Year-end Dec (£m)	2022	2023	2024	2025	2026E	2027E
Adjusted operating profit			39	56	73	76
IFRS profit after tax	-33.7	18.7	3.9	-10.4	1.2	-5.1
Net SII Own Funds/share	269	321	293	221	312	332
Operational capital generation			79	94	146	113
OCG per share (p)			52.3	45.8	63.1	48.8
Dividend (unadjusted) (p)	23.28	23.97	24.69	22.50	23.41	24.11
Price/Net SII Own Funds (x)	1.55	1.30	1.42	1.63	1.15	1.08
Yield*	5.6%	5.8%	5.9%	6.3%	6.5%	6.7%

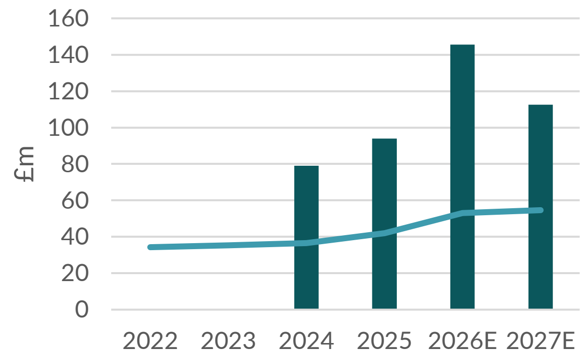
**Restated to adjust for the rights issue. Source: Hardman & Co Research*

Adjusted operating profit



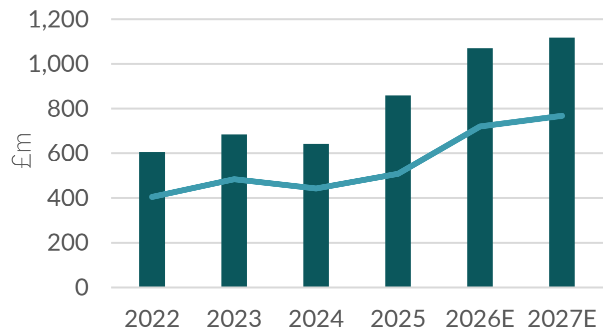
- AOP only available from 2024
- Boost in 2026 from acquisitions
- Forecasts are based on normalised assumptions

Operational capital generation and dividends paid (line)



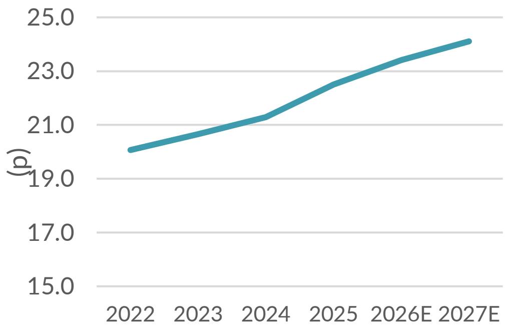
- OCG only available from 2024
- Based on normalised assumptions
- 2026 OCG has one-off benefits from transactions
- Dividend paid increased in 2025 with rights issue

SII Own Funds and Net SII Own Funds (line)



- Large gain in 2025 Own Funds due to rights issue and RT1 issue – removed in net figure
- Gain from acquisitions in 2023 and 2024
- Gain of over £100m in 2026 from Chesnara Life UK and Scottish Widows Europe transactions
- Forecasts are based on normalised assumptions

Dividend per share



- Chesnara has been a consistent dividend payer for more than two decades
- Change in trajectory 2025 and 2026 reflects one-off 6% uplift
- We forecast continued steady growth of 3% p.a. thereafter

Source: Company data, Hardman & Co Research

Results commentary

These are the second set of results, and the first interims, on Chesnara's new reporting framework. For reference, we have reproduced our earlier explanation of and comments on this in an appendix at the end of this report.

Headline results

The 1H figures are dominated by the acquisition of HSBC Life (UK), now Chesnara Life UK. There was an earnings contribution from this for five months of the period, as well as significant capital and cash benefits.

Headline performance in 1H'26 was strong. OCG increased 79% to £96m (1H'25: £54m), cash remittances rose 31% to £73m and AOP increased 46% to £31m. The results benefited significantly from the acquisition and associated capital management actions, alongside generally robust operational performance and positive investment markets. IFRS profit before tax improved to £61m from a £5m loss, although profit after tax was only £1m because most of the tax charge related to policyholder returns.

The acquisition has materially increased the scale of the group. AuA rose 38% from the year-end level to £21bn and Own Funds increased by 14% to £976m. As expected, the Solvency Coverage Ratio fell from 257% to 185% following completion of the acquisition. This was five percentage points ahead of the previous *pro forma* estimate, and remains comfortably above the group's 140%-160% operating range.

As previously indicated, the interim dividend has been increased by 6% to 8.16p per share. This includes a one-off additional 3 ppt. increase associated with the acquisition.

