# GROUP SOLVENCY & FINANCIAL CONDITION REPORT ("SFCR")

## PINNACLE PET HOLDINGS LIMITED

**Company Registration Number: 13626409**
**Group Identification Code: 984500C5FC2CF92FZ044**

## As of 31 December 2022

## Summary

This is the first Solvency and Financial Condition Report ("SFCR") for Pinnacle Pet Group ("the Group"). Solvency II, as adopted and implemented into the legislative and regulatory framework in the UK, requires an annual publication of an 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.

The SFCR is made up of 5 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 sensitivity. |
| **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 SII valuations, compared to the International Financial Reporting Standards ("IFRS") basis used for the 2022 Group Consolidated Results. |
| **E. Capital management** | The Group's approach to capital management and includes information on the amount and quality of the Group's own funds. |

The Group is exempt from the external audit requirement of the SFCR for the period ended 31 December 2022 based on the guidelines published in the PRA supervisory statement SS 11/16.

### Description of group

Pinnacle Pet Holdings Limited ("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 ("JAB") and BNP Paribas Cardif, ("Cardif") the latter being the previous owner of Pinnacle Insurance Plc ("PIC") & Pinnacle Insurance Management Services Ltd ("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.

During 2022, the Group completed a series of transactions starting with the acquisition of PIC, PIMS, and Everypaw Ltd ("EPL") from BNP Paribas Cardif on 30 June 2022. At this point, the

Group became a Solvency II Group in accordance with Solvency II regulations. Subsequently, the Group acquired Pet Protect Ltd ("PP") and VioVet Ltd ("VV") (and its subsidiary, Viovet GmbH) on 31 October 2022. The financial results as of 31 December 2022 included within this document are therefore consolidated on a time apportioned basis from the acquisition dates noted above.

The Group's material exposures are insurance risk exposures from its pet insurance offering which is only UK based. All UK non-pet business has been fully reinsured to Darnell DAC (a wholly owned subsidiary of the BNP Paribas S.A, authorised by the Central Bank of Ireland).

As this is the first group SFCR, the information for this report does not include a summary of material changes that have occurred over the reporting period or prior year comparatives.

## Financial Performance

The Group reported a pre-tax loss of £43.8m which mainly resulted from corporate transaction and integrations costs included of £39.0m incurred following the Group's acquisitions, combined with an operating loss in PIC for the six-months to 31 December 2022.

| Group Financial Performance (£'000) | *2022* |
|---|---|
| **Revenue** | |
| Gross Written premiums | 57,574 |
| Net Earned Premium | 46,563 |
| Other Income | 7,585 |
| Net Investment income | 3,955 |
| **Total Revenue** | **58,103** |
| **Claims and Expenses** | |
| Net Claims Incurred | - 27,157 |
| Cost of Sales | - 4,892 |
| Operating Expenses incl. Acquisition Costs | - 30,870 |
| Corporate Transaction & Integration Costs | - 38,997 |
| **Total Claims and Expenses** | **- 101,916** |
| **Loss before tax** | **- 43,814** |
| Taxation | 6,146 |
| **Loss after tax** | **- 37,667** |

### Insurance Performance

**Gross Written Premium:** Gross Written Premiums amounted to £57.6m for the 6 months ended 31 December 2022. This is related to PIC's activity only as a composite insurer and is gross of reinsurance. This amount composed of non-life insurance premiums of £57.5m with a minor contribution from a life insurance book which is currently in run-off.

**Net Earned Premium**: Net Earned Premium was £46.6m for the 6 months ended 31 December 2022. This comprises the earned premium, gross of commission, for the period. This amount is net of the reinsurance with Darnell DAC for all non-pet insurance.

The Group's gross and net premium for the period ended 31 December 2022 31 December 2022 all relates to one geographical market (UK).

**Net Claims Incurred**: Net Claims Incurred are only related to pet claims which amounted to £27.2m. 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 58%, calculated as net claims incurred expressed as a percentage of net earned premium.

**Non-insurance performance**

**Other Income**: Other Income of £7.6m relates to revenue from the group's non-insurance undertakings, which comprises commissions earned by PP of £0.9m and Sales of Goods by VV of £6.7m.

