GROUP SOLVENCY & FINANCIAL CONDITION REPORT (“SFCR”)

PINNACLE PET HOLDINGS LIMITED

Company Registration Number: 13626409
Group Identification Code: 984500C5FC2CF92FZ044

As of 31 December 2023

Summary

Solvency II, as adopted and implemented into the legislative and regulatory framework in the UK, requires an annual publication of a Solvency and Financial Condition Report ("SFCR") for insurance groups. Solvency II as an insurance regulatory regime aims to improve customer protection and modernise supervision of insurance companies by their local regulators.

This SFCR is for Pinnacle Pet Holdings Limited ("PPH"), Pinnacle Pet Group Limited ("PPG") and all the entities held by PPG (collectively referred to as "the Group"). The SFCR is made up of five key sections that together give a comprehensive overview of the Group's business strategy and performance, its system of governance, its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position. The following is a high-level description of the contents of each section in the document:

Section Name	Section Description
A. Business and performance	The Group's performance, significant events during the period and post-balance sheet events, legal structure, how the Group is regulated and who the Group auditors and supervisors are.
B. System of governance	The Group's system of governance and risk management, and how the Group is managed and controlled. It also describes the Group's human resources policy and practices, and its adherence to 'Fit & Proper Requirements'
C. Risk profile	The Group's risk profile, including risk exposures, concentrations, mitigation, and sensitivities.
D. Valuation for solvency purposes	The bases and methods used for the valuation of the Group's assets, technical provisions, and other liabilities with an explanation of any major differences in the bases and methods used for the Solvency II valuations, compared to the Generally Accepted Accounting Practice in the UK ("UK GAAP") basis used for the 2023 Group Consolidated financial statements.
E. Capital management	The Group's approach to capital management, its Solvency Capital Requirement ("SCR") and its solvency position. This section also includes information on the amount and quality of the Group's own funds.

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Group, notwithstanding that the Group is a small group for external audit purposes (as defined in the PRA Rulebook).

Description of the Group

PPH is the ultimate insurance holding company for the Group, incorporated in 2021 in the United Kingdom ("UK"). The registered address of PPH is 14th Floor 20 Eastbourne Terrace, London, UK, W2 6LG.

The Group represents a joint venture between JAB Holdings B.V. and JAB Consumer Partners (collectively "JAB") and BNP Paribas Cardif, ("Cardif"), the latter being the previous owner of Pinnacle Insurance plc ("PIC") and Pinnacle Insurance Management Services plc ("PIMS"). The purpose of the insurance group is to offer a complete range of pet insurance products and services, catering to animal owners, distribution partners, breeders, shelters, and veterinarians in the UK and throughout continental Europe.

In 2023, the Group completed a series of acquisitions in the UK and Europe that included Agila Haustierversicherung AG ("Agila") a regulated insurer in Germany, Veterfina Verzekeringsmaatschappij N.V. ("Veterfina") a regulated insurer in the Netherlands, Animal Friends Insurance Services Limited, a regulated intermediary in the UK and HD Assurances SAS, a regulated intermediary in France. Therefore, the financial results as of 31 December 2023 included within this document are consolidated on a time apportioned basis from the point of acquisition of these entities. Full details of all subsidiaries, associates and joint ventures are included in A.1.2.

The Group's material exposures are insurance risk exposures through pet insurance offerings in PIC, Agila and Veterfina (collectively referred to as the "insurance carriers"). These are the only regulated insurance undertakings within the scope of the Group and all employ the Solvency II Standard Formula ("S2SF"). This has also consistently been used in calculating group solvency.

Financial Performance

The Group, which significantly expanded from acquisitions during the year, reported a pre-tax loss of £128.1m for the year ended 31 December 2023, compared to a loss of £43.8m for the year ended 31 December 2022. This mainly resulted from an adverse claims experience, together with an increase in operating expenses including underwriting expenses to £174.0m and corporate transaction and integration costs of £40.8m incurred following the Group's acquisitions.

Group Financial Performance (£'000)	31 December 2023	31 December 2022
Revenue		
Gross Written premiums	241,981	57,574
Net Earned Premium	206,597	46,563
Other Income	88,600	7,585
Net Investment income	11,864	3,955
Total Revenue	**307,061**	**58,103**
Claims and Expenses		
Net Claims Incurred	(165,918)	(27,157)
Cost of Sales	(54,416)	(4,892)
Operating Expenses excl. Acquisition Costs	(174,034)	(30,870)
Corporate Transaction & Integration Costs	(40,825)	(38,997)
Total Claims and Expenses	**(435,193)**	**(101,916)**
Loss before tax	**(128,132)**	**(43,814)**
Taxation	26,508	6,146
Loss after tax	**(101,624)**	**(37,667)**

Insurance Performance

Gross Written Premium: Gross Written Premiums amounted to £242.0m for the year ended 31 December 2023, compared to £57.6m for the period ended 31 December 2022. This is related to PIC's activity for the full year, and both Agila and Veterfina activity proportionally weighted from their respective dates of acquisition. This amount composed of non-life insurance premiums of £242.0m with a de-minimus contribution from a life insurance book which is currently in run-off.

Net Earned Premium: Net Earned Premium was £206.6m for the year ended 31 December 2023, compared to £46.6m for the period ended 31 December 2022. This comprises the earned premium, gross of commission, for the period. This amount is net of the reinsurance programmes in place which are set out in section C.1.

The Group's gross and net premium for the period ended 31 December 2023 relates to activity in the UK, Germany, France, Italy, Austria, Belgium and the Netherlands.

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Net Claims Incurred: Net Claims Incurred are only related to pet claims (net of reinsurance recoveries) which amounted to £165.9m, for the year ended 31 December 2023, compared to £27.2m for the period ended 31 December 2022. The non-pet (Creditor, Motor Warranty and MGA) is 100% reinsured to Darnell DAC.

As a measure of performance, the claims ratio for the period is 80%, compared to 58% in 2022, calculated as net claims incurred expressed as a percentage of net earned premium.

<u>Non-insurance performance</u>

Other Income: Other Income of £88.6m for the year ended 31 December 2023, compared to £7.6m for the period ended 31 December 2022, relates to revenue from the group's non-insurance undertakings, which the majority comprises commissions earned by Pet Protect Limited ("PP"), HD Assurances and Animal Friends Insurance Services ("AFIS") of £38.1m and Sales of Goods by Viovet Limited ("VV") of £46.5m.

Cost of Sales: Cost of Sales of £54.4m for the year ended 31 December 2023, compared to £4.9m for the period ended 31 December 2022 (which included only two months post acquisition period of Viovet Limited), mainly relates to inventory sold by VV as a retailer of pet related products and costs of sales incurred by AFIS and HD Assurances.

<u>Investment Performance</u>

Net Investment Income: Net Investment Income is largely earned from the investment portfolio held in PIC and Agila, and cash holdings in PPG. Total Net Investment Income of £11.9m for the year ended 31 December 2023, compared to £4.0m for the period ended 31 December 2022, comprises interest earned on financial investments of £4.6m, investment expenses of £0.3m, and realised and unrealised gains from bond holdings of £4.4m and £3.1m respectively.

System of Governance

PPH is the ultimate parent of the Group and has its own Board. The PPH Board comprises of three Non-Executive Directors representing the shareholders of JAB and Cardif. The PPH Board has delegated the operational oversight and management of the Group to the Pinnacle Pet Group Limited Board (of which the three PPH Non-Executive Directors are also members) and its relevant sub-committees, the Risk & Audit Committee, Remuneration Committee and Legacy Business Committee.

Each subsidiary within the Group has its own governance body with oversight responsibility for that entity. The Group receives reporting from these entities proportionate to the risk and performance that each entity contributes to the Group. Each individual insurance carrier with a material risk within the Group has an established and robust system of governance to support its operations on a solo basis.

In line with the growth ambition of the group strategy, the governance and risk management at a Group level will continue to evolve.

Risk profile and key risks identified

The Group's activities are exposed to a number of key risks which have the potential to affect the Group's ability to achieve its business objectives. These risks can be categorised as financial and non-financial risks, with the Group defining a Risk Taxonomy to reflect its key exposures. The taxonomy framework is used to define the Group's risk appetites and to ensure that risks arising from its operations are mapped back to a consistent framework. The Board is responsible for ensuring that an appropriate structure for managing these risks is maintained.

Due to the nature of the Group, the biggest risk the Group is exposed to is Insurance risk, which is accepted through the activities of the insurance carriers within the scope of the Group. As such the risk profile of the Group is highly correlated with these three entities across their respective geographic locations. Capital, Liquidity, Credit and Market risk make up the rest of the Groups financial risk, with the Group being less willing to accept risk in these areas.

Strategic and Operational risks make up the Groups Non-Financial risks. Strategic risks consider the Group failing to deliver its medium and long-term strategy, which includes achieving strategic growth and profitability targets in multiple highly competitive markets in the UK and Europe. Operational risk embodies a whole variety of risks which ensure the day to day running of the Group including risks such as Cyber risk, Third Party risk, Regulatory change risk and ESG risk.

Valuation for Solvency Purposes

The group reports its annual financial statements under UK GAAP whereas for regulatory reporting the Group applies UK Solvency II. Material differences in valuation between the reporting methods for assets and liabilities are detailed within this document.

For the consolidated annual financial statements under UK GAAP, all companies within the Group structure are in scope for consolidation, however, due to materiality, Viovet GmbH (the fully owned subsidiary of VV) has not been included in the Group consolidation.

For Group solvency purposes, the Group uses the default Accounting Consolidation method to prepare its group capital position and applied the Standard Formula. The basis of the consolidation for Solvency II purposes is outlined in Section D.

Capital Position

Under the Solvency II regime, the Group is required to hold sufficient own funds to cover its Group Solvency Capital Requirement ("Group SCR") and its Minimum Consolidated Group SCR.

The Group's capital position as of 31 December 2023 is as follows:

Capital Position (£'000)	31 December 2023	31 December 2022 (Unaudited)
Eligible Own Funds ("EOF")	231,068	135,542
SCR	116,416	86,280
Minimum consolidated group SCR	41,047	21,570
Capital Surplus	114,652	49,262
Solvency Ratio	198%	157%

Note there are rounding differences due to numbers being rounded up to the nearest '000 throughout this document.

Statement of Directors' Responsibilities

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

We are satisfied that:

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

Approved by the board on the 7 May 2024 and signed on its behalf by:

F Engelen
Director
19 May 2024

Audit Opinion

Report of the independent external auditor to the Directors of Pinnacle Pet Holdings Limited ('the Company') pursuant to Rule 4.1(2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms and the Company's voluntary compliance with Rule 2.1 of that Part.

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

Opinion

We are engaged by the Company to perform an audit of the nature prescribed by Rule 4.1(1) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms, in all respects as though that Part applied to the group of which the Company is the parent ('the Group'), notwithstanding its status as a small group for external audit purposes.

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023**:**

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Group Solvency and Financial Condition Report of the Group as at 31 December 2023 ('**the Narrative Disclosures subject to audit'**); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('**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 Group 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 the 2022 comparatives where presented.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S.05.01.02 and S.05.02.01; and
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report of the Group as at 31 December 2023 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based**.**

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 *(Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'* and ISA (UK) 805 *(Revised) Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'*, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Group 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 Group 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

In auditing the relevant elements of the Group Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is appropriate. Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers twelve months from the date of approval of the Group Solvency and Financial Condition Report;

- performing enquiries of management and those charged with governance to identify risks or events that may impact the Group's ability to continue as a going concern.

- reviewing management's assessment approved by the Board and minutes of meetings of the Board and its Committees; and

- assessing the appropriateness of the going concern disclosures in the Company's consolidated financial statements by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

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 Group's ability to continue as a going concern for a period of twelve months from the date of approval of the Group Solvency and Financial Condition Report.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to the 'Valuation for solvency purposes', and 'Capital Management' sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group Solvency and

Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority (‘PRA’). As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose.

This report is made solely to the Directors of the Company in accordance with our letter of engagement dated 01 May 2024. Our work has been undertaken so that we might report to the Directors those matters that we have agreed to state to them in this report and for no other purpose.

Our opinion is not modified in respect of these matters.

Other information

The Directors are responsible for the Other Information contained within the Group Solvency and Financial Condition Report.

Our opinion on the relevant elements of the Group 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.

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 Group Solvency and Financial Condition Report or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the relevant elements of the Group Solvency and Financial Condition Report themselves. 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 Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations on which they are based.

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

In preparing the Group Solvency and Financial Condition Report, the Directors are responsible for assessing the Group’s ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Directors either intend to cease to operate the Group, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Group Solvency and Financial Condition Report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the Group Solvency and Financial Condition Report included regulatory and supervisory requirements of the PRA and the Financial Conduct Authority ("FCA").

We understood how the Group are complying with those frameworks by making enquiries of management, those charged with governance, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulators including the PRA and FCA, reviewed minutes of the Board of Directors and any supporting committees and gained an understanding of the Group's approach to governance and risk management.

For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related Group Solvency and Financial Condition Report items.

For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management as to their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and inquiring about the Group's and Company's methods of enforcing and monitoring compliance with such policies.