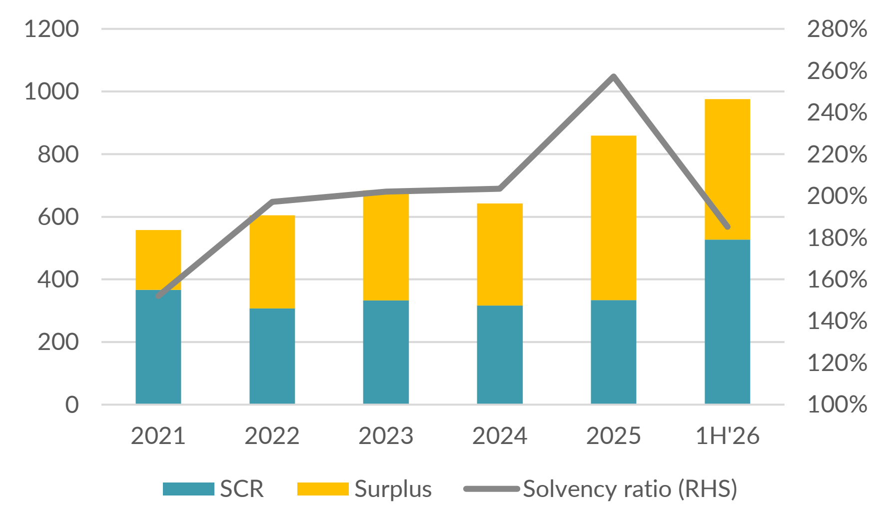
Capital and cash generation

Under the new presentation, capital and cash generation are given a higher focus than IFRS. Solvency II covers the whole business on a more consistent basis. In particular, SII Own Funds is a much better measure of the company value than the comparable IFRS metric. We discuss the latter further down.

Risk assets can have a complex effect on solvency ratios. While price increases or declines affect assets, the corresponding changes in liability values mean that the risks to be covered also shift. Under Solvency II, the Symmetric Adjustment acts as a countercyclical buffer: in times of strong investment returns, part of the gain is held back to support solvency in weaker periods. This is no longer disclosed, but we note that it means that the capital generation given by OCG may reflect the overall economics, but not all of that is “free” cash. Remittances may give a better idea of cash dividend coverage.

Own Funds and solvency

Group Solvency II metrics

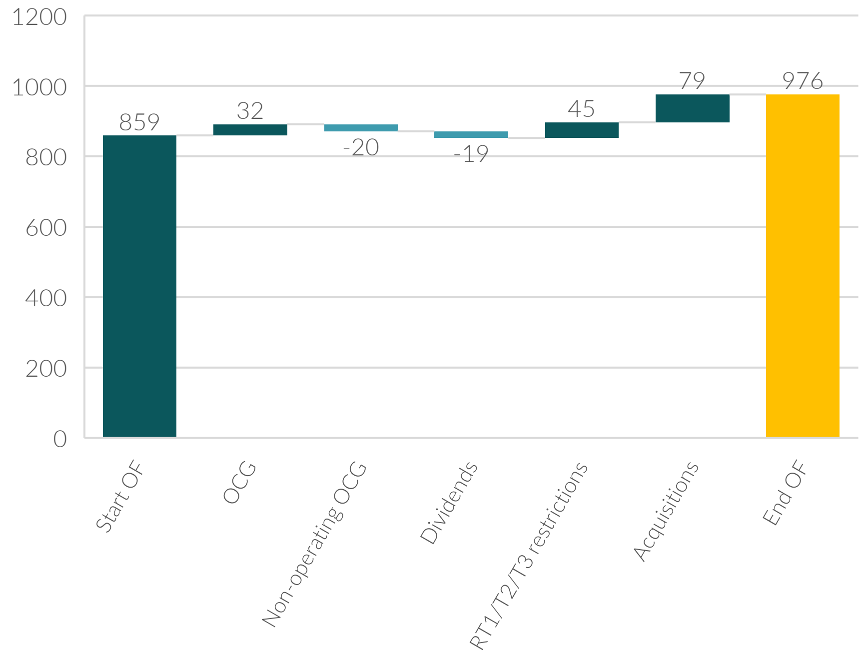


Source: Chesnara, Hardman & Co Research

As expected, the group Solvency Coverage Ratio fell to 185% (FY’25: 257%), following completion of the acquisition. The acquisition increased the SCR from £334m to £527m and reduced the absolute surplus from £525m to £449m. Nevertheless, coverage was five percentage points ahead of the previous *pro forma* estimate, and remains comfortably above the target range of 140%-160%.

Own Funds increased by 14% to £976m (FY’25: £859m), with the acquisition of Chesnara Life UK the main driver. The net impact of the acquisition was £79m, while operating generation contributed £32m. Non-operating movements added a further £25m, with positive equity markets partly offset by adverse foreign exchange movements and integration and restructuring costs, including expenditure relating to Chesnara Life UK and Scottish Widows Europe. Dividends reduced Own Funds by £19m.

Movement in SII Own Funds 31/12/25-30/6/26



Source: Chesnara, Hardman & Co Research

As well as the direct acquisition benefits, there was a £45m release of RT1, Tier 2 and Tier 3 restrictions. Solvency II limits the proportion of capital that can be in those categories and, prior to the acquisition, Chesnara had more potential capital than was permitted. Chesnara Life brought no debt, so allowed the existing debt to be counted towards capital. That is now fully utilised; so, in the absence of further debt issuance, will not recur for Scottish Widows Europe. There were also benefits from improved diversification.

Management actions made a significant contribution. Chesnara extended its mass-lapse reinsurance to the Chesnara Life UK portfolio and introduced recognition of the Loss Absorbing Capacity of Deferred Taxes.[1] These actions reduced the acquired business's SCR by £40m. At group level, new US-dollar hedging and improved diversification benefits following the acquisition also supported capital generation.