**Cost of Sales**: Cost of Sales of £4.9m relate to inventory sold by VV as a retailer of pet related products.

**Investment Performance**

**Net Investment Income:** Net Investment Income is largely earned from the investment portfolio held in PIC and cash holdings in PPG. Total Net Investment Income of £3.9m comprises interest earned on financial investments of £5.5m and realised and unrealised losses from bond holdings of £1.1m and £0.5m respectively.

## System of Governance

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). A Risk and Audit Committee of the PPG Board was established during the period to support the Board.

Each subsidiary within the group has its own Board 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. PIC being the largest contributor and the only risk-bearing entity in 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. The Board is responsible for ensuring that an appropriate structure for managing these risks is maintained.

PIC is by far the largest contributor to the group's risk exposures. The solo SCR for PIC is 98% of the group's SCR as of 31 December 2022. Of this, the primary driver is non-life underwriting risk which is 90% of the solvency capital requirement at the end of 2022.

**Solvency II Reforms**

Since Brexit, the UK has been in the process of implementing reforms in relation to Solvency II. These developments are being monitored by the Group to assess any material impact on its capital position and regulatory requirements.

**War in Ukraine and Cost-of-living**

The Ukraine war, and resultant supply chain disruption, are key drivers of the current high inflationary environment. High inflation, and an increase in the cost-of-living, is expected to continue to have an impact on policyholders who may find the need to adapt their behaviour and priorities. The group is monitoring these developments carefully. Cyber is also an ongoing risk, again heightened in part due to the Ukraine War.

**Climate change**

Financial risks from climate change do not currently represent a material risk to the Group. The Executive Management of PIC and subject matter experts use the Risk Register review process to review climate related risks and have concluded that there is no current material physical or liability risk arising, and they consider this unlikely to change over the planning horizon. Business continuity is assessed as a low risk with no material impact from climate and weather-related events (through disruption to the work environment or disruption to supply chains).

The Board of PIC and PPG is responsible for ensuring that an appropriate structure for managing these risks is maintained.

## Valuation for Solvency Purposes

The group reports its annual financial statements under International Financial Reporting Standards ("IFRS") whereas for regulatory reporting the Group applies UK Solvency II. Material differences in valuation differences between the reporting methods for assets and liabilities are detailed within this document.

For the consolidated annual financial statements under IFRS, all companies within the Group structure are in scope for consolidation except for Viovet GmbH (the fully owned subsidiary of VV) on the grounds of materiality.

For Group solvency purposes, the Group uses the default Accounting Consolidation method to prepare its group capital position in accordance with Article 230 of the Solvency II Directive. PIC as the only regulated insurance subsidiary within the scope of this document uses the Solvency II Standard Formula ("S2SF") to calculate its Standard Capital Requirement which has also been used in calculating group solvency. 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 Groups capital position as of 31 December 2022 is as follows:

| Capital Position (£'000) | Actual 2022 |
|---|---|
| Eligible Own Funds ("EOF") | 135,542 |
| Standard Capital Requirement ("SCR") | 86,280 |
| Minimum Consolidated Group SCR | 21,570 |
| Capital Surplus | 49,262 |
| Solvency Ratio | 157% |

# Directors' Report

### 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. since the establishment of the group in the financial period 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 11th of May 2023 and signed on its behalf by:

**Frank Engelen**
**Director**
**18 May 2023**

# A. Business and performance

## A.1. Business

### A.1.1. Business Overview

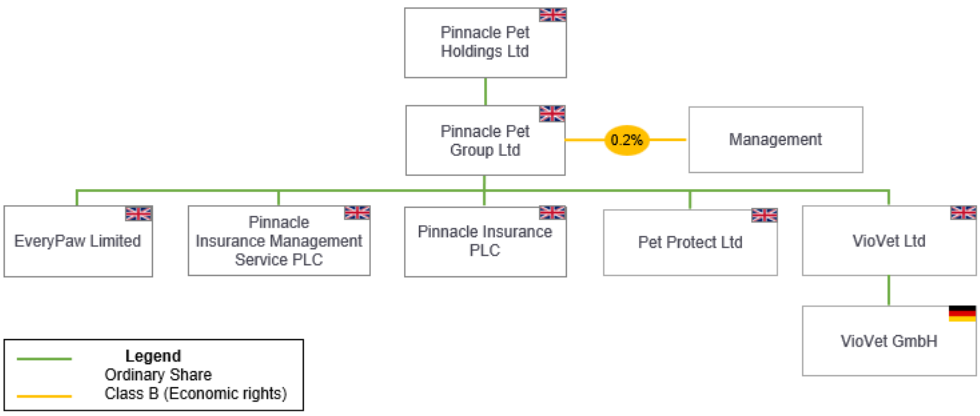
PPH is the ultimate insurance holding company for the Group incorporated in 2021 in the UK. The registered address of PPH is 14th Floor 20 Eastbourne Terrace, London, UK, W2 6LG.

