

Chesnara Life (UK) Limited

(formerly known as HSBC Life (UK) Limited)

Solvency and Financial Condition Report
for the year ended 31 December 2025

Contents

Statement of Directors' responsibilities	1
Report of the external independent auditors to the Directors of Chesnara Life (UK) Limited	2
A. Business and performance	7
A.1. Business	7
A.2. Underwriting performance	8
A.3. Investment performance	9
A.4. Performance of other activities	9
A.5. Any other information	9
B. System of governance	10
B.1. General information on the system of governance	10
B.2. Fit and proper requirements	12
B.3. Risk Management System including the own risk and solvency assessment	13
B.4. Internal control system	16
B.5. Internal audit function	16
B.6. Actuarial function	17
B.7. Outsourcing	17
B.8. Any other information	18
C. Risk profile	19
C.1 – C.6. Underwriting, Market, Credit, Liquidity, Operational and other material risks	19
C.7. Any other information	22
D. Valuation for solvency purposes	23
D.1. Assets	24
D.2. Technical provisions	26
D.3. Other liabilities	29
D.4. Alternative methods for valuation	29
D.5. Any other information	29
E. Capital management	30
E.1. Own funds	30
E.2. Solvency capital requirement and minimum capital requirement	33
E.3. Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement	34
E.4. Difference between the standard formula and internal model used	34
E.5. Non-compliance with minimum capital and solvency capital requirements	34
E.6. Any other information	34
Glossary of terms	35
Appendix	35

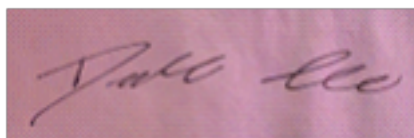
Statement of Directors' responsibilities in respect of the Solvency and Financial Condition Report (SFCR)

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency UK Regulations.

We are satisfied that:

- a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency UK Regulations as applicable to the insurer; and
- b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors and was signed on its behalf by:



D A Clow

Director of Chesnara Life (UK) Limited

Date: 26 March 2026

Registered Office

2nd Floor 33-34 Winckley Square

Preston, Lancashire

PR1 3JJ

United Kingdom

Report of the external independent auditors to the Directors of Chesnara Life (UK) Limited

(formerly known as HSBC Life (UK) Limited) ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2025:

The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2025, (**'the Narrative Disclosures subject to audit'**); and

Company templates IR.02.01.02, IR.12.01.02, IR.23.01.01, IR.25.04.21 and IR.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on

Other Information which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates IR.05.02.01, and IR.05.03.02; and
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2025 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's stress and scenario testing including the Solvency Capital Requirement and Risk Margin. This included consideration of the impact of downside scenarios;
- The review of correspondence with the Prudential Regulation Authority and the Financial Conduct Authority;
- The review of board papers and attendance at the Risk and Audit Committee ('RAC') meetings;
- The challenge of management's key actuarial assumptions for appropriateness within the current business environment, and;
- An assessment of the balance sheet, liquidity and solvency position at the year end.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA Rules.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as PRA Rule book. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and posting of inappropriate journal entries to manipulate the financial results. Audit procedures performed included:

- Discussions with the Audit and Risk Committee, management (including those involved in the Risk and Compliance function) and Internal Audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority;
- Reviewing relevant meeting minutes including those of the Board Risk and Audit Committee as well as attending the Risk and Audit Committee;
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Assessing the appropriateness of accounting estimates used to determine the technical provisions, in particular mortality, morbidity and expense assumptions;
- Validating the appropriateness of journal entries identified based on our fraud risk criteria; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the relevant elements of the Solvency and Financial Condition Report and (where applicable) the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
26 March 2026

Summary

1. Business

The principal activity of Chesnara Life (UK) Limited, formerly known as HSBC Life (UK) Limited (the “Company”), is to carry on the business of life insurance, manufacturing a range of protection and investment products.

2. Performance

The pre-tax profit of the Company in 2025 was £89.4m (2024: £73.3m). The £16.1m increase compared to prior year is due to positive market performance, driving higher policyholder tax fee income. Stable underlying insurance service results have been supplemented by the fee income from the Premier bereavement and value-added benefits which were launched in February 2025.

On 3 July 2025, HSBC Bank plc (a wholly owned subsidiary of HSBC Holdings plc) entered into a binding agreement to sell its UK life insurance business, HSBC Life (UK) Limited, to Chesnara plc for a total consideration of £260m. The transaction comprised all in-force life insurance policies and investment contracts written by the Company. The transaction was subject to regulatory approvals which was granted on 12 December 2025. The transaction was completed on 31 January 2026 with control of the Company transferring to Chesnara plc.

Post transfer, the Company has made the strategic decision to close protection products to new business. The existing policies will continue to be fulfilled. The Company will continue to focus on investment product sales through external distribution channels in line with the wider Chesnara plc strategy.

3. System of governance

The Company’s system of governance is well established and has a robust Risk Management System that complies with Solvency UK and the Senior Managers and Certification Regime (SMCR) requirements.

The Company is an insurance company which closed to protection new business sales post year end but with a material book of in-force policies containing insurance risk (mortality, morbidity, lapse etc.) with high levels of re-insurance providing protection against mortality and morbidity risks. The primary focus of the business is the efficient and fair run-off of its existing legacy protection and investment business portfolios as well as growth via new business onshore investment bonds. The operating model of the Company is directed towards maintaining shareholder value as well as high quality customer service by both in-house and outsourced activities. Outsourcing typically covers policy administration, systems, and investment management. For a limited period, a Transitional Service Agreement is in place with HSBC Bank plc (the previous parent of Chesnara Life (UK) Limited), providing a variety of operational and technology services until these are transitioned into the new operating model. Key risks for the Company include the risks relating to the sale of the business and migration of all systems and data (including people, resilience and third-party resilience risks), growing exposure to third party operational risk more generally, new business and expenses risk.

The following table shows the make-up of the required capital (standard formula basis) by risk category:

	2025	2024
	£Million	£Million
Market Risk	175	134
Life underwriting risk	82	72
Health underwriting risk	33	35
Counterparty risk	7	7
Operational risk (includes Capital Add-on of £18.2m (2024: £18.2m))	27	27
Gross required capital pre-diversification	324	275
Diversification	(71)	(65)
Required capital (pre-tax)	253	210
Loss absorbing capacity of deferred tax	-	-
Required capital (post-tax)	253	210

Capital requirements have increased for the company in the year predominately due to positive market conditions and growth of new business of the Onshore Investment Bond (OIB), increasing exposure to adverse market risk

events. Overall, underwriting risk had also increased in the year reflecting the growth of sales on the Company's protection book (which was subsequently closed to new business post transfer), with Mass Lapse Capital continuing to be the biting measure for Lapse risk. Diversification benefit has increased to reflect the above increases in pre-diversified risk. Loss absorbing capacity of deferred taxes (LACDT) remains at zero for year-end 2024 and year-end 2025, though this may be explored in 2026. Operational Risk is materially unchanged against YE24 (noting that the Capital Add-on, which increases the standard formula solvency capital requirement (SCR), remains at £18.2m. This add-on is associated with the Company's Operational Risk sub-module and is as agreed with the PRA, effective from 6 September 2021).

4. Valuation for solvency purposes

There have been no material changes to the Company's valuation of assets and liabilities for solvency purposes.

5. Capital management

The Company's solvency capital requirement (SCR) is determined on a standard formula basis with an additional Capital Add-on relating to operational risk.

The target capital level is 121% of the Company's assessment of the capital required. Where the actual capital exceeds the target level, a dividend payment should be considered to bring the solvency margin down to the target level. Other considerations such as liquidity, projected new business sales, distributable reserves and reinsurance exposure are all considered when determining what level of dividends can be paid.

The risk appetite is that the solvency margin should remain above 116% of the Company's assessment of the capital required. This is based on a 1 in 10-year event.

The Company has complied with the externally imposed capital requirements and the internally set capital tolerance and target at all times during the current and prior financial years.

The Company's capital metrics are summarised below:

	2025	2024
	£'000	£'000
Excess of assets over liabilities	337,653	338,098
Restriction for Solvency Purposes	-	(24,508)
Solvency Capital Requirement (SCR)	252,631	209,955
Solvency Ratio	134%	149%
Minimum Capital Requirement (MCR)	63,158	52,489

The excess of assets over liabilities has reduced in the year, mainly due to the dividend paid of £15m in the year. The Solvency Capital Requirement increased due to positive market conditions and new business growth, particularly on the Company's Onshore Investment Bond. Overall, the Solvency Ratio has decreased by 15 percentage points though the Company target capital ratio has reduced as well.

A. Business and performance

A.1. Business

(a) The name and legal form of the undertaking

Chesnara Life (UK) Limited (formerly known as HSBC Life (UK) Limited) ("the Company") is a limited liability company domiciled and incorporated in the United Kingdom. Its registered office is:

2nd Floor 33-34 Winckley Square
Preston, Lancashire
PR1 3JJ
United Kingdom

(b) Financial supervision

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The registered offices are as follows:

Prudential Regulation Authority	Financial Conduct Authority
20 Moorgate	12 Endeavour Square
London, EC2R 6DA	London, E20 1JN
United Kingdom	United Kingdom

(c) External auditor

PricewaterhouseCoopers LLP is the Company's auditor for the financial year commencing 1 January 2025. The auditor's contact details are as follows:

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
United Kingdom

(d) Ownership and group structure

The Company is a wholly owned subsidiary of Chesnara plc. The registered office of Chesnara Life (UK) Limited and Chesnara plc is:

2nd Floor 33-34 Winkley Square
Preston, Lancashire
PR1 3JJ
United Kingdom

(e) Principal business activities

The Company's principal activity is to carry on the business of life insurance and manufacturing a range of protection and investment products. The protection products that were on sale during 2025 have now been closed to new business (these included life cover and critical illness). The Company also provides life, critical illness (CI) and income protection (IP) benefits as part of an employee benefits scheme. The only investment product that is currently on sale is the Onshore Investment Bond.

(f) Significant events

On 3 July 2025, HSBC Bank plc (a wholly owned subsidiary of HSBC Holdings plc) entered into a binding agreement to sell the shares in its UK life insurance business, HSBC Life (UK) Limited, to Chesnara plc for a total consideration of £260m. The transaction comprised all in-force life insurance policies and investment contracts written by the Company. The transaction was subject to regulatory approvals which were granted on 12 December 2025. The transaction was completed on 31 January 2026 with control of the Company transferring to Chesnara plc.

Following the transfer of ownership to Chesnara plc, we are required to reflect expected future costs under the new structure in our expense assumptions, which have been included in the best estimate liabilities.