UK Own Funds increased by £331m, of which £325m came from the opening Chesnara Life UK balance sheet. Countrywide Assured's coverage improved to 139% (FY'25: 130%), supported by positive economic and operating performance and profitable new business. Chesnara Life UK's coverage increased from 125% on acquisition to 150%, largely because of the management actions above. Its Own Funds were £317m after a £20m remittance to group; excluding this payment, positive markets generated an increase of £12m.

In Sweden, Own Funds increased to £208m from £201m, but the SCR also rose following favourable market movements and the symmetric adjustment. Coverage, therefore, eased to 140% from 142%.

In the Netherlands, Own Funds declined to £228m, from £232m, as positive operating experience was more than offset by adverse mortality concentrated in the first quarter. The SCR fell to £95m, from £99m, however, lifting coverage to 239% from 234%.

[1] In essence, it allows tax changes on potential losses to be used to offset the losses.

Leverage declined to 19.1%, from 22.4%, primarily reflecting growth in the IFRS capital base and the CSM acquired with Chesnara Life UK. This was slightly better than the 20% *pro forma* indication and remains comfortably below the group's long-term ceiling of 30%.

Looking forward, the effect of Scottish Widows Europe has not been quantified, but management expects the coverage ratio to remain above the top of its target range. The revised Solvency II legislation is expected to pass in Sweden in January 2027, and we can look forward to some benefit from that.

Operating capital generation

OCG within Chesnara is the net change in available Solvency II surplus. While this is a measure of the overall economic change in the year, it is not all free for distribution to shareholders. Cash and the dividend at the group level are funded from dividends from the individual divisions. These are included in remittances. We only have the new KPIs from 2024, so have used the previous commercial cash generation to give a sense of longer-term trends.

Group capital/cash generation breakdown

£m	2022	2023	2024	2025	1H'26
Operating cash generation*					
UK	47.7	22	32	41	64
Sweden	1.9	-1.1	10	14	3
Scildon	9	6	30	36	7
Group	-5.5	20.8	7	3	22
Total cash generation	**53.1**	**47.7**	**79**	**94**	**96.0**
OCG return on av. Own Funds	9.1%	7.5%	12.0%	12.5%	10.5%
Remittances/internal dividends					
UK	56.0	35.0	35	45	43
Sweden	12.0	7.8	4	6	0
Waard	5.3	6.9	7	n/a	n/a
Scildon	0.0	0.0	0	7	30
Total dividends from subsidiaries	73.3	49.7	46	58	73
Dividends paid to shareholders	34.3	35.4	36.5	42.0	34.1
OCG dividend cover (x)	2.4	0.9	2.2	2.2	n/a
Internal dividend cover (x)	2.1	1.4	1.3	1.4	n/a

**Commercial cash generation prior to 2024.*
Source: Chesnara, Hardman & Co Research

OCG increased to £96m in 1H'26, from £54m in 1H'25. The increase was largely due to the Chesnara Life UK acquisition and associated capital management: £51m came from acquisition-related effects, with a further £12m from management actions elsewhere in the group. Underlying surplus emergence was £33m.

The main component of surplus emergence was £32m of expected investment returns. New business added £4m, assumption changes £2m and other operating variances £3m. These were partly offset by £7m of adverse experience, principally through increased lapses in Movestic, heavier 1Q mortality in Scildon and an increase in provisions for Chesnara Life UK protection business following a refinement to the methodology for estimating future claims.

The £51m acquisition-related contribution reflected the extension of mass-lapse reinsurance to Chesnara Life UK, recognition of the Loss Absorbing Capacity of Deferred Taxes and the diversification benefit from adding the acquired capital requirement to the group. The £12m of wider management actions included the introduction of additional US-dollar hedging.

The UK generated OCG of £64m, up from £29m in 1H'25, driven by the five-month contribution from Chesnara Life UK and the capital actions described above. Group

Centre OCG increased from £2m to £22m, principally because of the new currency hedging and the improved diversification benefits of the enlarged group.

Elsewhere, OCG was lower. Sweden generated £3m, against £8m in 1H'25, with robust new business performance offset by adverse persistency in the occupational pensions business. The Netherlands generated £7m, down from £15m, reflecting adverse mortality in the first quarter and a favourable expense assumption change (driven by merger synergies) that had benefited the prior-year figure.

Cash remittances increased by 31% to £73m (1H'25: £56m). These included £20m from Chesnara Life UK and £30m from the Netherlands, against £7m in the prior period. The Dutch increase reflected the release of surplus following the Scildon-Waard merger. This reflects benefits of cost-synergies recognised in previous years, rather than the £7m of OCG generated in the half, which mostly reflects operating experience. UK remittances were £43m (1H'25: £45m), while Sweden remitted £5m, paid shortly after the period-end and so excluded in the table above.

Dividend cover

As previously indicated, Chesnara announced a 6% increase in the interim dividend. We expect dividend growth to revert to 3% going forward.

Dividend cover is less meaningful at the interim stage because both OCG and remittances can be uneven between periods and the final dividend for 2026 has not yet been declared. Nevertheless, the first-half figures are reassuring. OCG of £96m was 1.8x our estimated £53m cost of the full-year 2026 dividend, while cash remittances of £73m represented cover of 1.4x. The £5m remittance from Movestic was paid in July.

Management has indicated that the £33m of underlying surplus emergence in 1H'26 is the baseline for the current operations. Management actions should account for roughly one-third of total OCG, taking this to just under £50m per half, or almost £100m p.a. The acquisition of Scottish Widows Europe will add to this, with ca.€100m (£87m) expected in the first five years. Together, this suggests sustainable annual OCG of around 2x the estimated cost of the 2026 dividend.