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.

During 2022, the Group completed a series of transactions starting with the acquisition of PIC, PIMS and EPL from Cardif on 30 June 2022. At this point, the Group became a Solvency II Group in accordance with Solvency II regulations. Subsequently, the Group acquired PP and VV (and its subsidiary, Viovet GmbH) on 31 October 2022.

The Group's insurance business for the period ended 31 December 2022 all relates to one geographical market (UK) and 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 (70%) and BNP Paribas (30%).




All holdings of subsidiaries of PPG are 100% of ordinary shares. Management has a minority interest in PPG of 0.2%.

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

The subsidiaries of PPH as of 31 December 2022 are:

| Subsidiaries | Regulatory Status | Description |
|---|---|---|

| | | |
|---|---|---|
| **Pinnacle Pet Group Limited ("PPG")** | | An intermediate holding company to which the operational oversight of the Group has been delegated by the PPH Board. (See section B.1.) |
| **Pinnacle Insurance Plc ("PIC")** | FCA FRN: 110 866 | A composite insurer, predominantly focusing on the pet insurance sector. PIC is an unlisted public limited company. |
| **Pinnacle Insurance Management Service Plc ("PIMS")** | FCA FRN: 315 503 | A service company providing the staff and assets necessary to support the operational requirements of PIC. PIMS is an unlisted public limited company. |
| **Pet Protect Ltd. ("PP")** | FCA FRN: 311 794 | A Managing General Agent ("MGA") business performing intermediary and administration services, currently for a third-party insurer. |
| **VioVet Ltd ("VV")** | FCA FRN: 730 626 | A retail provider of pet foods, supplements, medicines and associated products. |
| **VioVet GmbH** | | Viovet GmbH is a non-operational entity which was purchased as part of the acquisition of VV. |
| **Everypaw Ltd ("EPL")** | | A dormant entity held for brand protection purposes. The company does not have assets or employees. |

VioVet GmbH has been excluded from the scope of the consolidated financial statements on the basis of materiality. The undertaking has been included within the consolidated data used in the calculation of group solvency.

### 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 PKF Littlejohn LLP who can be contacted as follows:
**PKF Littlejohn LLP**
15 Westferry Circus
London
E14 4HD
https://www.pkf-l.com/

### 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 £17.3m on a time apportioned basis of 6 months.

In addition, an intercompany loan balance exists payable from PIMS to PIC amounting to £5.1m. On a net basis between these two arrangements, an amount of £3.5m is payable by PIMS to PIC at the end of the reporting period.

There were also intercompany charges between PPG and PIMS which amounted to £1.3m of which £0.6m is due to PIMS at period end.

All of the transactions outlined above are eliminated on consolidation when calculating the group solvency position.

Further to this, IT Security and Procurement services are currently being provided to the Group by CPIH, on a Transitional Services Agreement (“TSA”).

### A.1.5. Significant events in the reporting period

During 2022, the Group completed a series of transactions which included the acquisition of PIC, PIMS, PP, EPL and VV (and its respective subsidiary).

The Group entered into two further share purchase agreements in the reporting period, which are expected to be concluded pending regulatory approval in 2023. These relate to Agila Haustierversicherung AG in Germany and Veterfina Verzekeringsmaatschappij N.V. (and its respective subsidiaries) in the Netherlands. Following the completion of these transactions, they will be consolidated as subsidiaries of PPG with the sellers to hold a minority interest in PPG. Details of these pending acquisitions are included below:

- **Agila Haustierversicherung AG**

On 30 June 2022, PPG signed a share purchase agreement to acquire 100% of Agila, a pet insurance company established in Germany and offering full medical insurance for pets and liability insurance predominantly covering costs related to accidents to pet owners in Germany and Austria.

- **Veterfina Verzekeringsmaatschappij N.V.**

On 5 July 2022, PPG signed a share purchase agreement to acquire 100% of the Dutch Pet Insurer, Veterfina (and, its subsidiaries Veterfina B.V. and Tiergarant,GmBH, Dutch and German insurance intermediaries respectively).