A.2. Underwriting performance

The Company conducts its business in the UK only. The underwriting performance is summarised by line of business below:

	Health insurance		Index-linked and unit-linked insurance		Other life		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Premiums written and earned								
Gross	66,782	67,340	664,608	634,967	75,387	73,944	806,777	776,251
Reinsurer's share	(44,326)	(44,410)	(891)	(1,001)	(38,656)	(39,288)	(83,873)	(84,699)
Net	22,456	22,930	663,717	633,966	36,731	34,656	722,904	691,552
Claims incurred								
Gross	(45,478)	(43,198)	(172,597)	(152,408)	(50,254)	(49,803)	(268,329)	(245,409)
Reinsurer's share	38,197	35,980	816	721	40,015	40,448	79,028	77,149
Net	(7,281)	(7,218)	(171,781)	(151,687)	(10,239)	(9,355)	(189,300)	(168,260)
Expenses incurred								
Investment mgmt expenses	-	-	(6,655)	(6,189)	-	-	(6,655)	(6,189)
Claims mgmt expenses	(2,507)	(2,159)	-	-	(1,225)	(637)	(3,732)	(2,796)
Acquisition expenses	(12,142)	(7,630)	(2,965)	(3,033)	(20,609)	(12,088)	(35,716)	(22,751)
Admin expenses	(14,678)	(6,856)	(4,764)	(3,579)	(12,353)	(7,910)	(31,795)	(18,345)
Total expenses	(29,327)	(16,645)	(14,384)	(12,801)	(34,187)	(20,635)	(77,898)	(50,080)
Total	(14,152)	(933)	477,552	469,478	(7,695)	4,666	455,705	473,211

Health insurance gross premiums are marginally lower than prior year due to the declining extant book of business and lower new business sales. The unit-linked Onshore Investment Bond (OIB) sales volumes increased during the year bolstered by continuing strong markets in 2025.

Net claims incurred on health and other life insurance have increased slightly on prior year. The unit linked business claims represent surrenders and have also increased on the prior year.

There has been an increase in all expenses year on year. Health Insurance expense increase is predominantly driven by the fees associated with the provision of the bereavement cover and value-added benefits for the HSBC Premier bank account product. Both Health and Other life expenses have seen increased acquisition expenses due largely to volumes of new business written in protection plus ongoing admin fees charged on a greater number of policies.

A.3. Investment performance

The Company's investment performance is summarised by asset class below:

	Government bonds	Corporate bonds	Investment funds	Cash and deposits	Total
2025	£'000	£'000	£'000	£'000	£'000
Investment income					
Dividends	-	-	19,388	-	19,388
Interest	-	-	13,834	5,034	18,868
Net gains and losses	-	(433)	86,854	-	86,421
Unrealised gains and losses	5,703	564	321,846	-	328,113
Total investment income	5,703	131	441,922	5,034	452,790
Investment management expenses					(6,655)
Net investment income and expenses	5,703	131	441,922	5,034	446,135

	Government bonds	Corporate bonds	Investment funds	Cash and deposits	Total
2024	£'000	£'000	£'000	£'000	£'000
Investment income					
Dividends	-	-	16,557	-	16,557
Interest	-	-	15,248	12,974	28,222
Net gains and losses	-	(2,790)	55,171	-	52,381
Unrealised gains and losses	588	5,196	257,276	-	263,060
Total investment income	588	2,406	344,252	12,974	360,220
Investment management expenses					(6,189)
Net investment income and expenses	588	2,406	344,252	12,974	354,031

The increase in investment income is largely due to an increase in realised and unrealised gains on investment funds and bonds reflecting the positive impact of interest rates and strong global markets during 2025. The increase in the investment expenses is due to the increase in assets held.

The investment income table above represents the Company's entire business, in other words all lines of business are included.

The Company does not recognise any gains or losses directly in equity and does not invest in securitisations.

A.4. Performance of other activities

	2025	2024
	£'000	£'000
Fee and commission income	15,977	2,979
Total other income	15,977	2,979

Fee and commission income includes fees on the investment management services contract and front end fees recognised for the provision of bereavement cover and value added benefits for the HSBC Premier product which was launched in February 2025.

A.5. Any other information

There is no other material information regarding business and performance that has not already been disclosed in sections A.1 – A.4 above.

B. System of governance

B.1. General information on the system of governance

(a) Structure of the administrative, management or supervisory body (AMSB)

The Company Board of Directors, Chief Executive Officer (CEO) and leadership team are supported by business and risk committees in putting into effect a suitable risk management culture to ensure that risks remain within the risk appetite set by the Board. These committees provide the Executive Management Committee (ExCo) and the Board with assurance that, through the Risk Management System and application of the “three lines of defence” model, risks are being effectively managed.

- First line of defence (LOD) functions and committees are responsible for the day-to-day management, control and reporting of risk exposures. They monitor risks against agreed limits and indicators and review stress and scenario testing of risks, to assess the adequacy of mitigation plans. Key risk issues are reported to the ExCo, the Risk Management Meeting (RMM) and the Board.
- The Risk and Compliance Functions provide second line of defence oversight on all categories of risk exposure to ensure that the risks, and the interdependencies across risks, are effectively managed.
- The third line of defence is provided by Internal Audit. The Head of Internal Audit for the Company reports directly to the Audit and Risk Committee (ARC).

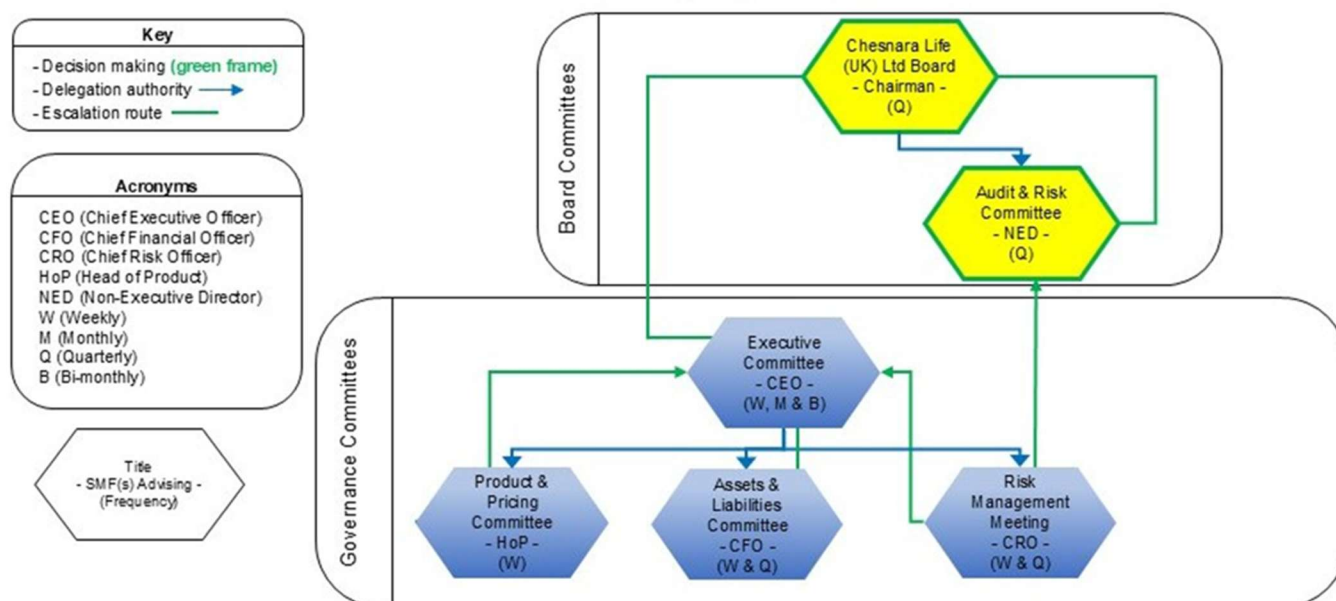
The governance committee structure of the Company comprises the Board of Directors, one committee of the Board (ARC) along with a number of other committees that encompass first and second line responsibilities. The Board and Senior Management have a statutory responsibility to manage risk and capital requirements to current regulatory standards, encompassing any outsourced suppliers or support functions that provide services to the Company.

Underpinning these committees are Business and Risk Forums which allow technical debate amongst subject matter or risk experts before recommendations or decisions are referred to committees or individuals for approval.

Board Audit and Risk Committee (ARC)

ARC is the Board Committee that acts on the Board's behalf in, amongst other matters, the ongoing oversight of Risk Management Systems and the effectiveness of the Governance structure, and their ongoing appropriateness for use by the Company's management in the control of the Risks. The ARC is required to ensure that any material matters are reported to, and considered by, the full Board.

The Company's governance committee structure remained unchanged at year end and following the acquisition of the Company by Chesnara plc and is detailed in the diagrams below:



The Company's key Senior Manager Functions organisational structure is illustrated in the diagrams below:



As part of the regular SMCR requirements Statements of Responsibilities (SoRs) were updated during 2025.

Chief Executive Officer (CEO) – SMF 1

The CEO is responsible for driving compliant execution of the firm's strategy across all areas of the firm's operations and managing appropriate treatment of and outcomes for the firm's customers.

Chief Risk Officer (CRO) – SMF 4

The CRO is responsible for the performance of the firm's Own Risk and Solvency Assessment (ORSA) and for leading and managing the activities of the firm's Risk function in accordance with the Risk Management Policy, and the parameters set by the Risk Appetite Framework. The role holder has the responsibility for ensuring that the firm has in place effective risk-management system comprising strategies, policies, processes, risk appetite limits (all risks identified under the Solvency UK Directive) and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, to which they are or could be exposed to, and their interdependencies..

Chief Actuary (CA) – SMF 20

Has responsibility for the production and integrity of the firm's actuarial information and its regulatory reporting. This includes coordinating the calculation of the technical provisions and ensuring the appropriateness of the data, methodologies, and underlying models and assumptions used in their calculation, including in the circumstances set out in Article 82 of the Solvency UK Directive. He is also responsible for managing the allocation and maintenance of the firm's capital insofar as it relates to the Technical Provisions and for overseeing the overall underwriting policy, claims processes, and adequacy of reinsurance arrangements.

Head of Product and Chief Distribution Officer – SMF 18

Has responsibility for the firm's operational risks associated with the Distribution Channels in accordance with the Risk Management Policy. The role holder is also responsible for the firm's Digital and Direct to Customer sales channels and for the delivery of products that meet customer needs, marketing, and propositions that meet the needs of the global businesses.

Chief Finance Officer (CFO) – SMF 2

The CFO is responsible for the production and integrity of the firm's financial information and its regulatory reporting, including the valuation of assets and liabilities, the management of the allocation and maintenance of the firm's capital and liquidity and for the development and maintenance of the financial aspects of the firm's business model.

Chief Operations Officer (COO) – SMF 24

The Chief Operating Officer is responsible for overseeing the management of the control environment for the firm's internal operations and outsourcing framework in accordance with the Risk Management System.

Head of Regulatory Compliance (HoRC) – SMF 16

The Head of Regulatory Compliance leads and manages the activities of the firm's Compliance function in accordance with the Compliance Function Policies and other Risk Policies.

Head of Financial Crime Compliance (HoFCC) – SMF 17

The Head of Financial Crime Compliance leads and manages the activities of the firm's Financial Crime Compliance Function in accordance with the Financial Crime Policy and other risk policies.

Head of HR (HoH) – SMF 18

The Head of HR is responsible for leading and managing the activities of the firm's HR in accordance with the Risk Management System.