We assessed the susceptibility of the relevant elements of the Group Solvency and Financial Condition Report to material misstatement, including how fraud might occur by considering the entity level controls that the Group has established to address risks identified by the Group, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgment, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment.

Where this risk was considered to be higher i.e. within the valuation of technical provisions, we performed audit procedures to address the identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the Group Solvency and Financial Condition Report were free from fraud or error.

The Group operates in the insurance industry which is a highly regulated environment. As such the Engagement Partner considered the experience and expertise of the engagement team to ensure the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's Report on the Group Solvency and Financial Condition Report.

Report on Other Legal and Regulatory Requirements

Other information

In accordance with our letter of engagement dated 01 May 2024 we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Pinnacle Pet Holdings Limited's group 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.

DocuSigned by:
Ernst & Young LLP
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Ernst & Young LLP
London
19 May 2024

The maintenance and integrity of the Pinnacle Pet Holdings Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Group Solvency and Financial Condition Report since it was initially presented on the website.

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit comprise:

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

A. Business and performance

A.1. Business

A.1.1. Business Overview

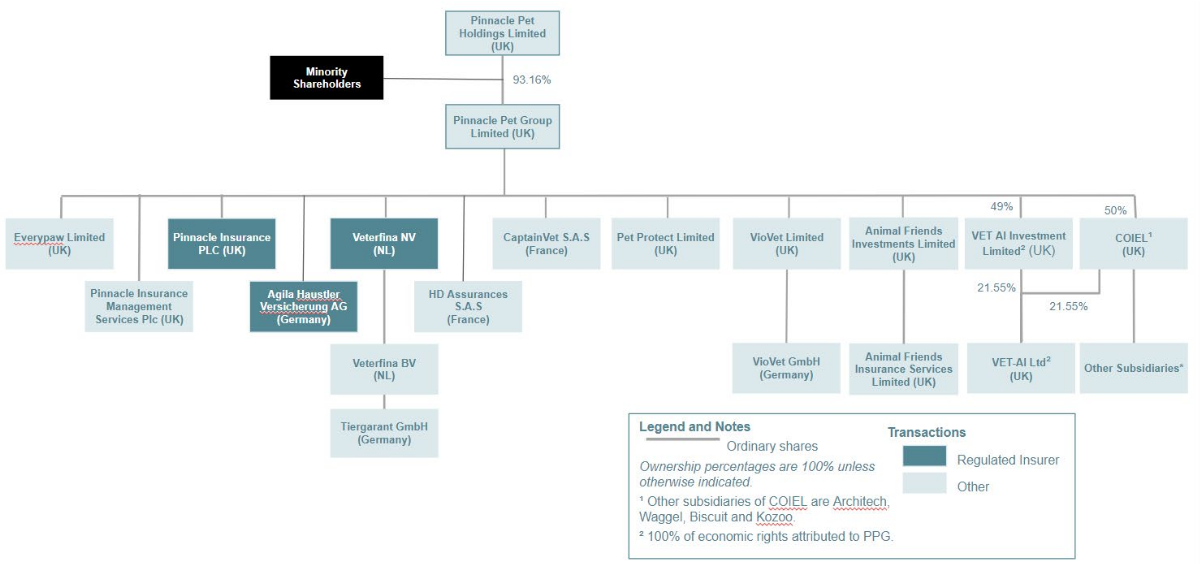
PPH is the ultimate insurance holding company for the Group incorporated in 2021 in the UK. The registered address of PPH is 14th Floor 20 Eastbourne Terrace, London, UK, W2 6LG.

The Group represents a joint venture between JAB Holdings B.V. and JAB Consumer Partners ("JAB") and BNP Paribas Cardif ("Cardif"), the latter being the previous owner of Pinnacle Insurance Plc & Pinnacle Insurance Management Services. The purpose of the insurance group is to offer a complete range of pet insurance products and services, catering to animal owners, distribution partners, breeders, shelters, and veterinarians in the UK and throughout continental Europe.

In 2023, the Group completed a series of acquisitions in the UK and Europe that included Agila Haustierversicherung AG ("Agila") a regulated insurer in Germany, Veterfina Verzekeringsmaatschappij N.V. ("Veterfina") a regulated insurer in the Netherlands, Animal Friends Insurance Services Limited, a regulated intermediary in the UK and HD Assurances SAS, a regulated intermediary in France. A full list of subsidiaries, associates and joint ventures is included in A1.2.

As a result of the acquisitions, the Group now undertakes regulated insurance activity in the UK, Germany, France, Italy, Austria and the Netherlands, all relating to one material line of business ("LoB"), miscellaneous financial loss (the relevant Solvency II LoB for pet insurance).

The ownership structure of the Group is split between JAB (75.26%) and BNP Paribas (24.74%). The below organisational structure outlines the scope of the Group:



All holdings of subsidiaries of PPG are 100% of ordinary shares. Management and sellers of the recently acquired business have minority interests in PPG of 6.84%.

A.1.2. A description of all subsidiaries, material related undertakings and significant branches

The subsidiaries, associates and joint ventures of PPH as of 31 December 2023 are:

Group Companies	Description	Acquisition Date	Country of Incorporation
Pinnacle Pet Holdings Limited ("PPH")	Ultimate holding company of the Group and the designated head of the Solvency II Group.	-	UK
Pinnacle Pet Group Limited ("PPG")	An intermediate holding company at which the operational oversight of the Group has been delegated to by the PPH Board.	16/09/2021	UK
Pinnacle Insurance Plc ("PIC")	A UK based underwriter, underwriting and distributing pet insurance products in the UK, supported by PIMS as a service company.	30/06/2022	UK
Pinnacle Insurance Management Service Plc ("PIMS")	A service company providing the staff and assets necessary to support the operational requirements of PIC.	30/06/2022	UK
Everypaw Ltd ("EPL")	A dormant entity held for brand protection purposes. The company does not have assets or employees.	30/06/2022	UK
Pet Protect Ltd ("PP")	A UK based insurance intermediary, with historic insurance products underwritten by New Line and reinsured by PIC and distributing new insurance products underwritten by PIC.	31/10/2022	UK
VioVet Ltd ("VV")	An e-commerce platform focusing on pet pharma distribution and selling other pet-related products (e.g., food and toys).	31/10/2022	UK
VioVet GmbH ("VV GmbH")	Viovet GmbH is a non-operational entity which was purchased as part of the acquisition of VV.	31/10/2022	Germany
CaptainVet SAS ("CV")	A French vet appointment booking platform.	20/04/2023	France
HD Assurances SAS ("HDA")	A French based insurance intermediary, distributing insurance products underwritten by SwissLife (3rd party insurance carrier and sole capacity provider to HD Assurances SA) in France, as well as in Italy through EU passporting of its licence.	27/04/2023	France
Agila Haustierversicherung AG ("Agila")	A Germany based underwriter, underwriting and distributing pet insurance products for German customers, as well as Austrian customers through EU passporting of its licence.	31/05/2023	Germany
Veterfina Verzekeringsmaatschappij N.V. ("Veterfina")	A Netherlands based underwriter, underwriting pet insurance products for Dutch customers, as well as Belgian and German customers through EU passporting of its licence.	19/07/2023	Netherlands
Veterfina B.V. ("Veterfina")	A Netherlands based insurance intermediary, distributing insurance products underwritten by Veterfina N.V. in the Netherlands.	19/07/2023	Netherlands
Tiergarant GmbH ("TG")	A Germany based insurance intermediary, distributing insurance products in Germany underwritten by Veterfina N.V. in the Netherlands.	19/07/2023	Germany

Animal Friends Investments Limited (“AFI”)	The holding company of AFIS.	31/08/2023	UK
Animal Friends Insurance Services Limited (“AFIS”)	A UK based insurance intermediary, distributing insurance products underwritten by Red Sands Insurance Company (Europe) Limited (3rd party Gibraltar-based insurance carrier, and sole insurance capacity provider to Animal Friends) in the UK.	31/08/2023	UK
Correlation One Investments (Europe) Limited (“COIEL”)	A non-regulated joint venture between PPG and Correlation One Holdings Limited (“COHL”).	31/08/2023	UK
Waggel Limited	An appointed representative of a third-party insurance intermediary.	31/08/2023	UK
Architech Software Limited (“Architech”)	The holding company for Waggel Limited.	31/08/2023	UK
Vet-AI Limited (“Joii”)	A firm that provides virtual vet appointments and pet healthcare services.	31/08/2023	UK
AFX Ventures Limited (“Biscuit”)	A pet wellness company that provides a mobile application for pet wellbeing and fitness programs.	31/08/2023	UK
Kozoo SAS (“Kozoo”)	A French pet insurance distributor.	31/08/2023	France
VET-AI Investments Limited	A SPV investment vehicle which has a shareholding in Vet-AI Limited.	31/08/2023	UK

Except for VioVet GmbH, which is deemed immaterial, there are no differences between the scope of the consolidated financial statements and the consolidated Solvency II position.

A.1.3. Supervision and external audit

Responsibility for supervision of the Group lies with the Prudential Regulation Authority (PRA) in the UK. The contact details are as follows:

Prudential Regulation Authority (PRA)
20 Moorgate
London
EC2R 6DA
www.bankofengland.co.uk

The Group’s statutory annual financial statements are audited by Ernst & Young LLP who can be contacted as follows:

Ernst & Young LLP
The Paragon,
32 Counterslip,
Bristol,
BS1 6BX
https://www.ey.com/en_ukintra

A.1.4. Qualitative and quantitative information on relevant operations and transactions within the groups.

The service arrangement for PIMS to provide the staff and assets necessary to support the operational requirements of PIC amounted to an intercompany charge of £36.9m for the year ended 31 December 2023.This represents an intercompany transaction which is recharged at cost with a margin applied.

At any given time, there are also a number of intercompany transactions that exist between entities within the Group.

PPG has also extended loan notes to Correlation One Investment (Europe) Limited (“COIEL”) amounting to a total of £14m.

There was also a capital injection from PPG into Agila which amounted to €61m (£52.6m).

All of the transactions outlined above are eliminated on consolidation except for 50% of the £5m loan between PPG and COIEL included in the £14m above, when calculating the group solvency position.

A.1.5. Significant events in the reporting year

During 2023, the Group completed the acquisition of Agila Haustierversicherung AG in Germany, Veterfina Verzekeringsmaatschappij N.V. (and its respective subsidiaries) in the Netherlands, HD Assurances SA in France and Animal Friends Insurance Services Limited in UK. The Groups insurance activity can now be represented through three insurance carriers and five distributors within the Group, as seen below:

<u>**Insurance Carriers**</u>

1. **Pinnacle Insurance Plc (“PIC”)**:

A UK based underwriter, underwriting and distributing pet insurance products in the UK, supported by PIMS as a service company.

2. **Veterfina Verzekeringsmaatschappij N.V. (“Veterfina”):**

A Netherlands based underwriter, underwriting pet insurance products for Dutch customers, as well as German and Belgian customers through EU passporting of its license.

3. **Agila Haustierversicherung AG (“Agila”):**

A Germany based underwriter, underwriting and distributing pet insurance products for German customers, as well as Austrian customers through EU passporting of its license.

Insurance Intermediaries

1. **Animal Friends Insurance Services Limited ("AFIS"):**

A UK based insurance intermediary, distributing insurance products underwritten by Red Sands Insurance Company (Europe) Limited (3rd party Gibraltar-based insurance carrier, and sole insurance capacity provider to Animal Friends) in the UK.

2. **Pet Protect Limited ("PP"):**

A UK based insurance intermediary, distributing insurance products underwritten by Pinnacle Insurance plc.

3. **HD Assurances SAS ("HDA"):**

A French based insurance intermediary, distributing insurance products underwritten by Swiss Life (3rd party insurance carrier and sole capacity provider to HD Assurances SA) in France, as well as in Italy and Belgium through EU passporting of its license.

4. **Veterfina B.V.:**

A Netherlands based insurance intermediary, distributing insurance products underwritten by Veterfina Insurance in the Netherlands, as well as in Belgium through EU passporting of its license.

5. **Tiergarant GmbH ("TG"):**

A Germany based insurance intermediary, distributing insurance products underwritten by Veterfina Insurance in the Netherlands.

As a part of the acquisition of AFIS, PPG also acquired 50% of the ordinary share capital of a newly formed entity joint venture with COHL ("Correlation One Holdings Limited"). The holding company of this joint venture is a non-regulated entity Correlation One Investments (Europe) Limited ("COIEL") holding its shareholdings in certain subsidiaries:

- Waggel Limited (FRN: 805396), an appointed representative of a third-party insurance intermediary;
- Architec Software Limited ("Architec"), the holding company for Waggel Limited;
- Vet-AI Limited ("Joii"), a firm that provides virtual vet appointments and pet healthcare services;
- AFX Ventures Limited ("Biscuit"), a pet wellness company that provides a mobile application for pet wellbeing and fitness programs; and
- Kozoo SAS ("Kozoo"), a French pet insurance distributor (registered in the ORIAS Register under number 20003834).

A.2. Underwriting performance

The Group reported a pre-tax loss of £128.1m which mainly resulted from an increase in claims incurred during the year together with an increase in operating expenses including underwriting costs of £174.0m incurred following the Group's acquisitions.