## A.2. Underwriting performance

The Group reported a pre-tax loss of £43.8m which mainly resulted from corporate transaction and integrations costs of £39.0m incurred following the Group’s acquisitions combined with an operating loss in PIC for the six-months to 31 December 2022.

| Group Financial Performance (£’000) | *2022* |
|---|---|
| **Revenue** | |
| Gross Written Premiums | 57,574 |

| | |
|---|---|
| Net Earned Premium | 46,563 |
| Other Income | 7,585 |
| Net Investment income | 3,955 |
| **Total Revenue** | **58,103** |
| **Claims and Expenses** | |
| Net Claims Incurred | - 27,157 |
| Cost of Sales | - 4,892 |
| Operating Expenses incl. Acquisition Costs | - 30,870 |
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| **Total Claims and Expenses** | **- 101,916** |
| **Loss before tax** | **- 43,814** |
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**Gross Written Premium:** Gross Written Premiums amounted to £57.6m for the 6 months ended 31 December 2022. This is related to PIC's activity only as a composite insurer and is gross of reinsurance. This amount composed of non-life insurance premiums of £57.5m with a minor contribution to a life insurance book which is currently in run-off.

**Net Earned Premium**: Net Earned Premium was £46.6m for the 6 months ended 31 December 2022. This comprises the earned premium, gross of commission, for the period. This amount is net of the reinsurance with Darnell DAC for all non-pet insurance.

The Group's gross and net premium for the period ended 31 December 2022 all relates to one geographical market (UK).

**Net Claims Incurred**: Net Claims Incurred are only related to pet claims which amounted to £27.2m. 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 58%, calculated as net claims incurred expressed as a percentage of net earned premium.

The performance of the insurance business per line of business is outlined below:

- **Gross written premium:** represents the value of policies written for the period excluding the effect of reinsurance.
- **Net earned premium:** represents the portion of the policy's premium that applies to the expired portion of the policy.
- **Net commission:** represents the net commission earned/paid.
- **Net incurred claims:** represents the claims for the period.
- **Profit share:** represents profits shared with partners.
- **Line of Business Result:** represents the balance of earned income less incurred claims, commission and profit share payments, net of associated reinsurance balances.

The profitability from the below lines of business is based on the line of business result which is calculated without the impact of expenses. Expenses has been highlighted as key driver which has made the Group loss making in 2022.

| Pet | (£'000) |
|---|---|
| Gross written premium | 52,726 |
| Net earned premium | 46,562 |
| Net commission | -7,795 |
| Net incurred claims | -27,130 |
| Profit share | -2,999 |
| **Line of Business result** | **8,639** |

| Motor Warranty | (£'000) |
|---|---|
| Gross written premium | 334 |
| Net earned premium | 0 |
| Net commission | 938 |
| Net incurred claims | 0 |
| Profit share | 0 |
| **Line of Business result** | **938** |

| Creditor | (£'000) |
|---|---|
| Gross written premium | 4,515 |
| Net earned premium | 0 |
| Net commission | 1,620 |
| Net incurred claims | -88 |
| Profit share | 88 |
| **Line of Business result** | **1,620** |

| MGA | (£'000) |
|---|---|
| Gross written premium | 0 |
| Net earned premium | 0 |
| Net commission | 308 |
| Net incurred claims | 0 |
| Profit share | 0 |
| **Line of Business result** | **308** |

## 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 profit of £3.9m which comprises interest earned on financial investments of £5.5m, realised loss on bonds of £1.1m and unrealised loss of £0.5m.

### 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 £411.2m on 31 December 2022 of which 13% was in bonds, 21% in deposits with credit institutions and the remaining in cash and cash equivalents.

| 2022 (£'000) | AUM | Return on investments |
|---|---|---|
| Bonds | 51,391 | -1,163 |
| Deposits | 87,445 | 899 |
| Cash at bank | 272,368 | 4,219 |
| **Total** | **411,205** | **3,955** |

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 £7.6m relates to revenue from the group's non-insurance undertakings and which comprises commissions earned by PP of £0.9m and Sales of Goods by VV of £6.7m.