While management believes that surplus cash is best deployed in acquisitions, there is also comfort for shareholders that there is plenty of support for the dividend.

Maximise value from existing businesses – earnings and operations

The table includes only figures under IFRS17, with AOP only available since 2024.

IFRS earnings					
Year-end Dec (£m)	**2022**	**2023**	**2024**	**2025**	**1H'26**
Net insurance service result	13.3	-5.1	8.6	21.9	67.6
Net investment result	-39.0	71.7	52.7	50.2	28.0
Fee commission and other operating income	59.6	89.4	104.2	114.2	79.3
Other operating expenses	-100.9	-149.9	-133.6	-156.1	-108.1
Financing costs	-10.5	-11.0	-11.1	-11.4	-5.8
Profit before income taxes	-62.1	1.8	20.8	18.8	61.0
Income tax	28.4	16.9	-16.9	-29.2	-60.4
Profit after tax	-33.7	18.7	3.9	-10.4	0.6
Forex	6.9	-7.8	-15.3	20.5	-0.2
Other comprehensive income	0.7	-0.6	0.0	2.1	-0.1
Total comprehensive income	-33.0	18.1	-11.4	14.3	0.3
Tax attributable to policyholder returns			-18	-26	-61
Investment variances & economic assumption changes			-4	6	0
Impairment, amortisation and profit/loss on disposal			5	6	3
Integration and restructuring costs			24	40	23
Financing costs			11	11	5
Adjusted operating profit before tax			39	56	31
EPS (p)*	-19.3	10.7	2.2	-5.1	0.2

** Adjusted for rights issue*

Source: Hardman & Co Research

Despite our views on IFRS, the reconciliation to AOP still gives insights into the underlying result, allowing us to distinguish the divisional operating performance from financing, restructuring and acquisition-related items.

CSM and IFRS

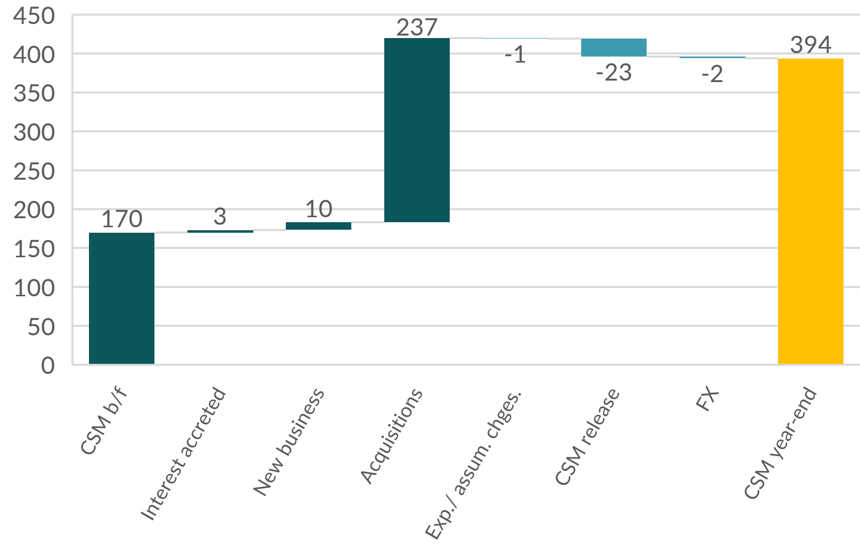
AOP increased 46% to £31m (1H'25: £21m), supported by generally robust operating experience and the five-month contribution from Chesnara Life UK. The strongest growth came from the enlarged UK business and the Netherlands, where merger synergies were beneficial, while Sweden was weaker because of adverse persistency.

The non-operating adjustments remained sizeable. Integration and restructuring costs increased to £23m (1H'25: £15m), principally reflecting the integration of Chesnara Life UK and work on the proposed Scottish Widows Europe acquisition. After all adjustments, profit before tax attributable to shareholders was essentially nil, compared with a £9m loss in 1H'25.

The CSM increased substantially following the acquisition. The gross-of-tax figure increased from £170m to £394m. Chesnara Life UK added £237m to the latter. The total CSM release was £23m, including an underlying £8m from the pre-existing businesses, which was broadly in line with expectations. The IFRS capital base consequently increased to £850m, from £694m at the end of 2025.

The main income-statement change was the insurance service result, which increased to £67m from £2m. This included £25m from the relatively reliable release of the CSM and risk adjustment and £42m of favourable experience variances. Investment and fee income also increased, although expenses rose with the enlarged group and acquisition activity. Reported IFRS profit before tax was £61m (1H'25: £5m loss), but this included £61m of tax attributable to policyholder returns. The corresponding tax charge left profit after tax at £1m.

Gross CSM movement in 1H’26



Source: Chesnara, Hardman & Co Research

Operating

Lapses

Lapse experience in Sweden deteriorated again in 1H'26 following the improvement seen in the 2H’25. Transfer activity in the brokered occupational pensions market remained elevated, producing adverse persistency experience and reducing both OCG and AOP. This suggests that the underlying structural pressure in the Swedish transfer market remains in place.

As discussed in *New Business* below, the wider flow picture was more positive. New business was robust and Movestic reported net client inflows of £380m, driven mainly by inflows into the custodian business. Nevertheless, the lapses are higher-margin than the new business, placing some pressure on overall margins.