Head of Internal Audit (HIA) – SMF 5

The Head of Internal Audit provides independent assurance to management and the non-executive Audit and Risk Committees that the business' risk management, governance and internal control processes are operating effectively.

(b) Material changes in the system of governance

The SMF roles above were in place throughout 2025, however following completion of the sale, the Head of HR (SMF18) has been removed and the SMF16 and SMF17 responsibilities have been absorbed by the CRO and the Head of Internal Audit (SMF5) role has been passed to the Chesnara UK Head of Audit. Systems of governance will continue to see changes as we align to the principles, practices and needs of Chesnara plc.

(c) Remuneration policy (Directors and employees)

The business has a Remuneration Policy published on the Chesnara Intranet site which is accessible to all employees. This policy is gender neutral and complies with the Equality Act 2010.

The Chesnara Group Remuneration Policy is published on the [chesnara.co.uk](https://www.chesnara.co.uk) website under Corporate Governance. This policy covers both Group employees and those of the underlying businesses.

(d) Material transactions with shareholders, with persons who exercise a significant influence on the Company, and with members of the administrative, management or supervisory body

Refer to the Company's financial statements for the year ended 31 December 2025, Note 21 Related party transactions, for a summary of the material transactions.

(e) Adequacy assessment of the system of governance

The system of governance is well established, and each element is considered to be working effectively. A System of Governance Effectiveness Review is undertaken annually by the Risk Function and the findings are presented to the Board. Operating within a strong Values Framework, there is a positive culture of continuous improvement and a focus on conduct risk and ensuring the right outcomes for the customer. Values based performance is linked to remuneration, encouraging desired behaviours. There is evidence of an effective culture of challenge in the business at both the Board and other committees.

The governance structure and documented controls are assessed to be compliant with the requirements of Solvency UK.

B.2. Fit and proper requirements

(a) Description of the requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the Company or have other key functions

The Company had an Individual Licensing, Registrations, Permissions and Accreditation (Competency) Policy. This includes the FCA Fit and Proper test for employee's and senior personnel. The fit and proper test is an assessment of an individual's suitability to perform a specific function. It will vary depending upon the function performed and will include consideration of the following:

- Competence
- Knowledge
- Expertise

- Skills
- Performance
- Qualifications (where appropriate)

(b) Description of the process for assessing the fitness and the propriety of the persons who effectively run the Company or have other key functions

The Company is required to implement a range of checks that enable an informed decision to be made about the suitability of an individual for engagement or retention.

Whilst the business was part of the HSBC Group, all roles were risk assessed and went through either Standard Vetting or Enhanced Vetting (EV) to minimise the risk of unsuitable individuals being engaged. Standard roles were only subject to vetting checks at point of entry to the company. Roles classed as 'high risk' were subject to EV and were re-vetted every 3 years whilst the person remained in role.

The HR team (HSBC Group) annually reviewed the Enhanced Vetting Role (EVR) definition to ensure that the roles subject to EV continued to properly align with where the risk was perceived to be and confirmed that this review had been undertaken.

Certain roles (i.e. SMFs) require the jobholder to be approved by regulators prior to the person starting in the role. These roles are clearly identified, and HSBC had procedures in place so that both the HR team and Company Secretary knew to undertake appropriate checks and gain regulatory approval prior to the person starting in the role.

HR Resourcing for HSBC undertook appropriate due diligence on internal candidates using performance management information, rating history, and through review of development in role opportunities.

Performance Management included objective setting, evidence-based assessment against objectives, general performance in role and demonstration of values-aligned behaviours.

At Chesnara, the above processes and procedures remain in place but will be undertaken by a combination of HR, Compliance and/or the CEO Office.

B.3. Risk Management System including the own risk and solvency assessment

B.3.1 Risk Management System

(a) Description of the Risk Management System

The Company has a Risk Management System which governs the overall management of risk that the Company takes and holds to achieve its strategic aims. It spans multiple risk types and focuses on optimising the balance and interaction of the different types of risks and between risk and return. The Risk Management System provides an effective and efficient approach to govern and oversee the organisation and monitor and mitigate risks to the delivery of the strategy.

The RMF promotes increased risk awareness throughout the organisation and facilitates better operational and strategic decision-making, promoting a strong risk culture and ensuring that how the Company operates is consistent with the nature and level of risk that stakeholders are willing to take.

The Company's risk culture and values provide the principles that underpin the Risk Management System. The Board sets the Company's strategy, risk appetite, plans and performance targets – in doing this the Board has an essential role in providing the 'tone from the top' to embed the risk culture within the organisation.

Day-to-day responsibility for risk management is cascaded through the delegation of individual accountability, with reporting and escalation facilitated through the Risk Governance structures. Policies, procedures and limits are defined to ensure activities remain within an understood and appropriate level of risk.

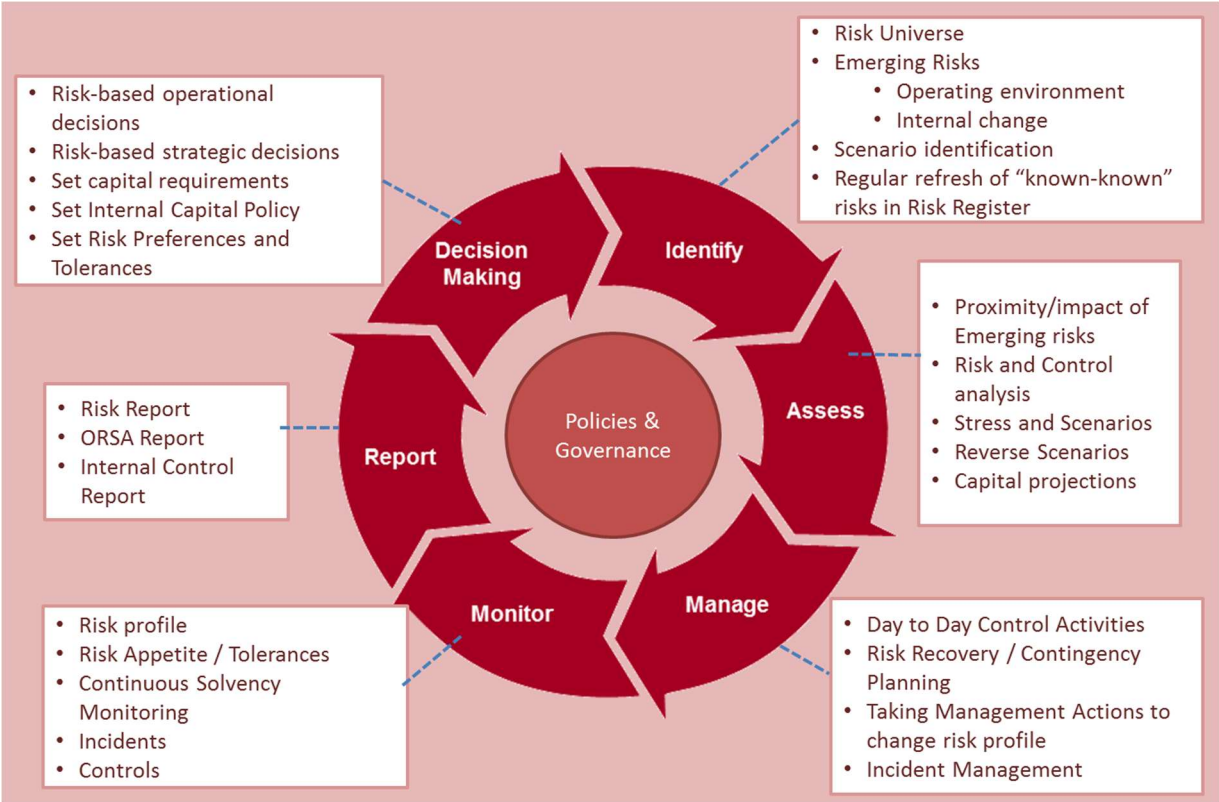
Identification, measurement, monitoring and reporting of risks is essential to inform day-to-day and strategic decision making. This is supported by an effective system of controls to ensure compliance.

All employees have a role to play in risk management. Fundamental to the Risk Management System is the implementation and operation of the three lines of defence model that takes into account the Company's business and functional structures. The model delineates management accountabilities and responsibilities over risk management and the control environment thereby creating a robust control environment to manage inherent and emerging risks.

Risk Appetite is the Board's articulation of accepted and tolerated levels of risk and return on an enterprise-wide perspective. Risk Appetite provides the anchor between the Strategy, Risk and Finance, enabling senior management to optimally allocate capital to finance strategic growth within tolerated risk levels.

Risk Appetite contributes significantly to a strong and integrated Risk Management System and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment. Risk Appetite is also used in active risk management, alongside other enterprise risk management.

The following diagram represents the Risk Management System:



Identify	In the identification of risks Chesnara Life considers: - Known-Known Risks - those risks that management are aware of and understand; - Known-Unknown Risks (Emerging or Forward-Looking Risks): those risks that management are aware of but do not yet fully understand because of their changing nature including new risks that emerge during the period. Chesnara Life maintains a Risk Register which is a comprehensive list of the risks which might create, enhance, accelerate, prevent, hinder, degrade or delay the achievement of its objectives, along with the key controls to manage those risks.
Assess	Risks are then assessed for proximity and potential likelihood and impact to the business. Each is prioritized and assigned ownership. The Risk Owner assesses the risk in terms of likelihood and consequences i.e. impact on customer, impact on processes or outsourced service, impact on capital, impact on distributable surplus, impact on reputation and impact on regulatory relationship.
Manage	Risk Management is the ongoing process involving both the First LOD and Second LOD to ensure we monitor and manage our risks in accordance with our risk appetite and, where necessary, appropriate risk management actions are taken in a timely manner. As least annually, Chesnara Life reviews the adequacy of mandated control activities taking into account any changes in the risk profile. On at least a quarterly basis Outsourced Service Providers (OSPs) report on all incidents that have occurred over the past quarter and report upon the status of their resolution together with regular progress updates on all outstanding incidents (this can be monthly where necessary for some providers). The Board is provided with information that gives comfort that the business has processes in place to recover the solvency position in the event of breaches of internal or regulatory limits. These are set out in the Capital Recovery Plan.
Monitor	Chesnara Life undertake solvency calculations to evaluate the solvency position as well as assessment of its risk profile at least quarterly (or more often as agreed by the Board). This includes a review of materialised incidents, evaluation of movement in any established key risk indicators and consideration of emerging risks. Processes are in place to regularly assess the application and effectiveness of the key controls that manage risks. The First LOD continually assess their controls and provide a biannual attestation that the design and control operation is effective. Evidence based sampling of control operation is carried out on a quarterly basis with regular production of controls MI.

Report	On an annual basis the Audit and Risk Committee review the: (a) Own Risk and Solvency Assessment (ORSA) report; (b) external auditors report; and (c) annual plans from Risk, Compliance and Internal Audit. On a quarterly basis the Audit and Risk Committee review the: (a) Risk Report; (b) internal audit report; (c) compliance report; (d) actuarial function report; (e) finance director's report. In addition, the risk reporting management information is assessed annually by the Board and Executive as part of the review of Systems of Governance.
Decision Making	So that all business decisions are risk-informed on a forward-looking basis, Chesnara Life has established processes so that: • Forward looking risk analysis is an integral part of business planning. • Risk assessment is made for all significant change proposals to the Board; • Risk analysis, including ongoing identification and monitoring of implementation risks is an integral part of project governance.