Group Financial Performance (£'000)	31 December 2023	31 December 2022
Revenue		
Gross Written Premiums	241,981	57,574
Net Earned Premium	206,597	46,563
Other Income	88,600	7,585
Net Investment income	11,864	3,955
Total Revenue	**307,061**	**58,103**
Claims and Expenses		
Net Claims Incurred	(165,918)	(27,157)
Cost of Sales	(54,416)	(4,892)
Operating Expenses excl. Acquisition Costs	(174,034)	(30,870)
Corporate Transaction & Integration Costs	(40,825)	(38,997)
Total Claims and Expenses	**(435,197)**	**(101,916)**
Loss before tax	**(128,132)**	**(43,814)**
Taxation	26,508	6,146
Loss after tax	**(101,624)**	**(37,667)**

Gross Written Premium: Gross Written Premiums amounted to £242.0m for the 12 months ended 31 December 2023. This amount composed of non-life insurance premiums of £242.0m with a minor contribution to a life insurance book which is currently in run-off.

Net Earned Premium: Net Earned Premium was £206.6m for the 12 months ended 31 December 2023. This comprises the earned premium, gross of commission, for the period. This amount is net of the reinsurance programme in place which are set out in section C.1.

The performance of the insurance business per line of business (LoB) is outlined below. Of the LoB's below, pet insurance is represented by the 'Miscellaneous Financial income' line, and the only LoB open to new business. The remainder relate to legacy books of business held in PIC.

- **Gross written premium (GWP):** represents the value of policies written for the period excluding the effect of reinsurance.

GWP by line of business	2023	2022	Change
	£'000	£'000	Increase/ (decrease)
Miscellaneous financial income (Pet)	233,005	54,404	178,601
General liability insurance	5,297	625	4,672
Other motor insurance	658	334	324
Income protection insurance	3,000	2,182	818
Long-term business	20	29	(9)
Gross written premiums	**241,981**	**57,574**	**184,407**

GWP increased in the year by £184.4m (320%). This is due to the growth and expansion of the pet business through acquiring new business and developing into new regions, whilst the 2022 numbers also only represent 6 months of business as a Group.

Pet

As mentioned above, GWP for pet business is represented through miscellaneous financial income, which increased to £233.0m (2022: £54.4m). The underwriting of this book commenced in the prior year, the remainder of the growth being from the acquisitions of Agila and Veterfina as Insurance carriers.

Other LoB's

GWP reduced to £9.0m (2022: £3.2m). The majority of this business is in run-off and is reinsured 100% to Darnell DAC.

The Group's gross written premium for the period ended 31 December 2023 is also split by geographic markets, as follows:

Group Financial Performance (£'000)	31 December 2023	31 December 2022
UK	150,609	57,574
Germany	79,282	-
Netherlands	8,985	-
Austria	2,828	-
Belgium	277	-
Total	**241,981**	**57,574**

Net Claims Incurred: Net Claims Incurred are only related to pet claims which amounted to £165.9m. The non-pet (Creditor, Motor Warranty and MGA) is 100% reinsured to Darnell DAC.

As a measure of performance, the claims ratio for the period is 80%, calculated as net claims incurred expressed as a percentage of net earned premium.

A.3. Investment performance

A.3.1. Investment income arising from group's investment portfolio

The investment income represents the portfolio investment income, including the impact of mark to market revaluations, foreign exchange movements and realised losses on investments.

Total net investment return for the year is a gain of £11.9m which comprises interest earned on financial investments of £4.6m, investment expenses of £0.3m, and realised gain on bonds of £4.4m and unrealised gain of £3.1m. There are no investments in securitisation or gains and losses recognised directly in equity.

A.3.2. Analysis of investment performance by relevant asset class

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £285.1m on 31 December 2023 of which £92.1m was in bonds, £178.0m in deposits with credit institutions & cash at bank and the remainder in collective investment undertakings.

(£'000)	2023		2022	
	AUM	Return on investments	AUM	Return on investments
Bonds	92,122	2,237	51,391	(1,163)
Deposits & cash at bank	178,011	8,599	340,314	5,060
Collective investment undertaking	15,002	766	19,500	58
Total	**285,135**	**11,602**	**411,205**	**3,955**

The cash balance of £340.3m held in the prior year was a significant cash balance held and utilised to fund the acquisitions of Agila and Veterfina.

The net of reinsurance liabilities is short tailed and remain well matched against asset durations. Therefore, asset liability matching risk remains low.

A.4. Performance of other activities

Other Income: Other Income of £88.6m relates to revenue from the group's non-insurance undertakings and which the majority comprises of commissions earned by PP, HD Assurances and AFIS of £38.1m and Sales of Goods by VV of £46.5m.

Cost of Sales: Cost of Sales of £54.4m relate primarily to inventory sold by VV as a retailer of pet related products.

Operating Expenses & Acquisition Costs: Operating Expenses of £174.0m mainly comprise of operating costs of the operating subsidiaries and insurance acquisition costs. These are mainly related to the expenses incurred by PIMS in providing the services to PIC and the acquisition costs of the insurance carriers.

Corporate Transaction & Integration Costs: The £40.8m relates mainly to one-off transaction costs related to the acquisitive strategy of the group and group integration costs resulting from these transactions. As these costs are linked to the conclusion of acquisitions, these are expected to fluctuate on an annual basis.

There are no material leasing arrangements within the Group.

A.5. Any other information

No other information.

B. System of governance

Each subsidiary within the Group has its own governance body with oversight responsibility for that entity. The Group receives reporting from these entities proportionate to the risk and performance that each entity contributes to the Group. Each individual insurance carrier in the Group has a robust system of governance to support its operations on a solo basis and has established risk appetite statements.

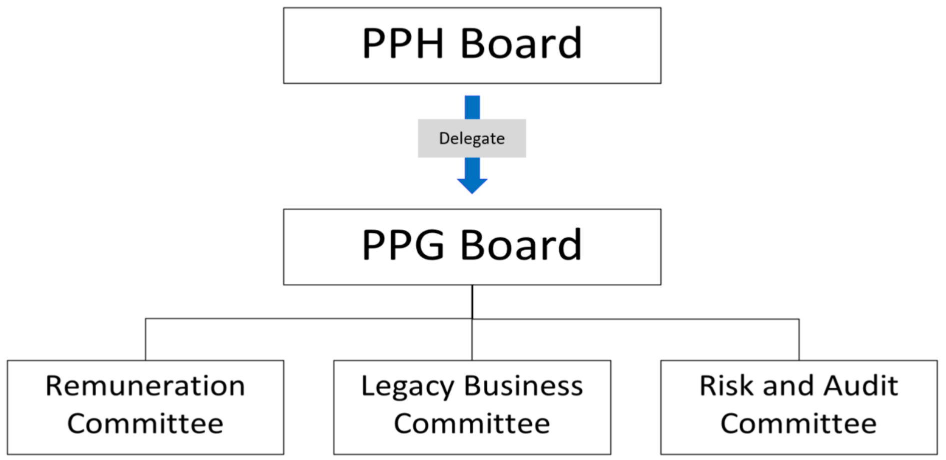
B.1. General information on the system of governance

B.1.1. Governance structure/regime summarized including holders of significant management functions.

The Board

PPH is the ultimate parent of the Group. The PPH Board comprises of three Non-Executive Directors representing the shareholders of JAB and Cardif. The PPH Board has delegated the operational oversight and management of the Group to the PPG Board (of which the three PPH Non-Executive Directors are also members of). PPH continues to fulfil all other requirements as the ultimate insurance holding company within the Group.

The PPG Board comprises 1 Executive Director and 11 Non-Executive Directors (3 represent the majority shareholders, JAB, 2 represent Cardif, 2 represent other minority shareholders in the Group and 4 are Independent Non-Executive Directors).



The members of the PPH and PPG Boards are set out below:

Board of Directors	PPH Board	PPG Board
Executive Director		
Dirk Beeckman		X
Non-Executive Directors		
Stanislas Chevalet	X	X
Joachim Creus	X	X
Ana Dezier		X
Frank Engelen	X	X
Lubomira Rochet		X
Patrick Döring		X
Michael Thorpe		X
Independent Non-Executive Directors		
Sonja Rottiers (Chair)		X
Emmanuel de Talhouet		X
Randy Termeer		X
Laurent de Meeus		X

B.1.2. Committees

The following committees have been established as sub-committees of the PPG Board, with the membership as follows:

Risk & Audit Committee	Remuneration Committee	Legacy Business Committees
Emmanuel de Talhouet	Joachim Creus*	Stanislas Chevalet*
Frank Engelen	Sonja Rottiers	Ana Dezier
Stanislas Chevalet*	Stanislas Chevalet	Dirk Beeckman
	Laurent de Meeus	Matthew Lorimer**
		Andrew Wigg**

*Chair of the Committee
**Non-voting member

Group Risk and Audit Committee ("RAC")

The RAC meets at least quarterly, and its main responsibilities are to:

- assisting the Board in meeting its oversight responsibilities in ensuring an effective system of internal control, reporting process, audit process, compliance and accurate external financial reporting of the Group.
- receiving reports and reviewing the output from the Group's Risk Management Function internal control framework and risk management, systems and procedures including the four key functions under Solvency II and systems and controls relating to financial reporting.
- receiving reports of the subsidiary's Compliance activities including the follow-up of any outstanding recommendations, the impact of new and possibly evolving regulations and review any reports on compliance issues including all material reports to Regulators.
- reviewing and approving the annual plan of the Risk Management Function and the annual Compliance Monitoring Plan, oversee its realisation and results and report to the Board on the sufficiency and quality of resource within the Risk Management and Compliance Departments.
- reviewing and approving such of the Group's Policies as shall be delegated to the Committee by the Board to ensure that operations, policies and procedures comply with relevant law and regulations, industry codes and requirements of the Group as appropriate.
- advising the Board on risk related matters including policy, strategy and implementation for each area of risk namely: Operational; Strategic, Capital, Market, Liquidity, Credit and Insurance.
- reviewing the Group's most significant risks, monitor management's response to any major risk issues, and escalate to the Board as considered appropriate.
- reviewing annually on behalf of the Board the proposed risk appetites and tolerances.
- providing a channel of communication to the Board for the internal and external auditors.
- agreeing the Annual Audit Schedule and budget having regard to the company's risk profile and risk appetite.
- reviewing the methodology and reporting processes of Internal Audit and receive reports on the effectiveness of the systems established and the results of any testing carried out.
- overseeing the Group's relationship with the external auditors and review the performance and cost effectiveness of the external auditors.
- reviewing the external auditors' reports on completion of any audits, any management letter points or disagreement with management, any restrictions on their work, co-operation received, their findings and recommendations and the implementation of those recommendations.
- reviewing and challenge where necessary the annual financial statements to be presented to the Board, and consider whether or not they are complete, consistent with information known to Committee members, and reflect adopted accounting principles, including the extent of compliance with appropriate legislation and accounting standards.

Group Remuneration Committee

The Group Remuneration Committee meets at least quarterly and its main responsibilities are to:

- determine the framework and policy for the remuneration of the CEO, Chair, directors, company secretary and any other such members of the senior management as it is designated to consider.
- assess the ongoing appropriateness and relevance of the remuneration policy, taking into account any relevant legal requirements.
- consider the adoption of any equity incentive plan.
- consider the design of, and targets for, any performance related pay schemes operated by the Group and the total annual payments made under such schemes.
- approve the policy for, and scope of, pension arrangements for each of the directors and other senior officers of the Group.
- determine the total individual remuneration packages for each director and senior manager, including bonuses and incentive payments.
- review and note annually the remuneration trends across the Group.
- oversee any major changes in employee benefits structures across the Group.
- review and advise the Board on the policy for authorising claims for expenses from the CEO and the Chair.
- ensure that all provisions regarding disclosure or remuneration, including pensions, are fulfilled.
- be responsible for establishing selection criteria, appointing and setting terms of reference for any remuneration consultants who advise the Committee; and
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Legacy Business Committee

The Legacy Business Committee meets quarterly, and its purpose is to oversee and control the performance and operational management of all business and policies related to non-pet business until the date on which the Legacy Business portfolio transfer has been completed.

Its main responsibilities are to:

- monitor and make decisions in respect of the Legacy Business Reinsurance Agreement.
- monitor and make decisions on the Legacy Business Portfolio Transfer.
- make decisions in respect of engagement and costs of third-party service provider or professional advisor for the purposes of the Legacy Business Reinsurance Agreement and/or Legacy Business Portfolio transfer.
- monitor and manage the financial performance and prospects of Legacy Business including expenditure against the Legacy Business budget and costs relating to individual projects.
- monitor the cost allocation, expenditure and time recording relating to the Legacy Business for the purposes of Profit and Loss Adjustment Mechanism.

- monitor the operation and implementation of the foregoing to seek to ensure compliance with Group companies' regulatory obligations (including the requirement to treat policyholders fairly).
- make decisions in respect of any disputes relating to Legacy Business.

The legacy business portfolio refers to the non-pet book which will be subject to a Part VII transfer expected to be completed by H2 2024.

B.1.3. Organisational structure and key function holders

PPG performs oversight at Group level through designated Group roles, leveraging the support of the individual established systems of governances operated in the three insurance carriers.

The below table outlines the main roles for key functions of the Group and those of the insurance carriers.