There were no material comments on lapse trends in the other divisions.

Mortality

Scildon experienced further adverse mortality in the first quarter of 2026. This followed adverse experience during 2025 and was despite the portfolio-specific assumption update made in the second half.

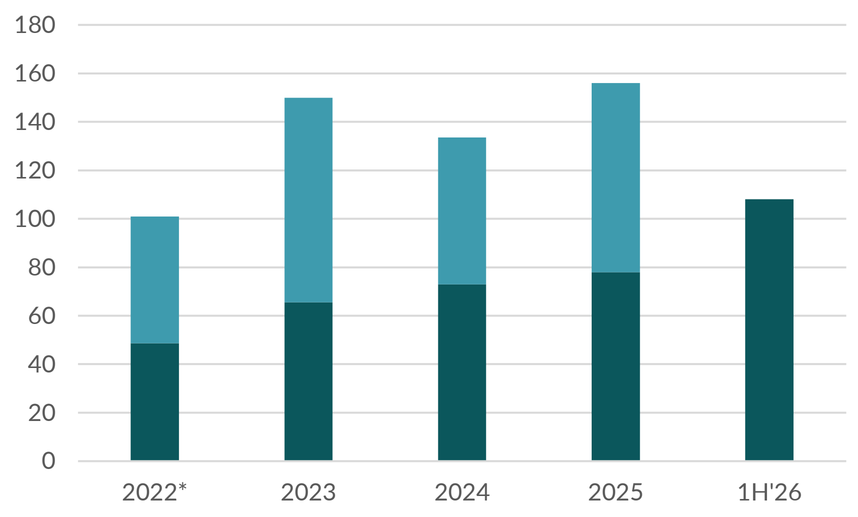
The recurrence after the 2025 assumption change warrants monitoring. However, management describes the experience as concentrated in the first quarter, rather than indicating a continuing deterioration. The second quarter was in line with assumptions and the overall Dutch financial performance remained strong.

Elsewhere, there were no material adverse mortality comments. Chesnara Life UK increased its protection provisions following a refinement to the methodology used to estimate future claims, but this appears to be a modelling change (perhaps reflecting tighter Chesnara standards) rather than evidence of worsening mortality experience.

Expenses

For consistency, again, we give figures from 2022 onwards. As a reminder, the gross figure includes an allowance for Swedish policyholder yield tax increases, which were £27m in 1H'26 (£17m in 1H'25). This directly offsets against the *Fee, commission and other operating income* line.

IFRS expenses (£m) (first half below)



**2022 figures are restated for IFRS17. Source: Chesnara, Hardman & Co Research*

IFRS operating expenses, excluding Swedish policyholder yield tax, increased to £81m in 1H'26, from £60m in 1H'25. The increase reflects the addition of Chesnara Life UK, as well as continued elevated M&A, integration and restructuring expenditure. The latter increased to £23m, from £15m, due to the integration of Chesnara Life UK and work on the proposed Scottish Widows Europe acquisition.

In the UK, the main programme remains the migration of acquired books onto the SS&C platform. Further, Sanlam business was migrated during the first half, while the Part VII transfer and migration of the second Canada Life bond and pension portfolio were completed shortly after the period-end. The principal Chesnara Life UK data migration remains scheduled for the end of 2026, with its Part VII transfer expected in 2027. We hope that we will then see financial benefits from the increased scale.

Sweden continues to invest in products, distribution and digital efficiency. Its digital tools, Movestic Freedom and the Pension Lab have gained traction, while others are being enhanced. Management continues to emphasise automation and AI-led process improvements as the route to controlling unit costs as the business grows. There is also a substantial pipeline of European regulatory change, although no single item appears unusually burdensome at present.

In the Netherlands, the integration of Scildon and Waard delivered further efficiencies, albeit at a lower level than in 2025. Most of the main synergies appear to have been realised, as demonstrated by the much larger remittance to group, with the remaining operational integration expected to conclude by the end of 2026. The focus is now shifting towards completing systems and product simplification and assessing the future IT architecture.

Overall, reported expenses are likely to remain above their historical levels because Chesnara is now a materially larger group. However, the Chesnara Life UK transfer and the final Dutch integration work should provide scope for a lower underlying cost per policy over time.

Management changes

Sue-Ann Ind has been appointed Group Chief Risk Officer, with effect from September 2026, following an external search. Niamh Carr, who had held the role on an interim basis, will remain with Chesnara as Director of Actuarial and Corporate Development.

The group also completed a consultation on the planned combined UK operating model. UK CEO Jackie Ronson has appointed a new UK leadership team, while a number of people will leave the business as the integration progresses.

Economic movements

The economic backdrop was positive overall, led by equity markets. Positive investment variances supported Own Funds and AuA, although some of the benefit was offset by adverse foreign exchange translation. The net investment result in the IFRS accounts increased to £28m (1H'25: £16m).

Equities

Equity markets rose across all of Chesnara's main exposures. The FTSE All-Share and Swedish OMX All-Share indices both increased by 5% during the half, while the FTSE All-World rose by 10%. The Netherlands AEX All-Share was particularly strong, increasing by 19%.

These movements supported AuA across the group. In Sweden, where equity exposure remains most significant, the US dollar also strengthened against the Swedish krona, supporting the value of Movestic's internationally invested assets. Together with positive flows, favourable markets increased Swedish AuA by approximately £750m. The strong Dutch market also contributed positively, although the Netherlands remains a smaller source of equity exposure.