**Cost of Sales:** Cost of Sales of £4.9m relate to inventory sold by VV as a retailer of pet related products.

**Operating Expenses & Acquisition Costs**: Operating Expenses of £30.9m 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.

**Corporate Transaction & Integration Costs**: The £39.0m 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.

## A.5. Any other information

### Significant post-balance sheet events

Acquisitions signed during the reporting period and pending completion are set out in section A.1.5. Further to this, three further Share Purchase Agreements were signed subsequent to the balance sheet date related to the following entities:

**Animal Friends Investments Ltd**

On 4 April 2023, PPG announced it will acquire Animal Friends Investments Limited, which wholly owns Animal Friends Insurance Services Ltd ("Animal Friends"). Animal Friends is an insurance MGA operating in the UK.

As a part of the wider transaction, PPG will also acquire 50% of the ordinary share capital of a newly formed entity joint venture from COHL ("Correlation One Holdings Limited"). The holding company of this joint venture will be a non-regulated entity which will be set up by COHL (proposed to be set up in Guernsey) prior to the Transaction to hold 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;
- Kozoo SAS ("Kozoo"), a French pet insurance distributor (registered in the ORIAS Register under number 20003834); and
- Correlation One Investments (Europe) Limited ("COIEL"), the holding company for Kozoo SAS.

**HD Assurances SAS**

On 4 April 2023, PPG announced it will acquire HD Assurances S.A.S which, a French insurance intermediary, active in France, Italy and Belgium. The acquisition of HD Assurances S.A.S closed on 27 April 2023.

**CaptainVet SAS**

On 4 April 2023, PPG announced it will acquire CaptainVet S.A.S, a French vet appointment booking platform. The acquisition of CaptainVet S.A.S closed on 20 April 2023.

# 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. PIC being the largest contributor and the only risk-bearing entity in the Group has a robust system of governance to support its operations on a solo basis and has established risk appetite statements.

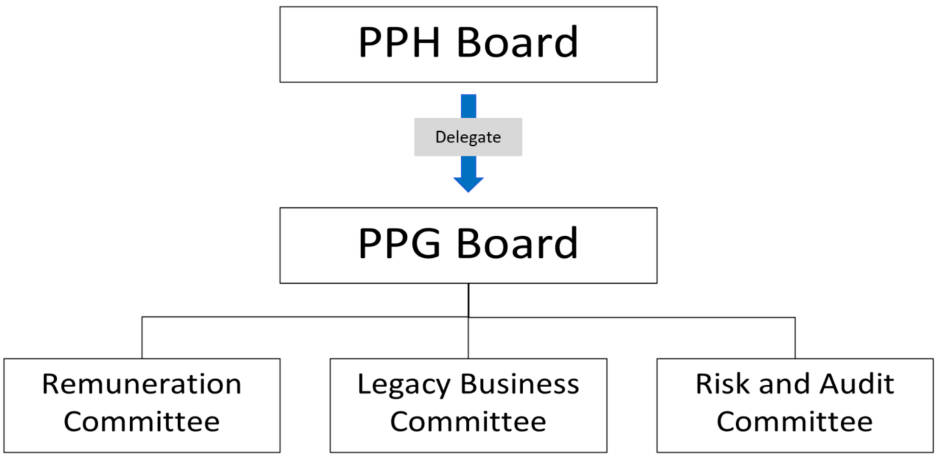
## B.1. General information on the system of governance

### 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 (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 8 Non-Executive Directors, 5 representing the shareholders, JAB and Cardif and 3 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 |
| **Independent Non-Executive Directors** | | |
| Sonja Rottiers (Chair) | | X |
| Emmanuel de Talhouet | | X |
| Randy Termeer | | X |

### B.1.2. Committees

The following committees have been established as 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 |
| | | Matthew Lorimer** |
| | | Andrew Wigg** |

*Chair of the Committee
**Non-voting member

**Group Risk and Audit Committee**

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

- assist 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.
- receive reports and review 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.
- receive 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.
- review and approve 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.
- review and approve 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.
- advise the Board on risk related matters including policy, strategy and implementation for each area of risk namely: Operational; Strategic, Conduct, Market Integrity, Financial, Investment, liquidity, Credit and Insurance.
- review the Group's most significant risks, monitor management's response to any major risk issues, and escalate to the Board as considered appropriate.
- review annually on behalf of the Board the proposed risk appetites and tolerances.
- provide a channel of communication to the Board for the internal and external auditors.
- agree the Annual Audit Schedule and budget having regard to the company's risk profile and risk appetite.
- review 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.
- oversee the Group's relationship with the external auditors and review the performance and cost effectiveness of the external auditors.
- review 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.
- review 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.