Description of a key function	PPG
Chief Executive Officer	Dirk Beeckman
Chief Actuary	Carmen Iordache
Chief Underwriting Officer	
Compliance Oversight	Matthew Lorimer
Chief Finance Officer	Sanchit Suri
Chief Risk Officer	Chris Bernau
Chair of Governing Body	Sonja Rottiers
Chair of the Risk & Audit Committee	Stanislas Chevalet

During 2023, the governance structure was evolved to incorporate the oversight of the new acquisitions (principally Agila, Veterfina and Animal Friends), which included new appointments to the Group Board. In addition, the Group hired a new Chief Risk Officer, Christopher Bernau, for both the Group and PIC. Each Insurance Carrier contains oversight across its business and key functions from senior individuals within the business and the Group.

B.1.4. Remuneration of members of the management

Remuneration Practices

Remuneration is determined within the Group according to three key principles, namely competitiveness, discretion and fairness.

Individual fixed basic pay

Individual basic pay is determined according to a basic salary level which is commensurate with the qualifications required for the post (defined according to market data and in line with legal minimums) and takes into account a number of factors including but not limited to:

- skills and expertise,
- experience,
- scope of responsibility,
- degree of independence,
- current or future potential as an employee,
- involvement with and commitment to the tasks entrusted to him/her.

Additional fixed remuneration

Additional fixed remuneration rewards specific expertise, employment in a specific post or a post that meets a key role.

More broadly, it is any remuneration whose conditions and amounts awarded meet the following characteristics:

- the remuneration is predetermined;
- it is non-discretionary;
- it is permanent and of a recurring nature, i.e., maintained throughout the period linked to the specific role and organisational responsibilities of the holder;
- the payment of this remuneration may not be unilaterally reduced, suspended or cancelled; and
- it is not dependent on the performance of the holder and/or the company.

Personal variable remuneration

The Group may at its absolute discretion pay employees a sum in respect of variable remuneration of such amount at such intervals and subject to such conditions as the Group may in its absolute discretion determine from time to time. It is not a right, is not applicable to all employees and is determined each year in accordance with that year’s remuneration policy and the principles of governance.

It is an incentive and motivation that rewards long-term performance in line with business activities and results.

Long Term Incentive Plan

Additionally, variable compensation may be supplemented by a medium- or long-term loyalty plan comprised of stock options, restricted stock units, performance shares, a medium- or long-term remuneration plan, or any other appropriate instrument designed to retain and motivate key employees by involving them in the growth of the value created.

All variable compensation payments, where applicable, are awarded in such a way as to avoid any behaviour which runs contrary to the interests of the Group, and the Consumer Duty towards its customers as well as to avoid any non-compliance with the rules and codes of the Group.

B.1.5 Material transactions with shareholders members of the management body, or those exerting a significant influence over the insurer

The Group received capital injections during the year amounting to £933.1m from its shareholders in exchange for shares. In addition, the Group has issued shares in PPG to minority interests amounting to 6.84% of the share capital of PPG at the year-end.

B.2. Fit and proper requirements

Certain individuals amongst the Group's senior management also hold roles in the respective subsidiaries and therefore are subject to formal Fit & Proper ("F&P") requirements. In order to ensure that all PPG senior management demonstrate the expected levels of integrity and that consistent standards are applied across all senior management of the Group, the Group has adopted the Fit & Proper processes used by the UK regulated business.

The procedures and processes adhere to the FCA's and PRA's "Fit and Proper" requirements, used in the appointment of key function holders. The procedures and processes used include:

- compliance with the applicable PRA Conducts Standards and FCA Conduct Rules;
- compliance with internal policies and procedures;
- Disclosure and Barring Service (DBS) checks;
- annual self-attestation; and
- references completed by a candidate's previous employer.

References are sought from former employers, regardless of whether or not the former employer is an authorised firm. The following mandatory information is sought prior to the date of the reference request:

1. Details of all roles held, including a summary of responsibilities.
2. Any findings that the individual was not fit and proper and the facts, which led to that conclusion.
3. Details of any disciplinary action taken as a result of a breach of the FCA or PRA's conduct rules. This includes the issue of a formal written warning, suspension (but not suspension pending an investigation), dismissal, and reduction or recovery of remuneration.

All existing members of staff who hold a Senior Management Function (“SMF”) are required to declare each year that they adhere to the PRA and FCA Conduct Rules and that there have been no changes that may adversely impact their F&P status.

In addition, the Human Resources (HR) department undertakes an annual F&P screening check, performed for it by a third party, Verifile. HR also assesses any relevant information disclosed as part of the annual performance review process. Individuals’ fitness and propriety is assessed by giving consideration to their:

- financial soundness;
- honesty and integrity; and
- competence and capability

B.3. Risk management system including the ORSA

B.3.1 Description of risk management system including oversight

The Board has overall responsibility for the establishment and oversight of the risk management framework. The PPG RAC oversees how management monitors compliance with risk management policies and procedures through its receipt of regular reporting from the risk management function on matters proportionate to the risk posed by each entity. Relevant information is escalated to the Board, as necessary, to factor into its decision-making processes.

During 2023, the Group has reviewed and enhanced its risk management framework (“RMF”) to ensure it remains appropriate for the nature and size of the Group reflecting the growth and acquisitions noted in section A.5. The updated RMF helps support the Group in maintaining an effective system of risk management and control across the Group. It does this through documenting the Group’s approach to the identification, management and monitoring of key risks arising from the course of its business. It is through this centralisation of the risk management framework and the involvement of Group representatives across the key functions that ensures a consistent implementation of risk management and internal control throughout the entities whilst allowing for tailoring to local requirements (e.g. the Senior Managers and Certification Regime in the UK regulated entities.

The Group risk management policies are used to identify, monitor and appropriately report on these risks. The current policies the Group has in place include:

- Capital Management;
- Liquidity Risk;
- Credit Risk;
- Insurance Risk;
- Market Risk;
- Strategic Risk; and
- Operational risk.

Training and management standards and procedures are in place and aim to maintain a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

B.3.2. Own Risk and Solvency Assessment (ORSA)

The Group ORSA is a continuous process, ensuring that PPG's group solvency position is appropriate for its risks at all times. It is used to inform decision making by the Board on matters of capital and risk management. The Group ORSA process is conducted at least once per annum, the timing of which may depend on significant transactions or events. It may also be conducted at other times, at the instruction of the PPG Board, for example as a result of a material change in the Groups risk profile (referred to as an "unscheduled" ORSA).

The PPG Board is responsible for the Group ORSA framework and process and is actively involved in approving the stress and scenario tests to be used in the ORSA and reviewing and ultimately approving the outputs of the ORSA process. The RAC monitors the Group ORSA and provides steer on how each Group ORSA should be performed, making recommendations to the PPG Board on the stress and scenario testing. The Group has implemented an ORSA ("Own Risk & Solvency Assessment") Policy setting out the process and roles and responsibilities involved in producing its ORSA.

The Group conducted an unscheduled ORSA in H2 2023 and is due to produce its second annual Group ORSA report in H1 2024.

B.4. Internal control system

The Board has overall responsibility for maintaining an effective internal control system and for monitoring their effectiveness, while the implementation of internal control systems is the responsibility of senior management. The Group's systems of internal control are designed to manage the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material financial misstatement or loss.

The systems are designed to:

- safeguard assets;
- maintain proper accounting records;
- provide reliable financial information;
- identify and manage business risks;
- maintain compliance with appropriate legislation and regulation; and
- identify and adopt best practice.

The Group has established a governance framework, the key features of which include:

- terms of Reference for each of the Board's Committees;
- a clear organisational structure, with delegation of authority from the Board to executive management; and
- procedures for the approval of major transactions.

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The key procedures of the PPG internal control system include:

- Risk Identification and Assessment – Group and Business Unit Risk Registers and Risk Assessments, a quarterly Risk & Control Self-Assessment (RCSA) process, Incident Management, Emerging Risks register;
- Control Assessment – Control validity and appropriateness;
- Risk mitigation & Risk Acceptance processes;

- Risk Controls - Control Assessment processes;
- Risk Reporting - Incidents; Risk Control Tools; Audit Recommendations; Committee Reports; Risk Owner Reports, Business Unit reports.

The risk management and control framework is designed to support the identification, assessment, monitoring, management, and control of risks that pose a material threat to the achievement of the Board’s objectives. This includes the use of written policies and procedures to govern the management and control of both financial and non-financial risks.

The Group’s Compliance Function is led by the Group General Counsel (“GC”). The Group Compliance Function oversees and challenges regulatory risk across the Group and its Business Units and periodically reviews systems and controls in place for meeting regulatory requirements. The GC regularly attends the RAC. The Group’s Compliance Function operates a similar shared resourcing model as the Group Risk Function. It works in close collaboration with and relies on resources in place in the Business Units for the effective operation of its processes and controls.

B.5. Internal audit function

Oversight of the Internal Audit function for the Group is the responsibility of the Board. The RAC assumes responsibility on behalf of the Board for agreeing the Annual Audit Schedule and budget having regard to the Group’s risk profile and risk appetite.

The Group’s Internal Audit Function is currently executed by a third-party service provider and overseen by the Group Chief Executive Officer. The Internal Audit Function is responsible for conducting independent assurance reviews of systems and controls and providing reports and findings to business owners. The Internal Audit Function provides regular updates on the execution of its audit plan and summaries of key findings and issues to the RAC. The RAC is also required to hold a meeting with the Head of Internal Audit in private at least once a year to ensure that there are no unresolved issues of concern.

The function principally maintains its independence and objectivity by providing no day-to-day operations in the business and by ensuring a direct reporting line to the RAC.

B.6. Actuarial function

Oversight of the Actuarial Function of the Group is principally performed by the Group Chief Financial Officer (“CFO”). They are further supported by the key function holders within each of the insurance carriers. This is then aggregated at a Group level, with the PIC Actuarial Function operating key actuarial processes and controls on behalf of the Group.

PIC has an in-house actuarial team which carries out day-to-day actuarial role, including claims reserving, whilst Agila and Veterfina also utilise the expertise of third-party providers to support their actuarial processes. The formal role of the actuarial function under Conditions Governing Business 6 in the PRA Rulebook is to report to the Board on technical provisions, reinsurance and underwriting policy.

B.7. Outsourcing

The PPG Board is ultimately responsible for the outsourcing of the Group and matters are brought to its attention as required. The underlying subsidiaries are responsible for sourcing their own outsourcing arrangements which are subsequently managed at the subsidiary level. The Group continuously reviews this arrangement in anticipation of the future growth of the Group, including through the acquisitions which have took place throughout 2023, detailed in section A.5. to ensure the policies and procedures continue to be suitable for the expanded Group. All entities are also compliant with their local regulations on Outsourcing activities, covered in their respective policies and procedures documents. Currently there are processes used to provide oversight and to ensure the appropriate controls are in place for material outsourced or material third party activities. The process is split into two distinct phases; the initial ‘Change’ phase and the ‘Run’ phase.

Before an activity is outsourced, the Group entities conduct a comprehensive pre-outsourcing assessment of the potential outsource provider in line with the procedures and the policy. This is performed by staff from the key areas of the business. Each assessment is specific to both the activities being outsourced and the potential outsource provider.

The results of the pre-outsourcing assessment are reviewed by senior management to assess the balance between risk and reward in respect of the potential outsourcing as well as determining the likely effectiveness of the control of those activities, once outsourced.

Once an activity has been outsourced, the entities apply post-outsourcing controls and governance in order to ensure that the outsource provider remains suitable and that all risks associated with that outsourcing are managed effectively.

A number of critical activities are outsourced including, the DPO function, third party loss claim handling, internal audit, tax and actuarial. Both Agila and Veterfina outsource their IT provisions and IT systems used for policy and claims handling (with an IT support role) respectively. Service providers are located in the UK, Germany and Netherlands. This includes the service arrangement for PIMS to provide the staff and assets necessary to support the operational requirements of PIC which amounted to an intercompany charge of £36.9m during the financial year. This transaction is eliminated for group reporting purposes.

B.8. Any other information

The system of governance is considered adequate for the nature, scale and complexity of the risks inherent in the business. In anticipation of the growth of the business, the Group continually reviews its governance arrangements to ensure they remain fit for purpose.

C. Risk profile

The Group's activities are exposed to a number of key risks which have the potential to affect the Group's ability to achieve its business objectives. The PPG Board (as delegated from the PPH Board) is responsible for ensuring that an appropriate structure for managing these risks is maintained.

The table below provides an overview of the overall risk profile, followed by more detailed descriptions of each corresponding risk category. The key risks and risk mitigation framework are then highlighted.

Risk (£'000)	2023	2022 (Unaudited)
Underwriting Risk	101,116	77,308
Market Risk	25,098	6,244
Credit Risk	13,155	7,232
Liquidity risk	--	-
Operational risk	11,172	3,269
Other material risks	-	-
Diversification	(21,931)	(7,773)
LAC DT	(12,193)	-
Total	**116,416**	**86,280**

C.1. Underwriting risk

The Group's underwriting risk exposures is accepted through the activities of the insurance carriers within the scope of the Group. As such, the risk profile of the Group is highly correlated with these three entities across their respective geographic locations and represents the most significant risk of the Group.