Interest rates and credit spreads

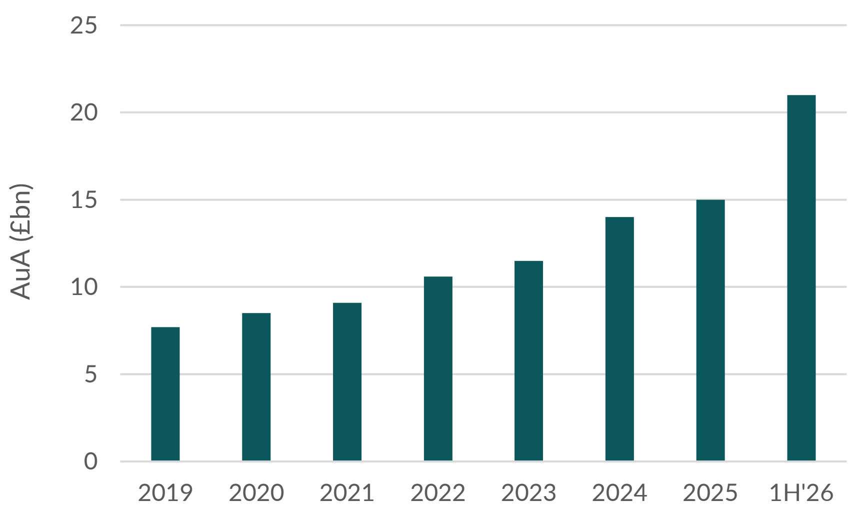
Ten-year yields moved relatively little outside the UK. The UK rate increased to 4.8% at 30 June, from around 4.5% at the end of 2025, having risen more sharply during the first quarter before easing. Swedish and Dutch ten-year rates ended the half at 2.67% and 2.98%, respectively, both broadly unchanged from year-end. Credit spreads also showed little overall movement, despite some widening during the first quarter.

The group's sensitivities indicate that higher interest rates are modestly beneficial to solvency, while wider credit spreads are adverse.

Operational KPIs

AuA increased by 38% from £15bn at the end of 2025 to £21bn. Chesnara Life UK added £5bn, with the balance of the increase coming mainly from positive markets and flows, particularly in Sweden. The figure also includes the *pro forma* effect of the second Canada Life portfolio, whose Part VII transfer and migration were completed shortly after the period-end. The outcome is ahead of the £20bn *pro forma* indication given at the FY'25 results.

Assets under Administration



Source: Chesnara, Hardman & Co Research

The group now administers approximately 1.3m policies, with Chesnara Life UK bringing 440,000. Scottish Widows Europe will add a further €1.7bn (ca.£1.5bn) of AuA and around 46,000 policies. Including this would take indicative group AuA to ca.£22.5bn before subsequent market and flow movements.

Acquire life and pensions businesses

Following completion of the acquisition in January 2026, the integration of Chesnara Life UK has commenced. It seems to be progressing well. The leadership team for the combined UK business has been established, the staff consultation has concluded and the first transfer of employees to SS&C has been completed. The main data migration remains on track for the end of 2026, with the Part VII transfer expected in 2027.

As indicated above, the financial contribution to date is in line with expectations. Further expense benefits should become clearer once the business is operating on the SS&C platform. Management intends to give a fuller update on synergies and further potential management/capital actions with the full-year results.

The Part VII transfer and migration of the second Canada Life portfolio (bond and pension) were also completed shortly after the period-end. This was the fifth migration onto SS&C in recent years, and the migrations appear to have proceeded smoothly. Management believes the additional scale should improve the SS&C rate card and support faster and more efficient migrations in future.

The proposed acquisition of Scottish Widows Europe is also progressing. The change-of-control application has been submitted, readiness testing is complete and completion planning is substantially advanced. Regulatory approval and completion are expected around the end of 2026. As well as scale, it establishes a Luxembourg presence from which Chesnara can pursue further European consolidation.

Further acquisition potential

Chesnara remains active in the market, and management indicated that internal resources for acquisitions have increased to approximately £130m (from £100m) following the strong first half. This is sufficient for another transaction of a similar scale to Scottish Widows Europe, although additional financing options would be available for a larger deal.

Given the progress with the Chesnara Life integration, the group can consider UK transactions again. The UK pipeline remains active as larger international insurers continue to optimise legacy books. Management notes that competition for deals in its part of the market has been weaker than expected, with private equity apparently focusing on the bulk purchase annuity market.