**<u>Group Remuneration Committee</u>**

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.

The system of governance is considered adequate for the existing group structure. In anticipation of the growth of the business, both organic and from the pending acquisitions, the Group is continuing to review its governance arrangements to ensure they remain fit for purpose.

### B.1.3. Organisational structure and key function holders

PPG performs oversight at Group level through the support of the individual established systems of governance. PIC being the only risk bearing entity in the Group incorporates the following controlled functions to embed its risk management framework and to provide appropriate oversight with the following reporting lines.

The below table outlines the main roles for key functions of the Group. Where applicable, those in PIC and PP are also approved SMF holders.

<table>
<tr><th>Description of a key function</th><th>PPG</th><th>PIC</th><th>PP</th></tr>
<tr><td>Chief Executive Officer</td><td>Dirk Beeckman*^</td><td>Andrew Wigg</td><td>Caroline Coleman***</td></tr>
<tr><td>Chief Actuary</td><td rowspan="2">Carmen Iordache**</td><td rowspan="2">Carmen Iordache**</td><td></td></tr>
<tr><td>Chief Underwriting Officer</td><td></td></tr>
<tr><td>Compliance Oversight</td><td>Matthew Lorimer***</td><td rowspan="2">Matthew Lorimer***</td><td></td></tr>
<tr><td>Money Laundering Reporting Officer (MRLO)</td><td></td><td></td></tr>
<tr><td>Chief Finance Officer</td><td>Sanchit Suri</td><td>Sophie May</td><td>Sophie May</td></tr>
<tr><td>Chair of Governing Body</td><td>Sonja Rottiers</td><td>Richard Hines</td><td>Robert Capobianco</td></tr>
<tr><td>Chair of the Risk Committee</td><td rowspan="2">Stanislas Chevalet^</td><td rowspan="2">Craig Scarr</td><td></td></tr>
<tr><td>Chair of the Audit Committee</td><td></td></tr>
</table>

* Executive Director of PPG
** Executive Director of PIC
*** Executive Director of PP
^ Group Entity Senior Managers of PIC

### 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 Company's Consumer Duty towards its customers as well as to avoid any non-compliance with the rules and codes of the Group.

## B.2. Fit and proper requirements

As an existing UK Solvency II firm, PIC is already subject to regulatory requirements to demonstrate Fitness & Propriety (F&P) of its senior management. It has implemented policies and processes to identify in-scope individuals, conduct the required assessments and manage registrations with regulatory authorities.

Certain individuals amongst the Group's senior management also hold roles in PIC and therefore were already subject to the F&P requirements prior to the formation of the Group.

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 F&P processes used by PIC.

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

As the Group expands and, subject to regulatory approval, completes acquisitions in other jurisdictions, this process will be evolved to ensure the Group’s senior management continue to demonstrate their fitness and propriety commensurate with the size and complexity of the Group. This will include reflecting the fitness and propriety rules of other jurisdiction as the footprint of the group expands to those locations

## 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 of its subsidiary undertakings on matters proportionate to the risk posed by each entity. PIC as the sole risk carrier in the Group is therefore the primary focus of that oversight currently.

The most significant risks and issues in the Group are driven by the activities of PIC, being the only material entity in the Group at the date of this report. Upon acquiring PIC on 30 June 2022, PPG inherited from PIC, a robust risk management framework which in the Board’s view continued to appropriately consider the material risks of the Group and PIC as at period-end.

The Group has active plans in place to review and enhance the risk management framework across the Group to ensure it remains appropriate for the nature and size of the Group reflecting the anticipated growth and pending acquisitions noted in section A.5.

The current risk management policies and procedures are used to identify and analyse the risks faced, to identify, monitor and appropriately report on these risks.

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 first Group ORSA is performed in line with the Board's "ORSA policy," the Board's direction and a detailed ORSA production plan. That direction included the Board approving the stress and scenario tests to be used in an ORSA and requiring amendments to ORSA content. The ORSA production plan sets out the material tasks required in order to run the ORSA and for the ORSA report to receive Board approval.