C.1.1. Risk exposures:

The non-life underwriting risk is the main component of the Group's risk profile, representing 88% of the solvency capital requirement at the end of 2023.

The non-life exposure (gross of reinsurance) relates to:

- The miscellaneous line of business with 96% of the non-life exposure comprising unemployment risk and pet health insurance;
- The motor, general liability and fire lines of business with 4% of the exposure mainly comprising of claims outstanding; and

Catastrophe ("CAT") risk arises from infrequent shock events that give rise to large numbers of claims or large individual claims. This has dropped significantly in 2023 to £9.6m compared to £47.9m in 2022. This is due to the CAT risk arising from the pet insurance written by the Group that has been reinsured.

The premium and reserve risk arises from the premium exposure and the development of outstanding unsettled claims at period end.

Lapse risk quantifies the impact of policyholders terminating their contracts earlier than expected. This risk remains relatively small due to the short-term nature of the products the Group currently underwrites (most of which being monthly or annual policies), which limits the period over which adverse changes in customer behaviours can apply.

Since the introduction of a quota-share reinsurance treaty with Darnell DAC in 2021, the Group has retained no net of reinsurance non-life exposure on any non-pet product line, meaning that the miscellaneous financial loss line of business now covers almost 100% of the net non-life risks (with less than 0.1% on General Liability insurance line, relating to pet third party liability cover).

The introduction of the separate quota share reinsurance contract on PIC in late 2023 has driven the relatively small increase in Underwriting risk given the growth in business volumes.

On the creditor book, the underwriting risk profile relates mainly to the risk inherent to unemployment and temporary disability. The exposure is reducing in line with the business volumes however there continues to be exposure to the risk of economic downturn on a gross of reinsurance basis. The exposure net of reinsurance is nil.

The motor and household exposure to risks ceased at the end of 2016. However, the insurer continues to be exposed to the development of some historic claims (reserving risk) and notably for large bodily injury motor claims.

The annuity and assurance book are in run-off leading to a continuously decreasing exposure to longevity risk.

C.1.2. Risk concentration.

Non-life underwriting risks mainly relate to the Premium & Reserve Risk 89% and Catastrophe Risk 9% with the remaining arising from Lapse Risk 2% as of 31 December 2023.

The underwriting risk is split through the activities across the Group's insurance carriers, concentrated on a single line of business, underwriting pet insurance with policies spread across Northern Europe (31% by prior year net earned premium), and Western Europe (69%) being the largest geographies. The remaining other in-force non-pet insurance liabilities ("pure legacy") and all renewal and new non-pet insurance liabilities ("ongoing legacy business") have been ceded to Darnell DAC (a BNP Paribas Group reinsurance business based in Dublin) on a 100% quota share basis.

C.1.3. Risk mitigation:

The Group actively seeks out underwriting risk which it seeks to monitor and manage through the adopting of the following risk management practices:

- the implementation of an underwriting policy with risk tolerance and pricing and reserving procedures;
- entering into reinsurance programmes to reduce net exposures (on all non-pet product lines and pet third party liability risk), the reinsurance programme has now expanded to include the reinsurance of CAT risk;

- re-pricing of products when deemed necessary; and
- the review of risk monitoring dashboards and a risk monitoring committee at a subsidiary level.

C.2. Market risk

Market risk is the risk that the Group is adversely affected by movements in the value of its financial assets arising from market movements. Due to nature of the companies in the Group, with investments largely held in the insurance carriers, the market risk exposures are concentrated to their investment portfolios and the group's related undertakings. Market risk contributes 22% of the Group's SCR.

C.2.1. Risk exposures:

The Group is exposed to market risk mainly related to the following:

1. Interest Rate Risk and Spread Risk through its bond investments held by the insurance carriers as part of their investment strategies.
2. Concentration Risk is composed of the consolidated investment portfolio and the group related undertakings which are unrated.
3. Equity Risk exposure resulting from its related undertakings. The related undertakings are strategic participations integral to the strategy of the group and intended to be held for the long term; and
4. Currency Risk coming from the euro denominated companies within the Group.

C.2.2. Risk concentration

Risk Concentrations arises from large investments in individual counterparties and single name exposure. Market risk excludes assets in scope of the counterparty default risk module (Section C.3).

C.2.3. Risk mitigation:

The Group has a low-risk appetite for market risk, which has been translated into its Investment Policy to invest predominantly within prescribed credit rating limits, in essence ratings of:

- "A" or better +20% of its investment portfolio;
- "A" or lower, to a maximum of 80% of its investment portfolio; and
- No holdings are permitted in BBB- rated investments.

The Investment Policy also stipulates specific concentration exposure and duration limits, and these are considered before an investment can be made.

The holdings in related undertakings are strategic participations integral to the strategy of the group and intended to be held for the long term.

C.3. Credit risk

Credit risk is the risk that the Group becomes exposed to a financial loss if a counterparty fails to meet its contractual obligations. The credit risk could therefore impact on the Group's ability to meet its claims and other liabilities as they fall due.

C.3.1. Risk exposures:

The primary source of credit risk for the Group are related to the insurance carriers operational activities and PPG's cash holdings. These are outlined below:

Investment Activities

The insurance carriers are the primary contributors to the Group's credit risk through their investment exposures. The Group seeks to limit, as far as is practical, exposure to credit risk from its investment activities. The investment credit risk is managed through established guidelines and procedures. The Group's investment policy prescribes the investments limits and credit quality of the investments, which are monitored and reviewed on a quarterly basis. The Group maintains a low risk, high quality investment portfolio with exposure concentrated in bonds, bank deposits and cash.

The cash exposures managed at PPG are currently at the oversight of its Board. Part of the cash held by PPG is excess cash contributed as equity by JAB. This is held in a bank account under the name of PPG which is part of a multi-currency notional cash pool arrangement with a financial institution in the Netherlands to manage its global liquidity. Under the arrangement cash deposits in the notional cash pool can be withdrawn at any time. Cash balances under the notional cash pool arrangement are recognised as cash and cash equivalents albeit they represent an injection of capital with an encumbrance and therefore this balance is treated as £Nil towards Own Funds for group solvency purposes and consequently does not attract a counterparty default risk charge.

The table below provides Solvency II investment and cash portfolio by credit quality:

	2023		2022	
AAA	45,988	16%	30,922	7%
AA	62,799	22%	47,533	12%
A	167,800	59%	329,861	80%
BBB	8,549	3%	2,889	1%
	285,135	**100.00%**	**411,205**	**100.00%**

Reinsurance risk

The Group is exposed to reinsurance risk and manages this through the use of preferred reinsurers. No reinsurance counterparty has a rating lower than BBB+. The highest exposure to single reinsurance counterparty is £13.3m rated AA-.

The technical provisions ceded as of 31 December 2023 is £41.7m under Solvency II basis. See section D2 for details on the valuation differences.

Insurance debtors and other receivables

Outstanding premiums receivables balances are monitored by the business operations team on a monthly basis, as a minimum. Concentration risk is also monitored for large partners/brokers.

The value of these receivables under Solvency II basis is £37.5m. See section D for detail on the valuation differences.

C.3.2. Risk concentration

Concentration of credit risk exists where the Group has significant exposure to an individual counterparty or a group of counterparties. As of 31 December 2023, the Group has £30.6m investment with a single issuer with a credit rating of “A+”

C.3.3. Risk mitigation:

As noted in C1, all in-force non-pet insurance liabilities after inuring reinsurance, were ceded to Darnell DAC on a 100% quota share basis from the 31st of December 2021. To secure its payment obligations towards PIC in respect of the above reinsurance treaty with Darnell DAC, the reinsurer has agreed to provide to PIC a guarantee in the form of pledge of cash or securities as set out in a Collateral Security Deed.

The collateral is recalculated annually so that the Group remains protected, and the amount is set equal to PIC’s Non-pet Solvency II best estimate of liabilities plus the risk margin. This valuation happens on an annual basis and is recalculated on a quarterly basis during the year with appropriate simplifications.

The current collateral amount is £16.9m as of 31st December 2023.
In addition to the Darnell DAC quota share, in 2023 a catastrophe reinsurance excess of loss contract, and an additional 50% quota share reinsurance were both introduced in PIC.

The funds held in the notional cash pool arrangement applicable for PPG will be under the ownership and control of PPG. JAB Holding Company S.a.r.l. is the guarantor of the notional cash pooling arrangement. The credit-rating of JAB is Baa1 with stable outlook, as assigned by Moody's Investors Services Limited, and BBB+ with a stable outlook, as assigned by S&P Global Ratings.

C.4. Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.

C.4.1. Risk exposures:

Liquidity needs primarily arise from the payment of claims and expenses which are relatively stable and predictable. Over the planning cycle it is anticipated that the insurance liabilities will remain short tailed due to the primary offering being pet insurance which has a low overall attributable liquidity risk.

The tables below detail the liquid resources available to meet Group's liabilities as they fall due based on the statutory accounts:

As of 31 December (£'000)	2023	1 Year	2-3 Years	4-5 Years	Over 5 Years
Financial investments	199,320	81,652	93,191	15,006	9,471
Cash & cash equivalents	124,052	124,052	-	-	-
Receivables from direct insurance and reinsurance operations	**96,328**	**96,328**	**-**	**-**	**-**
Reinsurance assets	**47,040**	**47,040**	**-**	**-**	**-**
Trade and other receivables	**12,778**	**12,778**	**-**	**-**	**-**
Highly liquid resources	**479,518**	**361,850**	**93,191**	**15,006**	**9,471**
Gross insurance liabilities	157,365	124,915	9,842	3,203	19,405
Other payables	131,402	130,598	56	728	20
Expected liabilities	**288,767**	**255,513**	**9,898**	**3,931**	**19,425**
Surplus funds	**190,751**	**106,337**	**83,293**	**11,075**	**(9,954)**

As of 31 December (£'000)	2022	1 Year	2-3 Years	4-5 Years	Over 5 Years
Financial investments	138,684	87,143	37,526	6,490	7,525
Cash & cash equivalents	280,545	280,545	-	-	-
Highly liquid resources	**419,229**	**367,688**	**37,526**	**6,490**	**7,525**
Gross insurance liabilities	52,549	24,671	7,977	1,936	17,965
Other payables	43,522	43,522	-	-	-
Expected liabilities	**96,071**	**68,193**	**7,977**	**1,936**	**17,965**
Surplus funds	**323,158**	**299,495**	**29,549**	**4,554**	**(10,440)**

The table above shows the Group has surplus funds of £190.8m. The apparent deficit of funds for the period greater than 5 years is due to the table representing the current maturity profile of investments however the firm holds sufficient cash to meet those liabilities.

With regard to liquidity risk, the Expected Profit Included in the Future Premium ("EPIFP") means the expected present value of future cash-flow which results from the inclusion in technical provisions of premium relating to existing insurance contracts that are expected to be received in the future. This is taken as gross of reinsurance, due to the best estimate being calculated as gross.

As of 31 December (£'000)	2023	2022 (Unaudited)
Gross EPIFP	3,754	5,310

C.4.2. Risk concentration

Over the planning cycle it is anticipated that the insurance liabilities will remain short tailed due to the Group being a mono-line pet insurance group and liquidity risk will remain low.

The Group has holdings in cash with 13 credit institutions to avert concentration of liquidity risk

C.4.3. Risk mitigation

The Group mitigates liquidity risk in the following ways:

- The Group maintains a strong liquidity position by holding its assets predominantly in investment grade fixed income securities, call accounts and readily tradable corporate bonds; and
- The Group prepares forecasts to predict the required level of liquidity levels both for short-term and medium-term and adjusts the assets accordingly.
- JAB Holding Company S.a.r.l. is the guarantor of the notional cash pooling arrangement. The credit-rating of JAB is Baa1 with stable outlook, as assigned by Moody's Investors Services Limited, and BBB+ with a stable outlook, as assigned by S&P Global Ratings. In addition, PPG retains cash in operating bank accounts held with other financial institutions that are not part of the notional cash pooling arrangement.

C.5. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human or system errors, or from external events. The Group is exposed to the following material operational risks:

C.5.1. Risk exposures

<u>Cyber risk</u>

The Group recognises the importance of security and resilience and in support of this the Group has employed an executive focused full-time on Cybersecurity across the Group. As the Group has grown through acquisition, different IT environments, controls and processes are currently in place. As such a detailed assessment is being undertaken of existing cybersecurity and business continuity and disaster recovery capabilities within the Group.

Vulnerabilities identified have been assessed for their potential business impact and a prioritised action plan has been drawn up accordingly, identifying near term process improvements and reflecting the longer-term IT strategy, including capability investment where appropriate.

Data management

The group is required to ensure the quality and accuracy of the data underlying the information fundamental to strategic decisions, and compliance with regulations including general data protection and privacy.

The FCA and PRA updates are being monitored and communicated by the Compliance and Risk Teams of the regulated undertakings with a Data Protection Officer in place where required.
The Group has developed a transformation programme to oversee the implementation of new cybersecurity platforms and the decommissioning of obsolete platforms. Additionally, the Group is currently exploring methods to deliver digitalisation and self-service functionality at scale. The design of these identified efficiencies is currently underway, and their delivery will be consistently monitored.