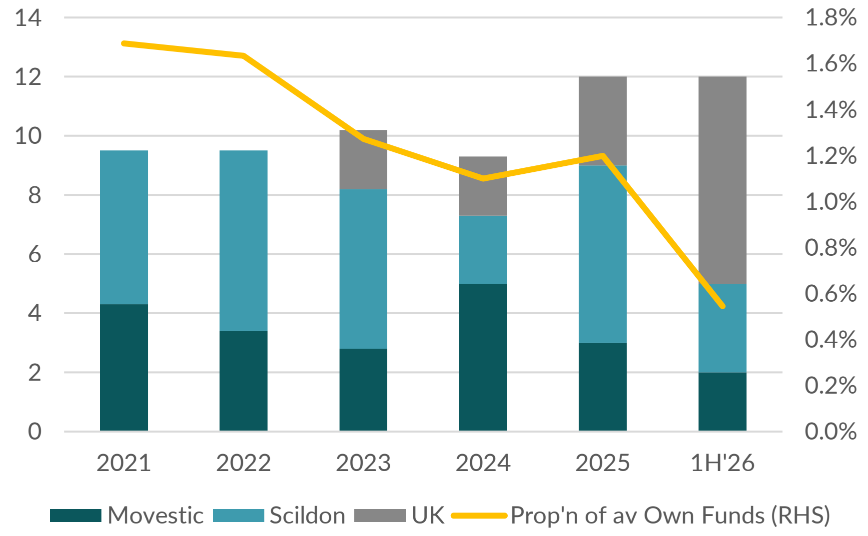
Activity in both Sweden and the Netherlands has been low, with perhaps more potential in the latter. However, management sees potential across Luxembourg and is also considering Belgium and Germany. The latter, as a large market, would have plenty of potential for a consolidator.

The immediate priorities remain completing the Chesnara Life migration and Scottish Widows Europe acquisition, but these do not preclude further deals.

Enhance value through profitable new business

The value of new business in 1H'26 was £12m, double the level from 1H'25. Again, this was largely due to the Chesnara Life acquisition. As HSBC, it had a strong position in onshore bonds and term assurance, but Chesnara felt the latter did not satisfy its profit criteria and so has been discontinued. New business as a proportion of average SII Own Funds was at 0.5% (1.1% annualised), so looks like being at a slightly lower level than previously, although it could be argued this is more about larger Own Funds than the new business.

Chesnara's value of new business (£m)



Source: Chesnara, Hardman & Co Research

The UK contribution rose to £7m, from £1m, reflecting the addition of Chesnara Life UK's onshore bonds. Recent tax changes have made the products more attractive for retirement and estate planning, while sales remained strong after the rebranding of HSBC Life. Management notes that the business development team has done considerable work to explain the new brand. Combining the Chesnara Life with the former Sanlam proposition should create further distribution opportunities through improved adviser relationships.

Sweden's contribution increased to £2m, from £1m, supported by strong unit-linked sales and continued expansion of the custodian business. Net client inflows were £380m, mainly from the custodian business, whose rolling 12-month new-sales market share was 15% (well above the mid-single-digit shares Movestic has achieved in other areas previously).

Movestic launched another custodian partnership during the half and has further partners in the pipeline. The new relationship with Duvi also broadens distribution of its Life & Health products into Norway. As previously noted, this growth is weighted towards lower-margin business, but it is more than offsetting overall transfers out in volume terms.

In the Netherlands, the contribution was unchanged at £3m, despite increased competition in the insurance and mortgage markets. Scildon continues to prioritise margin and value over sales volume, supported by targeted campaigns for investment and term life products. It has also decided to discontinue its distribution arrangement with Dazure, which competed with products in Scildon's own portfolio. The rationalisation will hopefully improve the focus on its core proposition, although it may constrain near-term volumes.

Overall, new business has made a material step up. Sweden continues to deliver strong inflows but at a lower margin, while the Netherlands remains profitable despite more difficult market conditions. Management expects the full-year contribution to be approximately double the £12m achieved in 2025, implying a broadly similar contribution in the second half.

Prospects

Operations

The main operational priority is completing the migration of Chesnara Life UK data and key services to SS&C by the end of 2026. The associated Part VII transfer will follow later in 2027. Management expects to provide more detail on expense synergies with the full-year results; these should be positive, although the timing will depend on successful completion of the migration.

In the Netherlands, the integration of Scildon and Waard is expected to conclude by the end of this year. Further efficiencies should emerge in the second half, but these will be more modest than the synergies already realised and have already been accounted for in assumptions. Completing the alignment of systems, products and the operating structure remains the main task.

The long-running challenges surrounding lapses in Sweden remain. On the plus side, new business and overall client inflows are progressing well, supported by the custodian business and new distribution partners. However, the market remains competitive and lapses have increased again. Movestic will need to maintain its new-business momentum while improving retention if the benefits of the stronger inflows are to come through fully in margins.

Acquisitions

The early contribution from Chesnara Life UK is encouraging, but we expect more to come. In particular, management intends to update investors on expense synergies and the scope for further capital actions with the full-year results.

The immediate acquisition priority is completion of Scottish Widows Europe, expected around the end of 2026. This will be followed by the separation from Lloyds and integration work and the development of Chesnara's new Luxembourg platform. Over time, that presence should broaden the range of European consolidation opportunities available to the group.

As usual, the timing of any further acquisition announcement is uncertain, although management remains positive about the pipeline and has sufficient financial and operational headroom for another transaction. Opportunities appear strongest in the UK and across Luxembourg, with Germany and Belgium also under consideration. A transaction announced now would be unlikely to contribute to the 2026 results and, depending on its timetable, probably wouldn't provide a full-year contribution until 2028.

Forecasts

As indicated when the new reporting format was introduced, OCG is now our key metric. This strongly outperformed in the half, with the total almost the same as our full-year forecast. Of course, this outperformance was driven by acquisition factors, which will not recur.

Adjusting our forecasts, we have strongly upgraded the UK to allow for these, keeping a similar run-rate in the underlying business. Sweden and the Netherlands have both seen downgrades to allow for the weak first half. We have forecast a full bounceback in Scildon from the 1Q mortality issues, but been a little more conservative on the lapses in Movestic. This increases our 2026E OCG to £146m, from £99m, while our 2027E is (net) almost unchanged.