(b) Description of how the Risk Management System, including the risk management function, are implemented and integrated into the organisational structure and decision-making processes

Please refer to section B.1(a) above.

B.3.2 Own Risk Solvency Assessment (ORSA)

(a) ORSA process

The ORSA process comprises the following components:

- Identification and assessment of risks (including those that are not considered for regulatory capital purposes) both now and emerging.
- Assessment of current solvency needs by quantifying the risks and assessing the financial resources available to meet the capital required.
- Comparison of risk profile to risk appetite, with an explanation of any deviations and actions planned.
- Assessment of any deviation in risk profile from the assumptions underlying the capital requirement.
- Assessment of future solvency needs through production of a projected balance sheet allowing for new business and planned dividends, and an assessment of this against risk appetite.
- Stress and scenario analysis.
- Reconciliation of the Own Economic Capital Balance sheet with the Standard Formula and any other bases used by the Company, including an assessment of the appropriateness of Standard Formula and of the Internal model for the relevant components.
- Confirmation of continuous compliance with the regulatory requirements for the Technical Provisions and Capital.
- The results of the ORSA should inform the business strategy and be taken into account on an on-going basis in the strategic decisions of the Company. In particular, it should be taken into account in medium term capital management, business planning and product development and design.
- The ORSA is challenged and signed off by the Board.

(b) ORSA review and approval by administrative, management or supervisory body

A risk and solvency assessment is performed on a regular basis, no less than annually, and without delay following any change in the risk profile and subsequently approved by the Board of Directors.

(c) Own solvency needs and capital and risk management interaction

The capital requirement is determined by the Standard Formula. The Company has assessed that it should hold additional solvency capital beyond the Standard Formula SCR in relation to operational risk because of the Company's profile and global brand. Following the sale to Chesnara plc we will continue to assess the capital requirements including the operational risk add-on. The Standard Formula is assessed for appropriateness against the risk profile on an annual basis. The operational risk add-on is calculated using a scenario-based model which is integrated with the Risk Management System. Risks are identified, quantified, and managed through a Risk Control Assessment process, and for each of the top risks a typical and extreme loss scenario is derived. These scenarios feed into the overall capital required.

The Company holds a capital buffer according to its Capital Policy. This takes into account Risk Appetite, scenario analysis, historic volatility and market practice. The Capital Policy links directly with the Risk Appetite and is monitored via the Risk Management Information. The capital held for each risk is shown in the table in C1.1.b below.

B.4. Internal control system

(a) Internal control system

Controls are defined in our policies, to ensure our risks are managed effectively and consistently. Controls are an integral part of our Risk Management System, and as such are an integral part of the systems and processes that we use to manage risk.

Controls are used to prevent, detect or limit risks across the business throughout operational processes to ensure risks are managed within appetite. Controls are tested and monitored regularly to ensure adequate design and sufficient operating effectiveness. Our controls are designed to enable effective risk mitigation and help comply with legal and regulatory obligations.

Internal controls are designed to manage risk exposures and are subject to continuous monitoring by control owners and also assurance by second line. They include the following:

- clear and concise operational procedures to ensure that control owners understand and carry out their responsibilities effectively and communicate any problems in respect of non-compliance.
- responsibilities are clearly defined in terms of ownership and assurance;
- effective communication lines that escalate information quickly to the appropriate level;
- segregation of duties and potential conflicts of interest - key duties are segregated; areas of potential conflict are identified and mitigated appropriately;
- an established financial control environment includes routine controls such as reconciliations, audit trails, spot checks with appropriate supervision by management;
- risk assessments, risk monitoring and reporting; and
- business contingency planning.

(b) Compliance function

The Head of Regulatory Compliance has specific responsibilities which includes:

- To establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the firm to comply with its conduct obligations under the regulatory system, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the appropriate regulator to exercise its powers effectively under the regulatory system; as well as to enable any other competent authority to exercise its powers effectively;
- To monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place in accordance with regulatory conduct requirements, and the actions taken to address any deficiencies in the firm's compliance with its obligations;
- To advise and assist the relevant persons responsible for carrying out regulated activities to comply with the firm's conduct obligations under the regulatory system;
- To review and challenge the business' implementation of Consumer Duty; and
- To review and challenge the firm's framework for regulatory reporting.

B.5. Internal audit function

(a) Internal audit function implementation

It is the policy of the company that Internal Audit (IA) use a risk-based approach.

Risks relevant to the business are assessed holistically and, on an end-to-end basis. The in-scope processes, key applications and products are captured within the list of auditable 'entities' which feed into the audit plan.

The Head of Internal Audit has primary responsibility for determining the annual audit plan which is agreed annually with the Audit and Risk Committee. They may engage external audit firms to conduct the audits for the Company.

(b) Independence and objectivity

Internal Audit's role as the third line of defence is independent of the first and second lines of defence. In cases where Internal Audit performs similar testing or monitoring activities to those undertaken by the first or second lines of defence, these are undertaken as part of IA's independent assurance role and are not to be relied upon by management as a substitute for, or supplement to, first or second line of defence activities.

The independence of Internal Audit from day-to-day line management responsibility is fundamental to its ability to deliver objective coverage of all parts of the Group. IA must have an impartial, unbiased attitude and avoid any conflict of interest.

Internal Audit are standing attendees of the Company's Audit and Risk Committee meetings.

Internal Audit are not responsible for the management of risk or the implementation of an effective control framework to mitigate risk to levels deemed to be acceptable to the business. These areas are the responsibility of the Board and management.

B.6. Actuarial function

The Chief Actuary is responsible for the 1st line calibration of the actuarial elements of all material Model Applications, explicitly including, but not limited to, the Technical Provisions that are held on the Company's Balance Sheet. The Chief Actuary also has oversight duties in relation to key risk management and risk mitigation that impact the model calibration, notably (but not limited to) data accuracy, claims management, underwriting and reinsurance agreements and oversight of product pricing.

B.7. Outsourcing

Outsourcing standards applied by the Company set out a structured approach to the establishment and management of arrangements with service providers. They have been established to ensure the risk from outsourcing does not impair the Company's financial performance or the soundness of the activities and quality of services to customers. Third parties are required to meet the Supplier Code of Conduct which includes the following:

Business Practices

- Legal compliance with appropriate laws
- Conflicts of interest
- Anti-bribery & corruption
- Brand, trademarks, and intellectual property
- Information and Data Protection

Labour standards and human rights

- Legal compliance
- Labour rights and working conditions
- Fair pay
- Working Time
- Discrimination
- Whistleblowing
- Human Rights and Modern slavery
- Health & safety

Key elements of the Company's activities are outsourced to external service providers. Contractual agreements with third parties are supported by service level agreements which are monitored on an on-going basis, and a comprehensive dashboard comprising key metrics for each service provider is reviewed quarterly by the Third Party Governance Forum (TPGF) with any issues escalated to the Executive Committee (ExCo).

The Company has the following Material Outsourcing Arrangements:

Service provider	Service provided
Outsourced Professional Admin Ltd (OPAL)	Administration of bond and HLP products.
Swiss Re Europe SA	Assessment and administration of Group Income and Income Protection claims.
Investment Funds Direct Ltd (IFDL)	Main platform provider by AUM.
Donnelly Financial Services (DFIN)	Generation of Key Information Documents (KIDs) to meet PRIIPs regulation.
HSBC Bank plc	Comprehensive Transitional Services Agreement (TSA) covering Technology, Operations, Finance, Actuarial, Product, Communications and Marketing, and Investment Operations.
HSBC Global Asset Management (UK) Limited	Discretionary Investment Management Agreement (IMA).
Concorde	IT service provider.

All named outsourcing arrangements are domiciled in the UK..

As the Company migrates away from the Transitional Service Agreement with HSBC, it will be entering into new third party agreements in line with the operating model used by Chesnara.

B.8. Any other information

There is no other material information regarding the system of governance that has not already been disclosed in sections B.1 – B.7 above.

C. Risk profile

C.1 – C.6. Underwriting, Market, Credit, Liquidity, Operational and other material risks

The following required sections are addressed in sections C1.1-4 below:

- C.1. Underwriting risk;
- C.2. Market risk;
- C.3. Credit risk;
- C.4. Liquidity risk;
- C.5. Operational risk;
- C.6. Other material risks.

C.1.1 Risk exposure

(a) Risk assessment

The Company has categorised risks into high level risk classes to facilitate effective management and to introduce consistency into the risk management process. The risks to which the Company is exposed are set out in section (b) below. Risks are assessed quantitatively where possible and for most this is done by stressing the risks using the PRA defined Standard Formula parameters to determine the impact of an extreme event for each risk. This is complemented by other stress testing and management defined scenario analyses. The quantitative assessments are performed on a regular basis and monitored against the Board approved Risk Appetite and Tolerance thresholds. In addition to quantitative assessments, qualitative assessments are performed.

(b) Material risk exposures

The table below sets out the different risks the Company is exposed to along with either the quantitative (standard formula basis) or high-level qualitative assessment for each:

Risk class	Scope	High level Assessment
Insurance Underwriting - Claims	The risk due to uncertainties in the occurrence, amount and timing of claim payments. This includes mortality, morbidity and catastrophe risks. The Company has no exposure to longevity risk.	£37million
Insurance Underwriting - Lapses	The risk due to uncertainties in the occurrence, amount and timing of lapses.	£90million
Insurance Underwriting - Expenses	The risk due to uncertainties in the occurrence, amount and timing of expenses.	£25million
Market	The risk of adverse movements in interest rates, market prices, currencies or inappropriate investment practices, causing losses to the Company.	£221million
Counterparty Risk	The risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. This includes Reinsurers, Corporate Bond Investments and intermediary clawback due to indemnity commission.	£7million
Liquidity	The risk that the Company, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.	The Company holds sufficient liquid funds such that no additional capital is required.

Strategic	The risks to business plans and strategic objectives resulting from poor execution, inability to adapt to changes in external environment, or failure to meet stakeholder expectations.	This is assessed through scenario analysis and the conclusion is that solvency can be maintained within the next five years, however poor strategic execution could lead to lower profits and increased expense risk.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.	£27million. The Standard Formula assessment is £8.6m, but the capital-add on of £18.2million is currently held to cover the deficiencies in the Standard Formula capital calibration for this risk.

The high-level assessment figures don't allow for diversification within each risk class stated above, except for operational risk which is shown net of all diversifications (for consistency with reported figures).

The Company is an insurance company largely closed to new business with a material book of in-force policies containing insurance risk (mortality, morbidity, lapse etc.) with high levels of re-insurance providing protection against mortality and morbidity risks. The primary focus of the business is the efficient and fair run-off of its existing legacy protection and investment business portfolios as well as growth via new business onshore investment bonds. The operating model of the Company is directed towards maintaining shareholder value as well as high quality customer service by both in-house and outsourced activities. Outsourcing typically covers policy administration, systems, and investment management. For a limited period, a Transitional Service Agreement is in place with the previous parent of Chesnara Life (UK) Limited, providing a variety of operational and technology services until these are transitioned into the new operating model. Key risks for the Company include the risks relating to the sale of the business and migration of all systems and data (including people, operational resilience intermediary risk including churning and increased default on commission clawback, and third party resilience risks), growing exposure to third party operational risk more generally, new business and expenses risk.