Talent attraction and retention

Attracting qualified staff across the locations where PPG is based is essential to our ongoing operations. In 2023, we have been able attract candidates with the skills we require, albeit some skills such as actuarial/pricing have been harder to find in some locations and it has taken longer to source such roles. We have been able to attract and recruit great talent directly reducing the need to work with agencies, though it is clear the employer brand and employer value proposition is playing an important part in our ability to attract candidates.

We continue to focus on ensuring we provide a competitive offering to prospective candidates, including challenging projects, competitive reward and remote/hybrid working where feasible and appropriate. This has enabled the Group to broaden the geographical area from which it has been able to source suitable candidates enabling us to meet our recruitment needs.

Regulatory Change

The Group, through its subsidiaries, is required to comply with the requirements of UK and EU regulation. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Risk and Compliance teams monitor regulatory updates and risk to ensure these are understood and communicated to the business and adherence to regulatory requirements takes place.

C.5.2. Risk mitigation

The Group manages operational risk through the framework of its regulated entities that embed robust systems and controls which include:

- Internal committees reviewing and reporting material operational risks;

- Incident reporting system: This is used by staff for reporting any operational incidents which are reviewed by the Business Risk Team (BRT) placing appropriate preventive and corrective actions in place;
- Risk and Control Self-Assessment (RCSA): A risk and controls assessment is conducted quarterly to identify key risks and controls and assess these to form a view on the group's risk and control environment. Operational risks are included in these assessments which are conducted by the business with BRT support.
- Corporate level risk register: As part of the risk identification process with the business, key risks are captured on the group's risk register.
- Risk reports are sent to the RAC, which in turn reports to the entity Board: Reports are regularly submitted across all risk areas within the business,

C.6. Other material risks

C.6.1. Merger & Acquisition ("M&A") Risks:

Risk exposures

Over the past 24 months, the Group has made a number of acquisitions, with the focus now having shifted to enhancing its businesses through further growth. Due to its acquisitive approach, the Group is exposed to M&A risks which are capital intensive resulting from transactions which it has entered which are considered as:

1) **Acquisition Risk:** The recent high inflation levels have added an extra layer of uncertainty when pricing deals. This is in addition to the identification of underlying issues within the target acquisitions.
2) **Completion Risk:** Where the deals are subject to regulatory approval, there is a risk in relation to the completion of these transactions, however there are none pending approval at the date of this report; and
3) **Separation Risk:** Operational risks resulting post-transaction including the separation from its prior owners.

Risk mitigation

Management have undertaken the support of industry specialists and experienced professional advisors in their acquisition process. All deals are subject to a comprehensive due diligence process and are ultimately subject to approval from formal investment committees held to review and challenge the acquisitions. The group is also supported by its primary shareholder, JAB, which is highly experienced in undertaking acquisitions.

Each acquisition is managed at a programme level with appropriate oversight over the completion and transitional risks. These include continuous dialogue with the regulatory bodies by the PPG leadership team and the implementation of Transitional Service Arrangements to manage the separation of operations from its previous owners.

C.6.2. Strategic Risks:

Risk exposures

The Group has a comprehensive pet insurance platform that is formed based on multiple brands, channels, and geographic operations. It is considered that a key risk for the Group would be the failure to deliver its medium and long-term strategy which include achieving strategic growth and profitability targets in multiple highly competitive markets in the UK and Europe.

Risk mitigation

The Group undergoes a strategic review on a periodic basis which include the considerations in relation to operational performance, resource allocation and changes in the market environment. PPG's executive directors and senior management of the undertakings, oversee the operational deployment of the strategic plan which is reported to the Group Board quarterly.

C.6.3. Climate change:

Risk exposures

Financial risks from climate change do not currently represent a material risk to the Group. This is considered in context of the following three sub-categories:

1. Physical Risk: The impact on claims liabilities as a result of first order effects of climate change e.g. more natural disasters, is considered immaterial;
2. Transition Risk: Financial risks from climate change are only likely to arise as transition risks i.e. asset devaluation as a consequence of climate change factors for the insurance carriers; and
3. Liability Risk: As a result of first order physical impacts related to climate change, or the second order transition impacts, climate liability risks can arise from injured parties seeking compensation for those impacts. The Group does not have liability insurance exposed to this risk.

A broader ESG roadmap, including climate change elements, is being drawn up by the Group for roll-out in 2024. This roadmap will outline the measures to be taken across all Group companies to support our ESG commitments.

Risk mitigation

As a result, in view of the existing business model, the climate related exposure to the Groups insurance carriers is deemed non-material within all three risk categories of climate risk identified by the PRA in the Periodic Summary Meeting (PSM) letter dated 01 April 2022 sent by the Bank of England.

C.7. Any other information

The Group has quantitatively and qualitatively tested the robustness of its business in accordance with its risk profile against its 3-year projections by considering the impact of the Board approved stress scenario and stress tests.

The Group has implemented procedures to regularly conduct stress and scenario testing, with testing occurring at least once a year within the ORSA process. These testing processes are carried out in conjunction with the Governance Committees and involve various senior management members. The outcomes of these tests enhance the Boards' comprehension of risk, impact business choices, and constitute a crucial component of the company's strategic direction. As part of this exercise, variables such as those below are sensitised.

- New business volumes.
- Claims experience / Loss ratio.
- Asset valuation.
- Inflation levels.

D. Valuation for solvency purposes

Section D describes the valuation of assets and liabilities, including technical provisions, for solvency purposes in accordance with the valuation rules set out in the Valuation and Technical Provisions Parts of the PRA Rulebook and in the Delegated Acts.

The consolidated group financial statements have been prepared in accordance with Generally Accepted Accounting Practice in the UK ("UK GAAP").

This section also summarises any differences to those valuation policies for solvency purposes with reconciliation of key valuation and classification differences.

PPH, PPG, PIC, Agila and Veterfina are fully consolidated for Solvency II purposes. All other subsidiaries are treated as "Other" Related Undertakings. The Group applies the Accounting-Consolidation Method. The data used to calculate group solvency is net of intra-group transactions.

D.1. Assets

The Assets of the Group as of 31 December 2023 are outlined as follows:

Assets (£'000)	2023 UK GAAP	Reclassification	Valuation differences	2023 Solvency II	2022 Solvency II (Unaudited)
Goodwill (D.1.1.)	924,533	-	(924,533)	-	-
Deferred tax assets (D.1.2.)	31,260	20	7,607	38,887	6,156
Current tax assets (D.1.3.)	6,561	(5,780)	-	781	-
Fixed Assets (D.1.4.)	12,230	(11,794)	-	436	-
Inventory	2,899	(2,899)	-	-	-
Intangible assets (D.1.5.)	350,202	(12,280)	(337,922)	-	-
Loans	-	2,569	-	2,569	
Financial investments (D.1.6.)	199,320	51,421	(12,075)	238,666	169,931
Reinsurance assets (D.2)	47,040	1,864	(7,239)	41,665	43,001
Reinsurance receivable (D.1.7.)	5,055	(654)	-	4,401	4,893
Insurance and other receivables (D.1.8.)	110,878	(72,761)	-	38,117	17,699
Cash and cash equivalents (D.1.9.)	124,317	(63,396)	-	60,921	252,868
Deferred acquisition costs (D.1.10.)	11,755	-	(11,755)	-	-
Investment in associates and joint ventures (D.1.11.)	39,121	(39,121)	-	-	-
Total Assets	1,865,171	(152,811)	(1,285,917)	426,443	494,548

D.1.1. Goodwill

Goodwill shall be treated as £Nil for Solvency II purposes. This results in a difference between UK GAAP and Solvency II of £924.5m.

D.1.2. Deferred tax assets

Deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) are determined by reference to the difference between the Solvency II balance sheet and the values ascribed for tax purposes and are calculated at the rates at which it is expected that the tax will arise. Deferred tax assets are recognised where it is probable that future taxable profits will be achieved to utilised against temporary differences. Total deferred tax assets amount to £38.9m which represents £29.7m in respect of carry forward of tax losses, with the remainder primarily derived from valuation differences between values ascribed for tax purposes and Solvency II valuations.

D.1.3. Current tax assets

Current tax assets amounting to £0.8m relate to an overpayment of current tax that are expected to be recovered from the taxation authorities.

D.1.4. Fixed assets

Fixed assets relate to property, plant and equipment held within the Group. In accordance with the accounting-consolidation method, the entities which hold majority of these assets are those subsidiaries included within Holdings in related undertakings (shown above in Financial investments) using the adjusted equity method. Therefore, the value of fixed assets is reclassified to the financial investments resulting in a reduction of £11.8m to £0.4m on a Solvency II basis. The valuation under UKGAAP is the cost model, this is deemed to be materially equivalent to the fair value required under Solvency II.

D.1.5. Intangible assets

Under Solvency II, intangible assets are only ascribed a value when they can be sold separately and it can be demonstrated that there are quoted prices in an active market for the same or similar assets. The Group has determined that its intangible assets are do not meet these criteria and hence are valued at £NIL. This includes the intangible assets for holdings in related undertakings.

D.1.6. Financial investments

Solvency II requires that financial investments are measured at fair value. To derive this valuation it follows a valuation hierarchy whereby assets must first be valued using quoted market prices in active markets for the same assets or liabilities. If this is not possible then a valuation can be derived using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences. Where this is also not possible, alternative valuation methods can be used.

Quoted market prices in active markets are those prices readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, based on actual and regular arm's length transactions.

UK GAAP, under which the Group draws up its consolidated Group financial statements, applies a similar hierarchy to determine fair value. The PRA has determined that the fair value under UK GAAP is an appropriate for measurement under Solvency II. Consequently, the valuations under both bases are materially similar and a single valuation is applied across both.

The Group's financial investments comprise related undertakings, bonds and term-deposits which are analysed below:

Financial investments (£'000)	2023 UK GAAP	Reclassification	Valuation differences	2023 Solvency II	2022 Solvency II (Unaudited)
Holdings in related undertakings, including participations	-	26,526	(12,075)	14,451	11,594
Financial investments	199,320	(199,320)	-	-	
Corporate bonds	-	22,120	-	22,120	18,134
Government bonds	-	70,002	-	70,002	33,257
Collective Investments Undertakings	-	15,003	-	15,003	19,500
Deposits with credit institutions	-	117,090	-	117,090	87,445
Total	199,320	51,421	(12,075)	238,666	169,930

Differences to Solvency II purposes represents reclassification of:

- All related undertakings except PPH, PPG, PIC, Agila and Veterfina (which are fully consolidated) are classified as "Other" related undertakings for Solvency II purposes and are based on an adjusted equity method (as quoted prices in active markets are not available). The value of related undertakings results amounted to £14.4m.
- Accrued interest of £0.7m is recognised in the valuation of 'investments' on the Solvency II balance sheet but held within 'other assets' on the UK GAAP balance sheet. The amount is split between Corporate and Government bonds as appropriately required.
- A highly liquid deposit of £15.0m into Solvency II balance category of "Collective Investments undertakings" and £7.7m into the "Deposits with credit institutions" category which are held within cash and cash equivalents under UK GAAP basis.
- The valuation difference of £12m primarily arises due to intangible assets held by the related undertakings. Intangible Assets shall be treated as £Nil for Solvency II purposes unless the assets can be sold separately and can derive a value based on similar assets. For the purposes of group solvency this was not deemed applicable and were therefore treated as £Nil.

The classification of assets depends on the nature and purpose of the financial assets that is determined at the time of initial recognition. The Group invests in these types of instruments and recognises its corporate bonds and government bonds at fair value through profit or loss which is valued using quoted market prices at the period end date provided by recognised pricing sources. The deposits with credit institutions are measured using amortised cost method which is deemed materially equivalent to their fair value. The Solvency II valuation rules for financial investments are consistent and in line with those applied in the UK GAAP financial statements.

D.1.7. Reinsurance receivable

The UK GAAP valuation of reinsurance receivables is determined by the amortised cost valuation method. Since the receivables are short-term in nature, this method closely approximates fair value.

D.1.8. Insurance and other receivables

The value as at the period-end is £110.8m under UK GAAP and £38.1m under Solvency II. The total difference is £72.7m made up of:

- Receivables from direct insurance operations of £60.5m;
- Prepayment and accrued income of £6.7m;
- Trade receivables of £2.2m; and
- Other receivables of £3.3m

In accordance with Solvency II requirements, premium cash flows falling due after the valuation date are recognised (net of future commissions due) as a reduction of technical provisions. This results in a reduction of premiums due as insurance receivables at the valuation date of £59.3m, relating to those required to be included in Technical Provisions.

The accrued interest of £0.7m is reclassified from the “insurance and other receivables” heading within UK GAAP financial statement to the underlying investments within the Solvency II balance sheet.

D.1.9. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short maturity, highly liquid investments, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. The cash and cash equivalents are considered to be held at fair value under Solvency II.

Under UK GAAP, cash and cash equivalents are £124.3m which have reduced by £63.4m to £60.9m due to a reclassification of a highly liquid deposit of £22.7m into Solvency II balance category of “Financial Investments" and cash held in “Other” Related Undertakings of £40.7m treated as Holdings in related undertakings, including participations under Financial Investments.

Cash balances of the amount £0.8m are part of the notional cash pool arrangement and are recognised as cash and cash equivalents albeit as a deduction from own funds as it represents an injection of capital with encumbrance. Therefore, this cash is treated as £Nil towards Own Funds for group solvency purposes. Further information of this is outlined in E.1.