The review of ORSA work and the ORSA report involves the provision of updates to the RAC and Board during the ORSA run. The first draft Group ORSA report, due subsequent to the date of this report, will be reviewed and approved by the Board before being sent to the PRA.

## 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 the executive 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, following inception, 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 a delegation of authority from the Board to executive management; and
- procedures for the approval of major transactions.

There is an ongoing process for identifying, evaluating and managing significant risks. The risk management and control framework are 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.

## 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 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. Currently, the internal audit function's scope is limited to PIC and has been outsourced to an independent third-party provider, Grant Thornton UK LLP. The most significant risks and issues in the Group are driven by the activities of PIC, being the only material entity in the group at the date of this report. As such the activities of PIC's Internal Audit function cover the key risks and issues arising from the operations of the Group.

## B.6. Actuarial function

At the point of acquisition, PPG took on responsibility for implementing an Actuarial Control function. Oversight of the Actuarial Function of the Group is principally performed by the PPG Chief Financial Officer. Recognising that PIC is the only risk carrier in the Group, they are further supported in this by the PIC Chief Actuary who leads the PIC actuarial team. The PIC Actuarial Team also carries out responsibilities for the Group including key actuarial processes and controls needed. Given PIC's role as the material subsidiary in the Group this is viewed as an appropriate approach for the current structure.

PIC has an in-house actuarial team which carries out day-to-day actuarial role, including claims reserving. The formal role of the actuarial function under Article 48 of the Solvency II Directive is to report to the Board on technical provisions, reinsurance and underwriting policy.

## B.7. Outsourcing

The underlying subsidiaries are responsible for sourcing their own outsourcing arrangements which are subsequently managed at the subsidiary level. At period-end, all material outsourcing sits within the regulated entity PIC and therefore the Group utilises the PIC policies and procedures to address outsourcing. The Group is actively reviewing this arrangement in anticipation of the future growth of the Group, including through pending acquisitions detailed in section A.5. to ensure the policies and procedures continue to be suitable for an expanded Group. 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 across a number of schemes, including, the DPO function, third party loss claim handling and internal audit. All outsourced providers are based in the UK.

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 £17.3m on a time apportioned basis of 6 months. This transaction is eliminated for group reporting purposes.

## B.8. Any other information

Following the separation from Cardif, all Policies have been updated or are in the course of being to reflect new and anticipated PPG policies and system governance; or where appropriate, BNP Paribas framework has been maintained.

# 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.

An assessment of the risk profile of the current structure had identified PIC being the largest contributor to its risk exposures. As such, the risk profile of the group is highly correlated with the risk profile of PIC on a proportionate basis, with the non-life underwriting risk component of the Group's risk profile, representing 90% of the solvency capital requirement at the end of 2022. The Group does not use special purpose vehicles to transfer risk. It is not exposed to risk from positions off its balance sheet.

The key risks and risk mitigation framework are highlighted below:

## C.1. Underwriting risk

The Group's underwriting risk exposures are only representative of PIC as it being the only risk-bearing entity within the group which are largely related to its Pet book. These are outlined below:

### C.1.1. Risk exposures:

The non-life underwriting risk is the main component of the Group's risk profile, representing 90% of the solvency capital requirement at the end of 2022.

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

- The miscellaneous line of business with 86% of the non-life exposure comprising unemployment risk and pet health insurance;
- The motor liability, general liability and fire lines of business with 9% of the exposure mainly comprising of claims outstanding; and
- The other motor line of business with 5% of exposure corresponding to motor warranty products.

Catastrophe ("CAT") risk arises from infrequent shock events that give rise to large numbers of claims or large individual claims. This relates to the pet insurance only after reinsurance (natural catastrophe risks arising from the PIC's motor GAP exposure, non-life catastrophe associated with unemployment covers of the creditor book and other relatively limited life or health catastrophe are fully reinsured with Darnell DAC). During H2 2023 and over the near-term planning period, the company plans to fully reinsure its CAT Risk exposure on its Pet Book.

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 PIC 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, PIC had 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).

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 (50%) and Catastrophe Risk (48%) with the remaining arising from Lapse Risk (2%) as of 31 December 2022.

The underwriting risk is concentrated on a single legal entity, PIC, and is concentrated on a single line of business, underwriting pet insurance in the UK. The remaining other in-force non-pet insurance liabilities (“pure legacy”) and all renewal and new non-pet insurance liabilities (“ongoing legacy business”) were ceded to a Darnell DAC (a BNP Paribas Group reinsurance business based in Dublin) on a 100% quota share basis from 31 December 2021 and 1 January 2022 respectively.