(c) Investments in accordance with the 'prudent person principle'

For the assets backing the Technical Provisions and Own Funds, the Company's Investment Strategy is to maximise return subject to adhering to the Company's Risk Appetite and the Prudent Person Principle. The key elements of the Investment Strategy are to:

- Ensure sufficient levels of liquid assets are held to meet all claims and expenses arising as part of normal business activity both as they fall due and in a stressed scenario;
- Manage interest rate risk and liquidity risk over the long term, primarily through matching net non-linked liabilities on a realistic basis (where positive) with assets of similar duration, yield and currency as far as possible;
- Cover the (non-negative) technical provisions, SCR and risk margin with sterling denominated assets of appropriate quality, liquidity and volatility;
- Invest the bulk of shareholder funds in a portfolio of Corporate Bonds, Supranational, Government, Local Authority, Quasi & Foreign Government Agency and Government Backed Bonds, under a separate mandate managed by HSBC Global Asset management (AMG). The bonds are purchased with the intention to hold to maturity, subject to continuing to meet credit quality requirements.
- Limit investment credit risk by investing within the credit rating limits in the Company's latest approved Investment Credit Risk Mandate;
- Invest only in instruments and funds which are within our approved Market Risk Mandate where we are able to identify, assess and monitor the inherent risks of that investment; and
- Adhere to the Company's Sustainability guidance and Prohibited Investment List.
- Subject to the above, choose assets to maximise yields, where possible.

The application of the Investment Strategy results in investment in liquid high-quality assets.

C.1.2. Material risk concentrations

There was a catastrophe concentration risk due to the large number of employees at the HSBC head office with staff insurance benefits (which are insured by the Company). Capital for this is calculated based on the Standard Formula catastrophe scenario and the capital is held within the insurance underwriting risk capital component. This risk is materially reinsured, using three reinsurers to reduce concentration to any one reinsurer.

C.1.3. Risk mitigation techniques

The key risk mitigating technique is reinsurance, exchanging mortality and morbidity risks for counterparty risk. The Reinsurance Strategy sets out the approach and factors considered in the usage of reinsurance. Reinsurance management information is monitored in the Risk Appetite on a quarterly basis, with escalations occurring, where necessary, to the RMM.

C.1.4. Stress testing and sensitivity analysis

A suite of testing is carried out which includes:

- Single risk stress tests;
- Multi-risk scenarios;
- Projected strategic risk scenarios;
- Business failure testing;
- Liquidity testing.

The scenarios are defined by management workshops with representatives from around the business. The table below shows the impact of a various adverse shocks for each of the key risks:

	Impacts			
	Own Funds £million	Net Capital Required £million	Free Assets £million	Impact on Solvency Margin %
September 2025 economic balance sheet set at Solvency Risk Appetite level of 121%	312.1	258.5	53.6	121%
Insurance underwriting risk shocks				
*Death and disability claims increase by 10% in all future periods and no premium reviews	(10.9)	(1.0)	(10.0)	(4)%
*Death and disability claims increase by 10% in all future periods and premiums are reviewed	(7.6)	(0.9)	(6.8)	(3)%
**A pandemic results in the death of 65 out of every 100,000 people over a short period	(3.5)	0	(3.5)	(1)%
*Lapses reduce by 13% in all future periods	0.5	4.6	(4.1)	(2)%
Expenses +7% with +70bps inflation	(11.0)	(2.0)	(8.9)	(4)%
Market risk shocks				
25% immediate increase in equity & property markets	12.6	(17.6)	30.2	14%
25% immediate fall in equity & property markets	(66.0)	(84.7)	18.7	21%
Interest rates are 79 basis points lower in all future periods	(7.1)	7.1	(14.2)	(6)%
Credit risk shock				
Increase in commission default on CLP (from 10% to 25%)	(1.1)	0	(1.1)	0%
Credit spreads +50bps	(1.0)	(3.5)	2.5	0%
Operational risk shock				
Operational risk: highest moderate event	(10.5)	0	(10.5)	4%
* These sensitivities have not been re-run for 2025 due to low materiality and stability of impacts over time and show the equivalent 2024 impacts, for information.				

The date of the sensitivities is aligned to the ORSA sensitivities and based on the Q3 balance sheet. This then has an assumed artificial dividend to take the base position down to the risk appetite of 121%

The above sensitivities are set at a 1 in 20 likelihood. In addition, other scenarios were produced including scenarios testing reinsurer default, business volumes in the medium term, product and product administration risks because

of the sale of the business and climate change. The balance sheet is most sensitive (adversely) to interest rate falls in the short and medium to longer term. Equity up and down stresses are both positive to solvency due to the underlying dynamics of the deferred tax asset, with equity down increasing the DTA asset without a corresponding increase in capital required, leading to overall improved solvency. Reinsurance mitigates the impact of mortality and morbidity risks. The capital buffer is sufficient to absorb a moderate stress or scenario over a one-year time horizon. For scenarios with greater impacts over time, the business can take action to limit the severity and protect the solvency of the firm.

The climate risks to which the Company is exposed are mainly market, credit and reputational risks. Market and credit risks have limited impact on solvency. Direct physical risks (increased mortality and morbidity) are longer term and mitigated via reinsurance. There is indirect exposure via the reinsurers who may be more exposed to climate risk on their general insurance portfolios, but this is mitigated by using reinsurers with high credit ratings. Overall, the Company is not materially exposed to the risks of climate change.

C.7. Any other information

There is no other material information regarding risk profile that has not already been disclosed above.

D. Valuation for solvency purposes

Below is the solvency and financial statement balance sheets as at 31 December 2025 which illustrates the differences between the two bases due to reclassification and valuation adjustments:

Balance sheet	Valuation reference	Solvency £'000	Financial statements £'000	Difference £'000	Reclassification adjustments £'000	Valuation adjustments £'000	Note
Assets							
Deferred tax assets		0	0	0	0	0	0 D.1.(b).5
Investments (other than assets held for index-linked and unit-linked funds)	D1.1.	255,885	4,731,357	(4,475,472)	(4,475,472)	0	0 D.1.(b).2
- Equities		0	0	0	0	0	
- Government Bonds		102,518	101,460	1,058	1,058	0	
- Corporate Bonds		9,638	9,482	156	156	0	
- Investment funds		90,272	4,620,415	(4,530,143)	(4,530,143)	0	
- Derivatives		0	0	0	0	0	
- Deposits other than cash equivalents		53,457	0	53,457	53,457	0	
- Other investments		0	0	0	0	0	
Assets held for index-linked & unit-linked funds	D1.1.	4,624,877	0	4,624,877	4,624,877	0	
Loans & mortgages to individuals		0	0	0	0	0	
Reinsurance recoverables from:							
Life and health similar to life, excluding index-linked and unit-linked	D1.2, D.2	61,190	201,940	(140,750)	0	(140,750)	D.1.(b).1
- Health similar to life	D1.2, D.2	55,939	0	55,939	0	55,939	D.1.(b).1
- Life excluding health and index-linked and unit-linked	D1.2, D.2	5,251	201,940	(196,689)	0	(196,689)	D.1.(b).1
Life index-linked and unit-linked	D1.2, D.2	(3,203)	0	(3,203)	0	(3,203)	
Insurance & intermediaries receivables	D1.3	237	0	237	0	237	
Reinsurance receivables	D1.3	35,282	12,990	22,292	0	22,292	D.1.(b).3
Receivables (trade, not insurance)	D1.3	8,241	9,819	(1,578)	(1,657)	79	D.1.(b).3
Cash and cash equivalents	D1.4	51,900	199,183	(147,283)	(147,283)	0	
Total assets		5,034,409	5,155,289	(120,880)	465	(121,345)	
Liabilities							
Technical provisions - life (excluding index-linked and unit-linked)		50,663	0	50,663	0	50,663	
Technical provisions - health (similar to life)		44,118	0	44,118	0	44,118	
- TP calculated as a w hole		0	0	0	0	0	
- Best Estimate	D.2	38,562	0	38,562	0	38,562	D.1.(b).1
- Risk margin	D.2	5,556	0	5,556	0	5,556	D.1.(b).2
Technical provisions - life (excluding health and index-linked & unit-linked)		6,545	0	6,545	0	6,545	
- TP calculated as a w hole		0	0	0	0	0	
- Best Estimate	D.2	(828)	0	(828)	0	(828)	D.1.(b).1
- Risk margin	D.2	7,373	0	7,373	0	7,373	D.1.(b).2
Technical provisions - index-linked & unit-linked		4,547,189	4,803,347	(256,158)	0	(256,158)	
- TP calculated as a w hole		4,616,503	4,803,347	(186,844)	0	(186,844)	D.1.(b).1
- Best Estimate	D.2	(78,194)	0	(78,194)	0	(78,194)	D.1.(b).1
- Risk margin	D.2	8,880	0	8,880	0	8,880	D.1.(b).2
Provisions other than technical provisions		1,618	1,618	0	0	0	
Deferred tax liabilities	D.3.1	22,724	16,131	6,593	0	6,593	D.1.(b).5
Derivatives		0	0	0	0	0	
Debts owed to credit institutions		465	0	465	465	0	
Insurance & intermediaries payables	D.3.2	41,334	15,161	26,173	0	26,173	D.1.(b).4
Reinsurance payables	D.3.2	9,251	0	9,251	0	9,251	
Payables (trade, not insurance)	D.3.2	23,512	25,499	(1,987)	0	(1,987)	D.1.(b).4
Total liabilities		4,696,756	4,861,756	(165,000)	465	(165,465)	
Excess of assets over liabilities		337,653	293,533	44,120	0	44,120	

D.1. Assets

(a) Material classes of assets

Refer to Note 2. Summary of significant accounting policies, in the Company's financial statements, for the year ended 31 December 2025.

D.1.1 Investments

Investments include the following financial asset classes:

- corporate bonds;
- government bonds;
- investment funds; and
- deposits other than cash equivalents.
- assets held for index-linked and unit-linked funds which include the following asset categories (grouped together and shown as a single balance on the solvency balance sheet): investment funds; and
- cash and cash equivalents.

All investment assets are valued on a fair value basis for solvency purposes, in line with the Company's IFRS accounting policies in the financial statements. Under these accounting policies, all the investments assets are at fair value through profit and loss.

Fair values of investments other than assets held for index-linked and unit-linked funds are based on quoted market prices for identical instruments in active markets for corporate bonds and investment funds while the fair values of deposits other than cash are equal to the notional amounts invested.

Fair values of investment assets held for index-linked and unit-linked funds are based on quoted market prices for identical instruments in active markets for equities, investment funds and derivatives. Refer to Note 11, Financial assets at fair value through profit or loss, in the Company's financial statements for the year ended on 31 December 2025 for further detail on the IFRS valuation of financial assets.