D.1.10. Deferred acquisition costs

Under UK GAAP, acquisition costs are deferred commensurate with the unearned premiums provisions. The deferred acquisition costs (DAC) are separately presented as an asset (valued at £11.8m) in the UK GAAP balance sheet. However, under Solvency II, there is no equivalent concept of DAC within the premium's provisions' (part of Solvency II best estimates) valuation of expenses, and therefore DAC is not included as an asset.

D.1.11. Investment in associates and joint ventures

Represents investment in COIEL (joint venture) and Vet-AI (associate) which have been reclassified as holdings in related undertakings under Solvency II balance sheet.

D.1.12. Any other information

Nothing further to be disclosed in this section.

D.2. Technical provisions

The Technical provisions of the Group as of 31 December 2023 are outlined as follows:

Technical Provisions (£'000)	2023 UK GAAP	Reclassification	Other valuation differences	2023 Solvency II	2022 Solvency II (Unaudited)
Non-life (excluding health)	133,160	(7,908)	(58,851)	66,401	33,307
Health (similar to non-life)	1,527	403	(306)	1,624	2,547
Life	22,678	71	(1,688)	21,061	22,170
Total	**157,365**	**(7,434)**	**(60,845)**	**89,086**	**58,025**

Technical provisions are valued in accordance with Solvency II as adopted in the PRA rulebook which states that the value of technical provisions shall be equal to the sum of a best estimate Liabilities ("BEL") and the risk margin. The one departure from the PRA rulebook is the use of the yield curves produced by EIOPA, rather than the PRA for the discounting of the Agila and Veterfina contributions to the technical provisions, but we have confirmed that this does not produce any material difference.

The technical provisions excluding reinsurance recoverable as of 31 December 2023 were:

Technical provisions Gross of RI (£'000)	31 December 2023	31 December 2022 (Unaudited)
Technical provisions – non-life (excluding health)		
Best Estimate	62,303	28,296
Risk margin	4,098	5,011
Technical provisions - health (similar to non-life)		
Best Estimate	1,617	2,537
Risk margin	7	10
Technical provisions – life		
Best Estimate	20,820	21,970
Risk margin	241	200
TECHNICAL PROVISIONS Solvency II Balance Sheet	**89,086**	**58,025**
TECHNICAL PROVISIONS UK GAAP Balance Sheet	**157,365**	**113,870**

The technical provisions net of reinsurance recoverable of £41.7m as of 31 December 2023 were:

Technical provisions Net of RI (£'000)	31 December 2023	31 December 2022 (Unaudited)
Technical provisions – non-life (excluding health)		
Best Estimate	43,074	9,803
Risk margin	4,098	5,011
Technical provisions - health (similar to non-life)		
Best Estimate	0	0
Risk margin	7	10
Technical provisions – life		
Best Estimate	0	0
Risk margin	241	200
TECHNICAL PROVISIONS Solvency II Balance Sheet	**47,420**	**15,024**

UK GAAP technical provisions: comprises unearned premium reserves, claims outstanding and long-term business provisions amounting to £157.3m in 2023, compared to £113.9m in 2022.

The BEL is the sum of the claims provision BEL (valuation outstanding claims reserves run-off under Solvency II) and the premium provision BEL (arising from future events). Combined with the Risk Margin, the Solvency II technical provisions against UK GAAP decreased by £68.2m from £157.3m to £89.1m under Solvency II, which is explained by the combination of the main following factors:

- Premium receivables from annual premiums that are payable monthly is recognised in full under UK GAAP. Under Solvency II these are de-annualised resulting in a decrease in technical provisions of £59.8m.
- The unearned premium reserve is gross of commission payable. The related commission is not accounted for as deferred acquisition costs under UK GAAP. Under Solvency II, this is considered net of commission which results in a decrease in technical provisions of £2.1m.
- Margins are included under UK GAAP relating to claims and premium provisions of £12.4m and £2.8m respectively. Under Solvency II, these margins are derecognised resulting in a reduction of technical provisions relating to these margins.
- Under Solvency II, an allowance for expected profits in future premiums (“EPIFP”) is included of £3.7m reducing the liability;
- The differences resulting from the expense reserving methodology between UK GAAP and Solvency II amounting to an increase of £4.3m of technical provisions;
- Under Solvency II, the risk margin reflecting the cost of capital is included resulting in an increase of £4.3m.
- A fair value adjustment is recognised under an UK GAAP basis however is derecognised under a Solvency II basis, resulting in a valuation difference of £1.3m.
- Other minor components include the effect of discounting (a decrease of £0.4m) and an allowance for Events Not In Data (“ENID”) ceded to reinsurance of (an increase of £0.9m).

Under Solvency II it is also required to reclassify the loss-absorbing element of profit share receivables and profit share payables. Profit share payables is reclassified into technical provisions amounting to an increase in liabilities of £0.7m.
For the valuation of the BEL claims, the approach between Solvency II and the statutory accounts is largely aligned. The statutory accounts best estimate claims outstanding reserves are used as the basis for future payment projections. The differences are limited to the use of an annual payment pattern combined with the application of a risk-free discount rate and the introduction of ENID.

Instead of the Unearned Premium Reserve contained within the GAAP financial statements, the future cash flows arising from unearned exposure at the valuation date (mainly claims from unearned exposure and expected future premium generated by the monthly premium product cover up to their contractual liabilities terms) are taken into account.

With the exception of annuities and assurance products, the future claims payments are estimated using a loss ratio approach applied to the premium exposure.

The gross technical provisions by Solvency II lines of business are set out in the table below:

By line of business (£'000)	2023			2022 (Unaudited)		
	Best estimate	Risk margin	Total	Best estimate	Risk margin	Total
Income protection	1,617	7	1,624	2,538	10	2,548
Motor vehicle liability	9,245	120	9,365	10,254	92	10,346
Other motor	1,655	7	1,662	3,154	8	3,162
Fire & other damage to property	344	1	345	186	-	186
General liability	11,862	764	12,626	2,270	6	2,276
Miscellaneous financial loss	39,197	3,206	42,403	12,432	4,905	17,337
Non-life	63,920	4,105	68,025	30,834	5,021	35,855
Annuities stemming from non-life	3,962	185	4,147	4,288	157	4,445
Other life	16,858	56	16,914	17,682	43	17,725
Life	20,820	241	21,061	21,970	200	22,170
TOTAL TECHNICAL PROVISIONS	84,740	4,346	89,086	52,804	5,221	58,025

- The gross BEL for the Miscellaneous financial loss line of business is £39.2m, comprising pet and creditor unemployment risks, together representing 61% of the Group's overall non-life BEL;
- The gross BEL for the motor vehicle liability line is £9.2m representing 14% of the non-life BEL. As the activity on motor ceased in 2015, this only includes outstanding claims;
- The gross BEL for the General liability line is £11.9m representing 19% of the total non-life BEL, and relates to third-party liability cover on pet dog policies.
- The Life BEL is £20.8m representing 25% of the total BEL. This includes large outstanding bodily injury claims that have settled prior to 31 December 2023 as the periodical payment orders (PPO) has been transferred from the "motor vehicle liability" line to the "Annuities stemming from non-life" line.

Description of method used for technical provision assessment

The technical provisions (Best estimate liability and Risk Margin) are derived from the sum of the solo insurers' technical provisions, as per the delegated acts articles 339 and 340.

Assessment of the Best Estimate Liabilities

The liability cash flow projections are assessed using deterministic based and best estimate assumptions.

For the Non-Life lines of business (and Health), the projections are made by homogeneous risk groups. For the small portfolio of annuities and assurance products, the projections are made for each individual policy in line with the financial statement methodology. The cash flows taken into account for the purpose of the projections are:

- future premiums arising from existing contracts at the projection start date;
- claims payable (arising from outstanding claim reserve, unearned premium reserve and future premium on existing contracts);
- commissions and profit share payable to intermediaries;
- overheads (including claims management cost and administration costs); and
- recoverable from reinsurance.

Assessment of the reinsurance recoverable

The best estimates are calculated gross of reinsurance and without deduction of amounts recoverable from reinsurance contracts.

The amounts recoverable are calculated separately, following the same principles as presented for the best estimate and consistently with the contract liability term of the underlying policies covered and the reinsurance contract term. The result is then adjusted to take account of expected losses due to default of the counterparty. This adjustment is based on the probability of default of the reinsurance counterparty based on its rating.

The above adjustment is applicable only on pet business. PIC is protected on any credit risk on this reinsurance via a collateral agreement whereby Darnell DAC place an amount equivalent to the initial reinsurance premium (SII BEL + Risk Margin) into a custodian account. So, reinsurance credit risk adjustment is set to zero for all non-pet business.

Assessment of Risk Margin

The risk margin is assessed as the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance obligations over their lifetime. It is calculated as 4% (the prescribed cost of capital rate; 2022: 6%) of the present value of the projected SCR at the end of each year. The SCR is assessed based on year-end using drivers for each component based on the runoff risk profile of the portfolio. The reduction in the cost of capital rate from 6% since the previous year has a favourable impact on solvency, although there are a number of other impacts especially the acquisition of Agila and Veterfina.

Uncertainty associated with the amount of technical provisions

There is uncertainty arising from the projection method (deterministic approach). For non-life projections, there is uncertainty related to the grouping of insurance and reinsurance obligations on a limited number of homogeneous risk groups for liabilities arising from future premiums. However, this risk is limited due to the short projection horizon of future premium.

There are a number of other potential sources of uncertainty, such as:

- Interest rate developments (in long-tail lines such as liability)
- Development of major losses in liability
- Occurrence of late claims
- New types of claims (e.g. pandemic)
- Development of external claims settlement costs
- Socio-economic conditions such as inflation
- Changes in laws and court rulings

Details on key assumptions

The key assumptions used in the projection are the following:

- future loss ratios;
- discount rate;
- best estimate mortality table; and
- overheads projected.

Overheads

The overheads are projected using two main components: administration costs and claims management expenses. The overheads projections are based on the detailed analysis of 2023 costs structure taking into account expected future inflation.

Loss ratio

The loss ratio used for the purpose of BEL premium assessment is calibrated using a tailor-made study for most material homogeneous risk groups and based on past months experience for others.

Reinsurance assets

Reinsurance assets are valued at £47.0m on a UK GAAP basis and £41.7m under Solvency II basis resulting in an £5.3m difference. The UK GAAP valuation of reinsurance assets is determined by the best estimate reserving methodologies of the respective solo insurers. The Solvency II valuation basis is the same as that used in the Gross Technical Provisions described in section D.2.The table below provides a reconciliation of the differences between UK GAAP and Solvency II carrying values:

Reinsurance assets (£'000)	2023 UK GAAP	Reclassification	Valuation differences	2023 Solvency II	2022 Solvency II (Unaudited)
Non-life excluding health	22,835	1,390	(4,996)	19,229	18,494
Health similar to non-life	1,527	403	(314)	1,616	2,537
Life excluding health	22,678	71	(1,928)	20,820	21,970
Total Assets	47,040	1,864	(7,239)	41,665	43,001

The valuation difference of £7.2m between the UK GAAP basis to Solvency II basis mainly arises from the margins included under UK GAAP relating to claims and premium provisions of £5.1m and £2.6m respectively. Under Solvency II, these margins are derecognised resulting in a reduction of reinsurance assets relating to these margins.

Long-Term Guarantee and Transitional Measures

The Group does not apply the following (as transposed into the PRA rulebook):

- Matching adjustment referred to in Article 77b of the Solvency II Directive;
- Volatility adjustment referred to in Article 77d of the Solvency II Directive ;

- Transitional risk-free interest rate-term structure referred to Article 308c of the Solvency II Directive; and
- Transitional deduction referred to in Article 308d of the Solvency II Directive.

D.3. Other liabilities

D.3.1. Other liabilities as at period-end

The table below details the Other Liabilities as of 31 December 2023 of £83.4m.

Other Liabilities (£'000)	2023 UK GAAP	Reclassification	Valuation differences	2023 Solvency II	2022 Solvency II (Unaudited)
Deferred tax liabilities (D.3.2.)	96,525	(208)	(89,841)	6,476	-
Insurance & Payables (D.3.3.)	20,142	(7,832)	-	12,310	24,707
Reinsurance payables (D.3.3.)	6,868	(9)	-	6,859	552
Payables (trade, not insurance) (D.3.3.)	82,223	(32,599)	-	49,624	14,665
Any other liabilities and provisions, not elsewhere shown (D.3.4.)	22,790	(9,327)	(5,365)	8,098	10,181
Other liabilities	**228,548**	**(49,974)**	**(95,205)**	**83,368**	**50,104**

D.3.2. Deferred tax liabilities

Deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) are determined by reference to the difference between the Solvency II balance sheet and the values ascribed for tax purposes and are calculated at the rates at which it is expected that the tax will arise.

D.3.3. Payables

Insurance & intermediaries payables, reinsurance payables and trade payables are measured at fair value under Solvency II.

D.3.4. Any other liabilities and provisions, not elsewhere shown

This relates to the current tax liabilities, measured at fair value and other liabilities which include those related undertakings with negative adjusted equity valuations.