Our dividend forecasts are unchanged, with a reversion to the 3% p.a. growth rate after the short-term uplift. While Chesnara has scope to increase this faster, we think that investors will be happy with the lower rate and using resources to generate more deal activity.

Within our IFRS forecasts, we have made several adjustments in the light of the acquisition. One technical change is the UK policyholder tax, which inflate the insurance service result, to be offset in the tax line. We have also increased integration costs for 2026 but kept constant those in 2027.

For capital values, we now focus on Net SII Own Funds. The SII Own Funds figure given by Chesnara includes debt instruments, notably the Tier II debt and the more recent RT1 instrument (but not the RCF). We net those off to given shareholder's interest.

In 2026, we assume completion of Scottish Widows Europe by the year-end. The discount to Own Funds on each at the time of announcement suggests a gain of £54m. We also assume that the Scottish Widows Europe deal is mostly funded by the RCF.

Key balance sheet and OCG

Year-end Dec (£m)	2022	2023	2024	2025	2026E	2027E
Borrowings	212.0	207.9	204.8	203.0	289.5	289.5
SII Own Funds	605.0	684.0	643.0	859.0	1,070.8	1,117.7
Net SII Own Funds	405	484	443	509	721	768
Net SII Own Funds/share (p)	269	321	293	221	312	332
Operating capital generation						
UK			32.0	41.0	92.0	63.1
Movestic			10.0	14.0	8.6	9.0
Scildon			30.0	36.0	21.4	20.3
Luxembourg			0.0	0.0		17.0
Group			7.0	3.0	23.5	3.2
Total			79.0	94.0	145.5	112.6
OCG/av. SII Own Funds			11.9%	12.5%	15.1%	10.3%
Dividends paid	-34.3	-35.4	-36.5	-42.0	-53.0	-54.6
Div. remittances cover (x)	1.5	1.3	2.1	1.4	1.5	1.4

Source: Hardman & Co Research

IFRS earnings						
Year-end Dec (£m)	**2022**	**2023**	**2024**	**2025**	**2026E**	**2027E**
Net insurance service result	13.3	-5.1	8.6	21.9	140.7	147.7
Net investment result	-39.0	71.7	52.7	50.2	58.8	61.7
Fee commission and other operating income	59.6	89.4	104.2	114.2	165.9	174.2
Other operating expenses	-100.9	-149.9	-133.6	-156.1	-226.8	-238.1
Financing costs	-10.5	-11.0	-11.1	-11.4	-11.4	-18.4
Profit before income taxes	-62.1	1.8	20.8	18.8	127.2	127.2
Income tax	28.4	16.9	-16.9	-29.2	-126.0	-132.3
Profit after tax	-33.7	18.7	3.9	-10.4	1.2	-5.1
Adjusted operating profit			39	56	73	76
EPS (p) (restated)	-22.4	12.4	2.6	-5.1	0.5	-2.2
DPS (p) (actual)	23.28	23.97	24.69	22.50	23.41	24.11
DPS (p) (restated)	20.07	20.66	21.28	22.50	23.41	24.11

Source: Hardman & Co Research

Appendix – New metrics

(*Reproduced from our report on the FY results for reference*).

Alongside the 2025 results, Chesnara has introduced a new set of KPIs, with operating capital generation (OCG), cash remittances and adjusted operating profit (AOP) being introduced. The aim is to simplify the reporting and make easier comparisons with peers. The focus will be on six metrics, with these three being complemented by the Solvency Coverage Ratio, Own Funds on a Solvency II basis and Assets under Administration (AuA).

The new measures are defined as:

- **Operating capital generation:** sustainable Solvency II Surplus generation, looking through short-term market impacts and non-recurring costs. Of the old cash measures, commercial cash generation was closest.
- **Cash remittances:** the cash paid by the individual business units to the group. This will usually be the same as the dividends previously disclosed but will make timing differences clearer.
- **Adjusted operating profit:** IFRS performance using long-term assumptions for investment returns, adjusted for non-recurring items and cost-of-debt funding.

We would make some observations on these new KPIs. While the life insurance industry has settled on using IFRS profits, or a close variation, we believe it does not work well for businesses such as Chesnara. Most of its policies are classified as investments rather than insurance. This means the profit figure uses a different basis for insurance and investment. That isn't ideal, even if it has some consistency. However, it means the IFRS balance sheet does not reflect the true value of investment policies. The focus on a SII Own Funds figure (which includes all policies on the same basis) rather than an IFRS one is sensible.

We also note the use of long-term assumptions in both OCG and AOP. While a focus on long-term value creation is a good thing, short-term fluctuations still matter, and we will try to bring those out where necessary.

We also note the exclusion of "non-recurring items". M&A costs is a difficult accounting item for Chesnara. Clearly, they fluctuate significantly from year to year: 2025 was particularly heavy, with two capital raises and the HSBC transaction. However, although the amount will vary, they are a key part of Chesnara's strategy and will recur at some level in most years.

Finally, the changes make comparison with prior years difficult. While Economic Value was Solvency II based, it is different enough to prevent any direct comparison between the new figures and the old. Having said that, the heavily changed balance sheet in 2025 and addition of Chesnara Life (formerly HSBC Life) in 2026 would have made comparisons hard anyway. Nevertheless, as the new measures do not map exactly onto the old ones, some caution is needed when looking at operating trends until the new framework is more established.

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