Deposits other than cash equivalents comprise short term deposits, other than transferable deposits, that have a remaining maturity of less than one year and cannot be used directly to make payments at any time. Exchanging these deposits for cash or transferable deposits is not subject to significant penalties or restrictions.

As these assets are reported on a fair value basis in the IFRS financial statements, there are no adjustments required for solvency purposes. The solvency valuation for interest bearing investments will include accrued interest as at 31 December 2025.

There have been no changes to the recognition or valuation bases for investments during the current year.

D.1.2. Reinsurance recoverables

Reinsurance recoverables are technical provisions and the valuation information is included in section D.2 Technical provisions below.

D.1.3. Receivables

Receivables include the following asset classes:

- insurance and intermediaries' receivables;
- reinsurance receivables; and
- receivables (trade, not insurance, income tax recoverable).

The receivable balances consist mainly of balances due from reinsurers.

Receivables, on the solvency balance sheet, are financial assets in terms of IFRS. These receivables are classified as fair value through profit or loss, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

In order to estimate the fair value of these receivables, they have been assessed for counterparty default risk. The counterparty default risk assessment did not produce any material adverse results and thus no adjustments were required to the receivables. Receivables are credit-impaired when there is observable data to support that a credit impairment loss is required this will be recognised in the Statement of profit or loss, and further detail on this is included in note 2 Summary of significant accounting policies, in the Company's financial statements, for the year ended 31 December 2025. For solvency valuation purposes, based on the fair value assessment, the receivable balances, including any adjustments where appropriate, are deemed to be at fair value.

There have been no changes to the recognition or valuation bases for receivables during the current year.

D.1.4. Cash and cash equivalents

Cash and cash equivalents include highly liquid, transferable deposits that are readily exchangeable for currency on demand at par and which are directly usable for making payments, without penalty or restriction.

Cash and cash equivalents are financial assets and thus are classified at fair value through profit or loss in the IFRS financial statements. Short-term bank deposits have been reclassified from cash equivalents under IFRS to 'Deposits other than cash equivalents' for solvency purposes on the basis that they cannot directly be used to make payments until they reach maturity date and are subject to restrictions. The solvency valuations include accrued interest receivable as at 31 December 2025, where applicable.

There have been no changes to the recognition or valuation bases for cash and cash equivalents during the current year.

(b) Material differences between the solvency and IFRS balance sheets

Reclassifications of assets held for index-linked and unit-linked funds:

For solvency purposes the assets held for index-linked and unit-linked funds are reclassified, which has no net asset impact on the balance sheet. All assets and unit-linked derivative liabilities that are held by unit linked and index linked contracts are grouped together in one line on the solvency balance sheet. These unit-linked and index-linked assets and derivative liabilities are reclassified from their respective financial asset categories under IFRS to 'assets held for index-linked and unit-linked funds' on the solvency balance sheet.

Material solvency accounting basis adjustments:

(b) 1. Best estimate liabilities (BEL)

The unit-linked and non-linked IFRS technical provisions, included in the IFRS statutory accounts, are reversed as they will be replaced by the best estimate liabilities on a solvency basis. The technical provisions include both the gross liabilities and reinsurance recoverables. The best estimate liabilities are the technical provisions on a solvency basis (refer to section D.2 below).

(b) 2. Risk margin

The risk margin is included on a Solvency basis and is calculated as part of the technical provisions valuation (refer to section D.2 below).

(b) 3. Receivables

Under IFRS17, certain claims recoverable balances are included in the reinsurance contract assets therefore the adjustments return the true outstanding receivable balances and remove the timing differences.

(b) 4. Payables

Under IFRS17, claims related balances are included in the insurance contract liabilities therefore the adjustments return the true outstanding payable balances and remove the timing differences.

(b) 5. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The deferred tax asset recognised since 2023, relating to historic tax losses, has been fully utilised in 2025 and is now in a deferred tax liability position.

The corporation tax basis is the IFRS statutory basis. The valuation adjustments for solvency reporting above, described in (b) 1-4 above, result in a change in net assets, which is a temporary difference and thus a deferred tax adjustment is made on these temporary differences at the prevailing corporation tax rate.

D.2. Technical provisions

(a) Value of technical provisions and main assumptions

The table below gives the technical provisions for each material line of business:

2025	Best Estimate Liability (BEL)			Risk Margin	Total
	Gross £'000	Reinsurance £'000	Net £'000		
Health similar to life	38,562	(55,940)	(17,378)	5,556	(11,822)
Life excluding health and index-linked and unit-linked	(828)	(5,251)	(6,079)	7,373	1,294
Life index-linked and unit-linked	4,538,308	3,203	4,541,511	8,880	4,550,391
	4,576,042	(57,988)	4,518,054	21,809	4,539,863

2024	Best Estimate Liability (BEL)			Risk Margin	Total
	Gross £'000	Reinsurance £'000	Net £'000		
Health similar to life	25,543	(41,916)	(16,373)	5,513	(10,859)
Life excluding health and index-linked and unit-linked	3,793	3,860	7,653	6,192	13,845
Life index-linked and unit-linked	3,702,553	3,154	3,705,707	9,128	3,714,835
	3,731,889	(34,902)	3,696,987	20,834	3,717,821

The movement in the Best Estimate Liability on non-linked business is due to movement in reserves for the new business written in the year, changes in assumptions and the run-off of the existing business book.

In addition, explicit provisions are held for future reviews on the Term Life, Critical Illness and Income Protection portfolios.

The increase in Unit Linked Life during 2025 was mainly due to OIB new business and market movements during the period.

The Risk Margin has increased in the year due to increased funds in unit-linked business offset by reductions in Protection business. Note also, the Risk margin includes an allowance for the Company's Capital Add-on (CAO).

Methodology

The methodology used to calculate technical provisions follows the provisions of the PRA rules and Solvency UK regulations.

The approach taken to calculate the best-estimate liability is as follows:

Liabilities are largely estimated with a policy-by-policy approach. Liabilities not estimated in this way are those where policy grouping or a model points approach is taken or where a universal provision is made outside of the projection model. All policies in force at the valuation date contribute to the total liability.

Material policy cashflows consist of policyholder premiums, policyholder charges, policyholder claims from adverse events, maturity benefits, expenses, commission and investment income.

Note that any cashflows relating to reinsurance are excluded since the best-estimate liability is defined to exclude the risk mitigating effects from reinsurance contracts. However, the technical provisions are also calculated on a net of reinsurance basis which includes amounts recoverable from reinsurance contracts.

The cashflow projections are based on a number of assumptions which are given below. In general,

- Economic assumptions are on a market-consistent basis.
- Non-economic assumptions are set based on an analysis of the Company's recent experience.
- For each policy, cashflows are summed within each month and discounted back to the valuation date using the risk-free yield curve published by the PRA for the calculation of technical provisions.

Risk margin

The risk margin is calculated in accordance with Article 58 of the Level 2 guidance using the Cost of Capital method. In line with the regulations, all risks are considered other than those within the Market Risk module. The methodology is to project capital requirements at future time points using suitable risk drivers and introducing a tapering factor into the calculation, aggregate using standard formula correlations, multiply by 4% cost of capital and discount back to the valuation date using risk-free rates. The Risk margin includes an allowance for the Company's CAO.

Segmentation

The regulations specify that life insurance obligations should be segmented into homogeneous risk groups, and as a minimum by lines of business, when calculating technical provisions.

The approach of Chesnara Life (UK) Limited has been to segment by lines of business as required; and then by primary risk driver, identified as either death, disability/morbidity or savings. This gives a total of nine possible categories for segmentation.

The table below gives a high-level overview of allocation to these groups:

Risk Driver	Health insurance	Index- / unit-linked life insurance	Other life insurance
Death	-	Unit-linked life and accelerated CI (25%)	Life term assurance, accelerated CI (25%), whole of life, group life
Disability / Morbidity	Income protection, WOP, accelerated CI (75%), standalone CI, group IP & CI	Unit-linked standalone CI and accelerated CI (75%)	-
Savings	-	Investment bonds, unit-linked bonds	-

Assumptions

Lapse/Paid-Up Rates

All products have mechanisms by which the policyholder can choose to take some action which changes future cashflows in some way. These include terminations, surrenders, paid-up (i.e. ceasing regular contributions in whole or in part) and ad-hoc partial withdrawals. Assumptions about the rate at which these actions occur are estimated annually following an analysis of the Company's experience over a recent period.

Claim Rates

The Company's products involve the payment of the sum assured to the policyholder in the event of an adverse event such as death or sickness. Assumptions about the rate at which these events occur are estimated annually by analysing all the Company's available historic claims experience.

Expenses

Expense assumptions are based on the estimated administrative costs for the current year. These are separated into acquisition, maintenance and claims processing costs. The expenses are allocated between products. The expenses assumed aim to reflect the expected future inflation and business volumes, as well as the changes to the Company.

Market/Credit Assumptions

All financial projections are made at the risk-free interest rate provided by the PRA. No volatility adjustment or matching adjustment is added. The best estimate price inflation assumptions are set equal to the implied inflation

rates as published by the Bank of England. Claims inflation and expense inflation is set equal to price inflation. Some policy charges are assumed to increase with earnings inflation which is set equal to price inflation plus an adjustment for future growth in earnings. Other market and credit assumptions are made with reference to external data for example Standard & Poor's default rates.

Other Assumptions

Future management actions:

Solvency UK requirements allow management actions to be taken into account in the calculation of Technical Provisions and capital requirements. The Company allows for management actions in respect of expenses and for reviewing premiums and charges, where it is within the conditions of the policy, in the event of an adverse claims event.

Compared to previous years, the management actions now recognise in the event of a mass lapse event, the expenses can be reduced within 2 years.

Future Discretionary Benefits

The Company has no products with future discretionary benefits.

Taxation

The Company has assumed that the application of current tax legislation will not change, except where future changes have been substantively enacted.

(b) Level of uncertainty associated with the value of technical provisions

Material uncertainty in the calculation of technical provisions:

Uncertainty relates primarily to how future actual experience will differ from the best estimate assumptions used to calculate the technical provisions. The key assumptions are interest rates, lapse rates, expenses, mortality rates, and morbidity rates. A robust assumption setting process is followed to ensure the uncertainty is well understood.

At the year end the technical provision were being reviewed based on the likely future strategic decisions. Subsequent to the year end the expense basis is being refined in light of the new operating model.

Refer to Note 3. Management of insurance and financial risk, in the Company's financial statements for the year ended 31 December 2025 for further detail on material uncertainty in the calculation of technical provisions.

(c) Material differences between solvency and financial statements valuation

The valuation in the financial statements uses the IFRS reporting basis, which uses IFRS17 methodology for 2024 onwards. This basis sets liabilities to be calculated using best-estimate assumptions and includes a risk adjustment and contractual service margin within the liabilities.

For solvency purposes the Company uses the Solvency UK regulations as adopted by the PRA. This basis sets liabilities to be calculated using best-estimate assumptions and includes a risk margin within the liabilities.

Refer to section D above for the quantitative analysis of the valuation differences.

(d) Matching adjustment

No matching adjustment is applied.