D.3.5. Differences between Solvency II valuation and UK GAAP valuation by material class of other liabilities

The valuation differences primarily relate to the derecognition for the purposes of Solvency II balance sheet of the deferred tax liabilities arising on goodwill and intangible assets, claims equalisation reserve and intangibles of non-insurance entities having net liabilities under UK GAAP.

D.4. Alternative methods for valuation

The Group does not use any alternative methods for valuation.

D.5. Any other information

Following the Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations coming into force on 31 December 2023, the Group calculates its Technical Provisions using a risk margin with a cost of capital rate of 4%. Veterfina and Agila continue to use a cost of capital rate of 6% in line with Solvency II regulations in their territories. By applying the 4% cost of capital rate, this results in a reduction in the Agila and Veterfina Technical Provisions included in the Group calculation of £0.7m.

E. Capital management

Under the Solvency II regime, the Group is required to hold sufficient own funds to cover its Group SCR.

The primary aim of capital management is to optimize the balance between return and risk, while ensuring compliance with regulatory capital requirements based on the risk appetite. In managing Own Funds, the Group pursues the following objectives:

- Align the asset and liability profiles, considering the inherent risks of the businesses.
- Maintain adequate financial strength to support business growth, meet policyholder and regulatory obligations set by the supervisors overseeing the Group and its subsidiaries.
- Preserve financial flexibility by maintaining sufficient liquidity.
- Efficiently allocate capital, directing it towards value-adding growth and returning excess capital in subsidiaries to PPG through dividends to allow for deployment elsewhere in the Group if needed.

The Group’s capital management policy is to maintain its own funds in excess of the Group SCR with a target minimum coverage of 120%. In order to monitor this, regular capital calculations are performed and forward-looking evaluations of capital are conducted over a three-year planning period and reported as part of the Group's annual ORSA process. The Group also has relevant procedures by different Group functions in place to assess earnings volatility, capital requirements volatility, and to enhance capital management efficiency.

E.1. Own Funds

E.1.1. Own funds position as at period-end

Overall, the Group’s capital position as of 31 December 2023 is as follows:

Solvency Position (£'000)	31 December 2023	31 December 2022 (Unaudited)
Eligible Own Funds	231,068	135,542
SCR	116,416	86,280
Minimum consolidated group SCR	41,047	21,570
Capital Surplus	114,652	49,262
Solvency Ratio	198%	157%

The Group's Solvency ratio is 198%, with own funds comprising unrestricted Tier 1 and Tier 3 assets. The Group's SCR is £116.4m, calculated using the acquisition and consolidation method. The Group classifies its own funds as Tier 1, Tier 2 or Tier 3 depending on the characteristics of the capital. Tier 1 capital is the best form of capital for the purposes of absorbing losses. The movement in the year has largely been driven by the acquisition of entities discussed in A.1.5, the most significant of which are Agila and Veterfina.

The reconciliation from the UK GAAP equity to Solvency II excess of assets over liabilities is analysed as:

Reconciliation (£'000)	31 December 2023	31 December 2022 (Unaudited)
UK GAAP Equity	1,479,258	529,965
- related undertakings not in scope of financial statements	-	286
- goodwill	(924,533)	(126,582)
- intangible assets	(351,328)	(22,490)
- reinsurance share of technical provisions	(6,721)	(8,140)
- gross technical provisions liability	1,053	55,845
- premium receivables	-	(40,540)
- de-recognition of deferred acquisition costs	(11,755)	(670)
- valuation adjustment of deferred tax assets	7,607	(1,254)
- de-recognition of deferred tax liability relating to goodwill and intangible assets	89,841	-
- claims equalisation provision	6,696	-
- adjustments relating to measurement of joint ventures and associates using the adjusted equity method	(36,131)	-
Solvency II valuation differences	**(1,225,271)**	**(143,545)**
Solvency II Excess assets over liabilities	**253,987**	**386,419**

E.1.2. Own funds eligible to meet the SCR as of 31 December 2023

Own Funds (£'000)	2023	Tier 1	Tier 2	Tier 3
Ordinary share capital	16,481	16,481	-	-
Share premium	1,483,258	1,483,258	-	-
Reconciliation reserve	(1,278,162)	(1,278,162)	-	-
An amount equal to the value of net deferred tax assets	**32,411**			32,411
Total basic own funds	**253,987**	221,577	-	32,411
Deductions:				
Non-available minority interests at group level	(7,136)	(7,136)	-	-
An amount equal to the value of net deferred tax assets	(14,949)			(14,949)
Encumbrance of injected capital	(835)	(835)	-	-
Own funds eligible to meet the SCR	**231,068**	213,606	-	17,462
Own funds eligible to meet the minimum consolidated group SCR	**213,606**	213,606	-	-

Own Funds (£'000) (Unaudited)	2022	Tier 1	Tier 2	Tier 3
Ordinary share capital	6,227	6,227	-	
Share premiums	560,440	560,440	-	-
Reconciliation reserve	(186,368)	(186,368)	-	-
Non-available minority interests at group level	88	88		
An amount equal to the value of net deferred tax assets	6,032			6,032
Total basic own funds	**386,419**	380,387	-	6,032
Deductions:				
Non-available minority interests at group level	(88)	(88)	-	
An amount equal to the value of net deferred tax assets	(6,032)			(6,032)
Encumbrance of injected capital	(244,757)	(244,757)	-	-
Own funds eligible to meet the SCR	**135,542**	135,542	-	-
Own funds eligible to meet the minimum consolidated group SCR	**135,542**	135,542	-	-

As outlined in Section C.3.1, £0.8m of the cash held by PPG is excess cash contributed as equity by JAB. This is held in a bank account under the name of PPG which is part of a multi-currency notional cash pool arrangement with a financial institution in the Netherlands to manage its global liquidity.

Cash balances under the notional cash pool arrangement are recognised as cash and cash equivalents albeit representing injected capital subject to encumbrance. Therefore, this cash is treated as £Nil towards Own Funds for group solvency purposes.

None of the Group's own funds are subject to transitional arrangements.

E.1.3. Ancillary Own Funds

The Group has no ancillary own funds as of 31 December 2023.

E.1.4. Deferred Tax

Deferred tax assets, as part of Tier 3 Own Funds, are subject to the restriction that eligible amounts of Tier 3 items must be less than 15% of the SCR. An assessment is performed to consider the availability of deferred tax assets at a Group level by considering if these restrictions impact deferred tax assets within the individual insurance carriers. The amounts of deferred tax assets within the insurance carriers are not subject to any restrictions or deductions and as such are considered available at a group-level. However, as noted above, as at 31 December 2023, the aggregate deferred tax assets included within Tier 3 Own Funds of the Group of £32.4m exceeds the limit of 15% of the Group SCR. This has resulted in £17.5m of this balance being recognised as eligible own funds. No deferred tax assets are considered eligible to cover the minimum consolidated group SCR.

In arriving at the valuation of deferred tax assets, the Group takes into consideration the assessment of the likelihood of future taxable profits to realise the deferred tax assets. This is performed factoring in consideration of amongst other things, past performance, taxation rules in the jurisdictions and any time limits. Where projections are made, they are using assumptions that are broadly consistent with the projections used elsewhere in the Group and allow for the degree of uncertainty that stems from forward looking projections.

E.2. SCR and minimum consolidated group SCR

E.2.1. Overview

The Group’s SCR and minimum consolidated group SCR as of 31 December 2023 are £116.4m and £41.0m respectively. The increase in the SCR is predominantly caused by the growth in the business of PIC (partially offset by the impact of the quota share reinsurance arrangement) and the addition of Agila and Veterfina to the Group.

The SCR of the Group is based on the Accounting Consolidation method and is the consolidation of the market, counterparty, and non-life underwriting risks, less a credit for diversification, an additional charge to represent the operational risks faced by the Group and adjustment for the Loss Absorbing Capacity of Deferred Taxes relating to Agila:

SCR (£'000)	31 December 2023	31 December 2022 (Unaudited)
Market Risk	25,098	6,244
Default Risk	13,155	7,232
Life Risk	0	0
Health Risk	0	0
Non-Life Risk	101,116	77,308
Diversification	(21,932)	(7,773)
Basic SCR	**117,437**	**83,011**
Operational Risk	11,172	3,269
Loss Absorbing Capacity of Deferred Taxes	(12,193)	-
SCR	**116,416**	**86,280**

The Insurance carriers are the three risk-bearing entities of the Group, representing approximately 97% of the Group SCR. The Group has not used undertaking specific parameters to calculate the SCR pursuant to Article 104(7) of the Solvency II Directive. The Group SCR floor is £41.0m which is equal to the aggregated insurance carriers' MCR. The SCR remains subject to formal supervisory assessment and includes no adjustments or capital add-on. The key points to note in relation to the Group SCR are:

Market Risk

A component of the Group SCR is driven by the risks inherent within the Group's assets and liabilities portfolio are as follows:

Market Risk (£'000)	31 December 2023	31 December 2022 (Unaudited)
Interest rate risk	2,491	2,481
Equity Risk	2,972	2,551
Property Risk	100	-
Spread risk	1,028	558
Currency risk	22,902	72
Concentration risk	2,947	4,865
Undiversified Market Risk	**32,440**	**10,527**
Less: Diversification effect	(7,342)	(4,283)
Market risk	**25,098**	**6,244**

The Market risk net of diversification is £25.1m and arises from:

- **Interest rate risk:** driven by changes in assets and liabilities of insurance carriers due to changes in term structure of interest rates.
- **Equity risk:** risk arising from the level of market prices for equities. The equity risk exposure is only related to the Group's related undertakings.
- **Property risk:** risk arising from the level of market prices for property. The property risk exposure is only related to the Group's related undertakings.
- **Spread risk:** results from the sensitivity of the value of assets, liabilities, and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate structure. The spread risk applies to the insurance carriers' holdings in corporate bonds.
- **Currency risk:** arises from changes in the level or volatility of currency exchange rates relating to the Groups European entities.
- **Concentration risk:** arises from large investments in individual counterparties and single name exposure. It applies to investment holdings in excess of a specified threshold, and is based on exposure, rating and total assets held. The most significant concentration exposures are related to its related undertakings which are considered strategic in nature.

The Group's insurance undertakings or holdings companies do not hold any investments in properties, hence no associated impact on the Group SCR.

The diversification effect between the sub-modules of Market risk amounted to £7.3m.

Counterparty default risk:

The table below provides a breakdown by each asset class:

	31 December 2023	31 December 2022 (Unaudited)
Type 1 - rated	7,785	4,344
Type 2 - unrated	6,266	3,378
Diversification	(897)	(491)
Counterparty default risk	**13,155**	**7,232**

The Counterparty default risk module amounted to £13.2m which arises from risk of default on reinsurance recoverable, cash at bank and deposits, and overdue premium debtors.

Non- life underwriting risk:

The table below provides a breakdown by component:

Non-life Underwriting Risk (£'000)	31 December 2023	31 December 2022 (Unaudited)
Non-life premium & reserve	98,265	49,815
Non-life Lapse	2,090	1,924
Non-life Catastrophe	9,587	47,931
Diversification	(8,832)	(22,362)
Non-life underwriting risk	**101,111**	**77,308**

The non-life underwriting risk arises from:

- premium and reserve risks of £98.3m mostly driven by premium exposure to the miscellaneous financial loss line (pet business);
- catastrophe exposure of £9.6m mostly driven by future premium exposure on the miscellaneous financial loss line, reflecting planned growth of the pet business; and
- lapse risk of £2.1m on future premium arising from existing contracts up to their contractual term.

Operational risk:

Operational risk amounted to £11.2m and is driven by life and non-life gross earned premium.

Operational Risk (£'000)	31 December 2023	31 December 2022 (Unaudited)
Premium component		
— Gross earned premium non-life x3%	11,172	3,266
— Gross earned premium life x 4%	-	2
Operational risk	11,172	**3,268**

Loss absorbing capacity of deferred taxes

The SCR includes an allowance for the loss absorbing capacity of deferred taxes of £12.2m which is justified by reference to probable future taxable economic profit in Agila. The balance is supported by an assessment of the potential future performance of the business following a 1 in 200 year shock loss event factoring in assumptions regarding new business and other variables and applying appropriate haircuts to account for the uncertainty of future projections.

E.2.2. Inputs to calculate the minimum consolidated group SCR

The Group has calculated the minimum consolidated Group SCR of £41.0m (2022: £21.6m)] based on rules set out in the Directive and Delegated Regulation. The increase has predominantly been driven by the acquisition of Agila and Veterfina.

The minimum consolidated Group SCR is calculated as the sum of the Minimum Capital Requirements ("MCR") of the three insurance undertakings in the Group. The MCR calculations of these insurers are mainly based on the net value of technical provisions and the volume of premiums written in the last period which are then subject to a floor and a cap, calculated against the size of their SCR.

E.3. Use of the duration-based equity risk sub-module in the calculation of the SCR

This is not applicable.

E.4. Differences between the standard formula and any internal model used

No internal model is used for the purposes of calculating the Group SCR.

E.5. Non-compliance with the minimum consolidated group SCR and non-compliance with the SCR

No non-compliance with the Group SCR or minimum consolidated Group SCR has been reported during the reporting period.

E.6. Any other information

This is not applicable.