(e) Volatility adjustment

The volatility adjustment is not used.

(f) Transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure is not applied.

(g) Transitional deduction

The transitional deduction is not applied.

(h) (i) Recoverables from reinsurance contracts and special purpose vehicles

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within 'loans and receivables'), as well as longer term receivables (classified as 'reinsurance assets') that are dependent on expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

(h) (ii) Material changes in assumptions made in the calculation of technical provisions

The most material changes to assumptions from the previous reporting period to the current reporting period are listed below:

- The expense assumptions have been updated to allow for recent experience and for the future strategy of the Company. In total these changes have led to an increase in BEL of £10m.
- The lapse experience of the Onshore Investment Bond has been reviewed and the assumptions for the level of partial withdrawals have been updated. These changes have led to an increase in BEL of £11m.
- There were minor changes to persistency assumptions, mortality and morbidity assumptions to reflect recent experience. The total of these changes led to an increase in BEL of £5m.

D.3. Other liabilities

(a) Methods and assumptions used in the valuation of other liabilities, excluding technical provisions

D.3.1. Deferred tax liabilities

A deferred tax liability was also recognised on transition to IFRS17, which is based on the net asset impact of the IFRS 17 transition balance sheet restatement and the valuation differences between IFRS Insurance Contract liabilities and Solvency UK Technical Provisions.

As mentioned in (b)5 above, I-E historic tax loss related deferred tax has been included in liabilities after the deferred tax asset was fully utilised in 2025.

D.3.2. Payables

Payables include:

- Insurance and intermediary payables;
- Reinsurance payables; and
- Payables (trade, not insurance).

Payables are classified as fair value through profit or loss in the IFRS financial statements. The valuation of all material balances is annually assessed, on an individual basis, to estimate their fair value. For solvency valuation purposes, based on the fair value assessment, the payable balances, including any adjustments where appropriate, are deemed to be at fair value.

There have been no changes to the recognition or valuation basis for payables during the current year.

(b) Material differences between solvency and financial statements valuation

No material differences

D.4. Alternative methods for valuation

No alternative valuation method has been used.

D.5. Any other information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes that has not already been disclosed in sections D.1 – D.4 above.

E. Capital management

E.1. Own funds

(a) Objectives, policies and processes employed for managing its own funds

The Company must hold a buffer over the solvency capital requirement, for the following reasons:

- To enable it to write new business, that is to meet the development costs of new contracts and the capital requirements from writing new business;
- To ensure solvency (without need for capital injection) on an ongoing basis withstanding ordinary volatility in economic and non-economic experience, and in the event of mild stress scenarios; and
- To protect against regulatory intervention.

The optimum level of capital buffer ensures that:

- A capital injection is not required over the planning time horizon with an acceptable confidence level to the Parent entity; and
- Excess capital is not sitting with the Company reducing return on capital to the shareholders.

In terms of Solvency UK, Pillar 1, the Company's solvency capital requirement (SCR) is determined on a standard formula basis plus a Capital Add-on for Operational Risk. Solvency UK, Pillar 2, requires the Company to do its own assessment of the capital required for current and future risks.

The PRA requires the capital requirement for the Company, under Solvency UK Pillar 2, to be based on the Company's own capital assessment. The Company's own capital assessment is the internal capital assessment basis used for managing the Company. It utilises internally developed methodology based on the Group's Operational Risk model for operational risk assessment, and intermediary default. The PRA Standard Formula is used for the assessment of all other risk types.

Triggers for reviewing the capital management policy

If at any point there are material changes in the Solvency UK reporting basis, or in the Company's strategy, or material deviations from the Financial Resource Plan (FRP), then dividends should be put on hold and this policy reviewed. It should also be reviewed on an annual basis.

Capital planning period

The business' capital planning period is for the next 5 years.

Material changes

The Company's solvency capital requirement (SCR) is determined on a standard formula basis with an additional Capital Add-on relating to operational risk. The CAO has remained at £18.2m in 2025.

The target capital level is 121% (2024: 137%) of the Company's assessment of the capital required. Where the actual capital exceeds the target level, a dividend payment should be considered to bring the solvency margin down to the target level. Other considerations such as liquidity, projected new business sales, distributable reserves and reinsurance exposure are all considered when determining what level of dividends can be paid.

The risk appetite is that the solvency margin should remain above 116% (2025: 129%) of the Company's assessment of the capital required. This is based on a 1 in 10-year event. The risk appetite and target capital levels are dynamic and vary according to the level of capital required for tax assets held.

There have been no material changes to the objectives, policies and processes for managing own funds during the year.

(b) – (d) Structure, amount and quality of own funds (Pillar 1)

The table below summarises the structure of the Company's basic own funds:

	2025	2024
	£'000	£'000
Basic own funds: Tier 1		
Ordinary share capital	94,375	94,375
Reconciliation reserves	243,278	187,722
Basic own funds: Tier 3		
Deferred tax asset	-	56,001
Excess of assets over liabilities	337,653	338,098

Basic own funds: Tier 1

The Company Tier 1 own funds are eligible to cover the Solvency Capital Requirement and Minimum Capital Requirements. The Company's own funds are not subordinated and have no fixed duration.

1. Ordinary share capital

The Company's ordinary share capital possesses the necessary characteristics to be classified as tier 1 capital as required in the Solvency UK Directive. The Board can rescind its resolution to pay a dividend at any time up to the time of actual payment.

2. Reconciliation reserve

The reconciliation reserve consists of excess of assets over liabilities less ordinary share capital. Article 88 of the Solvency UK Directive states that basic own funds include excess of assets over liabilities. Excess of assets over liabilities is considered to be free from any foreseeable liabilities and available to absorb losses due to adverse business fluctuations, both on a going-concern basis as well as in the case of winding-up and thus is classified as tier 1 own funds.

3. Foreseeable dividends

The Company treats foreseeable dividends as any proposed dividends that are approved by the Board up to the date that the Solvency UK regulatory reports are approved by the Board. An interim dividend becomes payable to the shareholder when it is paid, rather than when the Board resolves to pay it. There is no legal liability to pay interim dividends, even when it has been declared by the Board. The Board can rescind its resolution to pay an interim dividend at any time up to the time of actual payment.

Basic own funds: Tier 3

During 2023 the company recognised a deferred tax asset (see D.1.(b)3 above). The deferred tax asset was recognised as Tier 3 capital in line with the Solvency UK legislation and guidance. During 2025 the deferred tax asset was fully utilised. There are no Tier 3 own funds at 31 December 2025.

Significant changes during the year

There has been no significant change in the Company's own funds during 2025.

(e) Material differences between equity in the financial statements and the excess of assets over liabilities

Equity versus excess of assets over liabilities

The table below summarises the difference between the total shareholders' equity in the IFRS statutory accounts and the excess of assets over liabilities (own funds) for solvency purposes:

	2025	2024
	£'000	£'000
IFRS versus solvency		
Total shareholders' equity (IFRS)	293,533	276,755
Accounting basis adjustments	44,120	61,343
Excess of assets over liabilities (Solvency)	337,653	338,098

The increase in the accounting basis adjustments is principally due to the movement in the BEL and risk margin between the two bases.

Refer to D.1.(b) above for the material solvency accounting basis adjustments.

(f) Transitional arrangements

The Company has not applied any transitional arrangements.

(g) Ancillary own funds

The Company currently has no ancillary own funds.

(h) Significant restriction affecting the availability and transferability of own funds

The Company currently has no restrictions to its own funds.

In 2025, the Company had a deferred tax asset that was classified as a Tier 3 asset with a restricted value recognised for solvency purposes of 15% of the SCR, reducing the value of the net assets by £24.5m in 2024. This deferred tax asset has been fully utilised in 2025.

(i) Own fund ratios

The Company does not disclose any ratios in addition to the ratios in S.23.01 in the QRT's.

	2025	2024
	£'000	£'000
Excess of assets over liabilities (Solvency)	337,653	338,098
Restriction for Solvency purposes	-	(24,508)
Solvency capital requirement (SCR)	252,631	209,955
Solvency ratio	134%	149%
Minimum capital requirement (MCR)	63,158	52,489

The solvency ratio of 134% is based on the standard formula SCR including the Capital Add-on (CAO).

(j) Principal loss absorbency mechanism and trigger point

The principal loss absorbency mechanisms (PLAM) and trigger point in terms of paragraph (l)(e) of Article 71 of the Delegated Regulations only applies to the following own funds items:

- paid-in subordinated mutual member accounts;
- paid-in preference shares and the related share premium account; and
- paid-in subordinated liabilities.

The Company does not make use of any of the own funds items listed above and thus the PLAM and related trigger points are not applicable.

E.2. Solvency capital requirement and minimum capital requirement

(a) & (b) Solvency Capital Requirement (SCR) split by risk modules and Minimum Capital Requirement (MCR)

Solvency Capital Requirement

The amounts of the undertaking's Solvency Capital Requirement (standard formula basis) split by risk modules is as follows (rounded to the nearest £m):

Risk module	2025 £'million	2024 £'million
Market	175	134
Default risk	7	7
Life underwriting	82	72
Health underwriting	33	35
Non-life underwriting	--	-
Gross capital before diversification	297	250
Less: Diversification between sub-risk modules	(71)	(65)
Basic SCR (BSCR)	226	184
Operational risk (includes Capital Add-On of £18.2m (2024: £18.2m))	27	26
Aggregate capital before diversification	253	210
Less: Diversification between BSCR and operational risk module	-	-
Aggregate capital after diversification	253	210
Less: Loss absorbing capacity of tax and technical provisions	-	-
SCR	253	210

The final amount of capital held will be based on the Company's own assessment of the capital needed to maintain the business.

Minimum Capital requirement

The Minimum Capital Requirement for Chesnara Life (UK) Limited. is calculated as £63.2million (2024: £52.5million).

There are no balances relating to the SCR and MCR which are currently under supervisory assessment.

(c) Simplified calculations used for standard formula

No simplified calculations have been used for standard formula.

(d) Undertaking- specific parameters used for standard formula calculations

No undertaking-specific parameters have been used for standard formula calculations.

(e) & (f) Local regulatory capital add-on disclosure (if non-disclosure option above has not been exercised)

The Company holds a Capital Add-on of £18.2m (2024: £18.2m) within its Operational Risk Module as agreed with the PRA on 6 September 2021.

(g) Minimum Capital Requirement (MCR) inputs

The Minimum Capital Requirement calculations use Solvency UK regulations as adopted by the PRA with the following inputs:

- Unit Linked best estimate liability for products without guarantees;
- Basic SCR, using the standard formula calculations;
- Total Capital at risk, after reinsurance is allowed for.

The best estimate liability for non-linked products is set to a minimum of zero in order to avoid reducing the Minimum Capital Requirement.

(h) Material change to the Solvency Capital Requirement (SCR) and to the Minimum Capital Requirement (MCR)

The SCR has increased from £210m to £253m in the year, driven by an increase in market related risk capital associated with favourable economic conditions and new business growth of the Company's Onshore Investment Bond. In addition, Mass Lapse capital has increased, primarily driven by new business sales of the Company's Onshore Investment Bond and protection business. Diversification benefit has increased to reflect the increased pre-diversified capital.

E.3. Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

Duration-based equity risk sub-module has not been applied in the calculation of the solvency capital requirement.

E.4. Difference between the standard formula and internal model used

The Company does not currently use an internal model.

E.5. Non-compliance with minimum capital and solvency capital requirements

The Company has complied with both the MCR and SCR during the year.

E.6. Any other information

There is no other material information regarding capital management that has not already been disclosed in sections E.1 – E.5 above.

Glossary of terms

Term/Acronym	Definition
AMSB	Administrative, management or supervisory body
BSCR	Basic Solvency Capital Requirement
BLAGAB	Basic Life Assurance and General Annuity
BEL	Best estimate liability
Board	Board of Directors of Chesnara Life (UK) Limited
CA	Chief Actuary
CAO	Capital Add-On
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital Gains Tax
CRO	Chief Risk Officer
D2C	Direct to customer
EIOPA	European Insurance and Occupational Pensions Authority
EPIFP	Expected profit included in future premiums
ExCo	Executive Management Committee
Group	Chesnara plc and its subsidiaries
CLP	Chesnara Life Protection
IA	Internal audit
KID	Key information document
LACDT	Loss Absorbing Capacity of Deferred Tax
NED	Non-executive director
ORSA	Own Risk Solvency Assessment
PRIIPs	Regulations for packaged retail investment products
ARC	Audit and Risk Committee
RMM	Risk Management Meeting
SFCR	Solvency and Financial Condition Report
SMCR	Senior Manager and Certified Regime
SMF	Senior Manager Function
SoR	Statement of responsibilities

Appendix

Quantitative reporting templates (QRT's)

IR.02.01.02
 IR.05.02.01
 IR.05.03.02
 IR.12.01.02
 IR.23.01.01
 IR.25.04.21
 IR.28.01.01

HSBC Life (UK) Limited

Solvency and Financial Condition Report

Disclosures

31 December

2025

(Monetary amounts in GBP thousands)

General information

Entity name	HSBC Life (UK) Limited
Entity identification code and type of code	LEI/213800KZ35X4GE4TK590
Type of undertaking	Life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2025
Currency used for reporting	GBP
Accounting standards	IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

-

IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Life obligations

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.02.01.02

Balance sheet

		Solvency II value
Assets		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	255,884
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	0
R0110	<i>Equities - listed</i>	
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	112,156
R0140	<i>Government Bonds</i>	102,517
R0150	<i>Corporate Bonds</i>	9,638
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	90,271
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	53,457
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	4,624,877
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	57,988
R0280	<i>Non-life and health similar to non-life</i>	
R0315	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	61,191
R0340	<i>Life index-linked and unit-linked</i>	-3,203
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	237
R0370	Reinsurance receivables	35,282
R0380	Receivables (trade, not insurance)	8,241
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	51,900
R0420	Any other assets, not elsewhere shown	
R0500	Total assets	5,034,408

		Solvency II value
Liabilities		C0010
R0505	Technical provisions - total	4,597,851
R0510	<i>Technical provisions - non-life</i>	0
R0515	<i>Technical provisions - life</i>	4,597,851
R0542	Best estimate - total	4,576,042
R0544	<i>Best estimate - non-life</i>	
R0546	<i>Best estimate - life</i>	4,576,042
R0552	Risk margin - total	21,809
R0554	<i>Risk margin - non-life</i>	
R0556	<i>Risk margin - life</i>	21,809
R0565	Transitional (TMTP) - life	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	1,618
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	22,724
R0790	Derivatives	
R0800	Debts owed to credit institutions	465
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	41,334
R0830	Reinsurance payables	9,251
R0840	Payables (trade, not insurance)	23,512
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in Basic Own Funds</i>	
R0870	<i>Subordinated liabilities in Basic Own Funds</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	4,696,754
R1000	Excess of assets over liabilities	337,653

IR.05.02.01
Premiums, claims and expenses by country: Life obligations

R1400

C0150	C0160	C0170	C0180	C0190	C0200	C0210
Home Country	Top 5 countries (by amount of gross premiums written)					Total Top 5 and home country
C0220	C0230	C0240	C0250	C0260	C0270	C0280

Premiums written

R1410	Gross	806,777					806,777
R1420	Reinsurers' share	83,874					83,874
R1500	Net	722,903					722,903

Premiums earned

R1510	Gross	806,777					806,777
R1520	Reinsurers' share	83,874					83,874
R1600	Net	722,903					722,903

Claims incurred

R1610	Gross	268,328					268,328
R1620	Reinsurers' share	79,028					79,028
R1700	Net	189,301					189,301

R1900 Net expenses incurred

77,899						77,899
--------	--	--	--	--	--	--------

IR.05.03.02

Life income and expenditure

	Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
	C0010	C0020	C0030	C0040	C0050	C0060	C0070
Premiums written							
R0010 Gross direct business		664,608			75,387	66,782	806,777
R0020 Gross reinsurance accepted							0
R0030 Gross	0	664,608	0	0	75,387	66,782	806,777
R0040 Reinsurers' share		891			38,656	44,326	83,874
R0050 Net	0	663,717	0	0	36,730	22,456	722,903
Claims incurred							
R0110 Gross direct business		172,597			50,254	45,478	268,328
R0120 Gross reinsurance accepted							0
R0130 Gross	0	172,597	0	0	50,254	45,478	268,328
R0140 Reinsurers' share		816			40,015	38,197	79,028
R0150 Net	0	171,780	0	0	10,239	7,281	189,301
Expenses incurred							
R0160 Gross direct business		14,384			34,187	29,328	77,899
R0170 Gross reinsurance accepted							0
R0180 Gross	0	14,384	0	0	34,187	29,328	77,899
R0190 Reinsurers' share							0
R0200 Net	0	14,384	0	0	34,187	29,328	77,899
R0300 Other expenses							602
Transfers and dividends							
R0440 Dividends paid							15,000

IR.12.01.02
Life technical provisions

Best estimate

R0025 Gross Best Estimate (direct business)
R0026 Gross Best Estimate (reinsurance accepted)
R0030 **Gross Best Estimate**

R0080 Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default
R0090 Best estimate minus recoverables from reinsurance/SPV and Finite Re

R0100 **Risk margin**

Amount of the transitional on Technical Provisions

R0140 TMTP - risk margin
R0150 TMTP - best estimate dynamic component
R0160 TMTP - best estimate non-dynamic component
R0170 TMTP - amortisation adjustment
R0180 **Transitional Measure on Technical Provisions**

R0200 **Technical provisions - total**

Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
C0010	C0020	C0030	C0040	C0050	C0060	C0070
	4,538,308	0	0	-828	38,562	4,576,042
						0
0	4,538,308	0	0	-828	38,562	4,576,042
	-3,203	0	0	5,251	55,939	57,988
0	4,541,511	0	0	-6,079	-17,378	4,518,054
	8,880	0	0	7,373	5,556	21,809
						0
						0
						0
						0
0	0	0	0	0	0	0
0	4,547,188	0	0	6,545	44,118	4,597,851

Own Funds

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0725	Deductions for participations in financial and credit institutions
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

C0060
337,653
0
94,375
0
243,278

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
Market risk		
R0070	Interest rate risk	61
R0080	Equity risk	125,001
R0090	Property risk	0
R0100	Spread risk	3,443
R0110	Concentration risk	248
R0120	Currency risk	91,969
R0125	Other market risk	
R0130	Diversification within market risk	-45,650
R0140	Total Market risk	175,073
Counterparty default risk		
R0150	Type 1 exposures	6,971
R0160	Type 2 exposures	33
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	-8
R0180	Total Counterparty default risk	6,996
Life underwriting risk		
R0190	Mortality risk	7,281
R0200	Longevity risk	0
R0210	Disability-Morbidity risk	595
R0220	Life-expense risk	21,302
R0230	Revision risk	0
R0240	Lapse risk	64,424
R0250	Life catastrophe risk	11,408
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	-22,630
R0270	Total Life underwriting risk	82,379
Health underwriting risk		
R0280	Health SLT risk	32,521
R0290	Health non SLT risk	0
R0300	Health catastrophe risk	1,341
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	-980
R0320	Total Health underwriting risk	32,882
Non-life underwriting risk		
R0330	Non-life premium and reserve risk (ex catastrophe risk)	
R0340	Non-life catastrophe risk	
R0350	Lapse risk	
R0355	Other non-life underwriting risk	
R0360	Diversification within non-life underwriting risk	
R0370	Non-life underwriting risk	0
R0400	Intangible asset risk	
Operational and other risks		
R0422	Operational risk	8,541
R0424	Other risks	
R0430	Total Operational and other risks	8,541
R0432	Total before all diversification	375,140
R0434	Total before diversification between risk modules	305,871
R0436	Diversification between risk modules	-71,439
R0438	Total after diversification	234,431
R0440	Loss absorbing capacity of technical provisions	
R0450	Loss absorbing capacity of deferred tax	
R0455	Other adjustments	
R0460	Solvency capital requirement including undisclosed capital add-on	234,431
R0472	Disclosed capital add-on - excluding residual model limitation	18,200
R0474	Disclosed capital add-on - residual model limitation	
R0480	Solvency capital requirement including capital add-on	252,631
R0490	Biting interest rate scenario	
R0495	Biting life lapse scenario	

IR.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

R0010 MCR_{NL} Result

C0010

0

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
---	---

C0020

C0030

R0020 Medical expense insurance and proportional reinsurance
 R0030 Income protection insurance and proportional reinsurance
 R0040 Workers' compensation insurance and proportional reinsurance
 R0050 Motor vehicle liability insurance and proportional reinsurance
 R0060 Other motor insurance and proportional reinsurance
 R0070 Marine, aviation and transport insurance and proportional reinsurance
 R0080 Fire and other damage to property insurance and proportional reinsurance
 R0090 General liability insurance and proportional reinsurance
 R0100 Credit and suretyship insurance and proportional reinsurance
 R0110 Legal expenses insurance and proportional reinsurance
 R0120 Assistance and proportional reinsurance
 R0130 Miscellaneous financial loss insurance and proportional reinsurance
 R0140 Non-proportional health reinsurance
 R0150 Non-proportional casualty reinsurance
 R0160 Non-proportional marine, aviation and transport reinsurance
 R0170 Non-proportional property reinsurance

0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

Linear formula component for life insurance and reinsurance obligations

R0200 MCR_L Result

C0040

37,723

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	--

C0050

C0060

R0210 Obligations with profit participation - guaranteed benefits
 R0220 Obligations with profit participation - future discretionary benefits
 R0230 Index-linked and unit-linked insurance obligations
 R0240 Other life (re)insurance and health (re)insurance obligations
 R0250 Total capital at risk for all life (re)insurance obligations

0	
0	
4,541,511	
0	
	8,474,473

Overall MCR calculation

C0070

R0300 Linear MCR
 R0310 SCR
 R0320 MCR cap
 R0330 MCR floor
 R0340 Combined MCR
 R0350 Absolute floor of the MCR
 R0400 Minimum Capital Requirement

37,723
252,631
113,684
63,158
63,158
3,500
63,158