#### 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:

- underwriting policy, risk tolerance and pricing and reserving procedures;
- reinsurance (on all non-pet product lines and pet third party liability risk);
- re-pricing when deemed necessary; and
- 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 by PIC, the market risk exposures are concentrated to PIC’s investment portfolio and the group’s related undertakings. Market risk contributes 7% of the Group’s SCR.

### C.2.1. Risk exposures:

The Group is mainly exposed to interest rate risk and spread risk through its investments held in PIC. The concentration risk is composed of PIC's investments and the group related undertakings which are unrated. There are also modest Equity and Currency Risk exposures resulting from its related undertakings.

### 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:

PIC 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 PIMS, PP and VV 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 PIC's operational activities and PPG's cash holdings. These are outlined below:

**Investment Activities**

PIC and PPG are the primary contributors to its credit risk through its investment exposures. PIC through its Board and the Investment and Capital Committee, 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. PIC's investment policy prescribes the investments limits and credit quality of the investments, which are monitored and reviewed by the Investment and Capital Committee on a quarterly basis. PIC 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. Majority 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.

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

| ***Investment portfolio by credit*** **(£'000)** | **2022** | |
|---|---|---|
| AAA | 30,922 | 8% |
| AA- | 47,533 | 12% |
| A+ | 290,238 | 71% |
| A | 17,297 | 4% |
| A- | 22,326 | 5% |
| BBB+ | 2,889 | 1% |
| | **411,205** | **100%** |

**Reinsurance risk**

PIC as the only entity which is exposed to reinsurance risk 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 £14.0m rated AA-.

The technical provisions ceded as of 31 December 2022 under a Solvency II basis are £43.0m under Solvency II basis. See section D for details on the valuation differences.

**Insurance debtors and other receivables**

PIC as the primary contributor of insurance receivables regularly reviews receivables, the collectability of these receivables and adequacy of associated impairment.

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 £17.7m. 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 2022, the Group has £15.1m investment with a single issuer with a credit rating of "A+" with a duration of 2 months. The single party exposure is within the prescribed investment policy limit of the holder, PIC.

Excess cash contributed as equity by JAB is deposited in bank accounts of PPG that are included in a notional cash pooling arrangement managed and guaranteed by JAB. Cash balances under the notional cash pooling arrangement are recognised as cash and cash equivalents but not as Own Funds for group solvency purposes and are therefore not attracting a Credit Risk charge.

#### 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 the Collateral Security Deed.

The collateral is recalculated annually so that PIC 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 £28.6m as of 31st December 2022.

JAB Holding Company S.a.r.l. is the guarantor of the notional cash pooling arrangement. The credit-rating of JAB is Baa2 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. The liquidity needs of the business are monitored primarily at the operating subsidiary level.

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) | 2022 | 1 Year | 2-3 Years | 4-5 Years | Over 5 Years |
|---|---|---|---|---|---|
| **Highly liquid resources** | | | | | |
| Financial investments | 138,684 | 87,143 | 37,526 | 6,490 | 7,525 |
| Cash & cash equivalents | 280,545 | 280,545 | 0 | 0 | 0 |
| | **419,229** | **367,688** | **37,526** | **6,490** | **7,525** |
| **Expected liabilities** | | | | | |
| Gross insurance liabilities | 52,549 | 24,671 | 7,977 | 1,936 | 17,965 |
| Other payables | 43,522 | 43,522 | 0 | 0 | 0 |
| | **96,071** | **68,193** | **7,977** | **1,936** | **17,965** |
| **Surplus funds** | **323,158** | **299,495** | **29,549** | **4,554** | **-10,440** |

*Excluding related undertakings

The table above shows the Group has surplus funds of £323.2m. 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.

| As of 31 December (£'000) | *2022* |
|---|---|
| EPIFP | 5,310 |

#### C.4.2. Risk concentration

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

Excess cash held by the Group is held in bank accounts of PPG that are included in a notional cash pooling arrangement managed and guaranteed by JAB. PPG will have access to the specific funds held in the designated PPG bank accounts when the required liquidity is made available in the notional cash pool. This is noted to pose a potential liquidity risk to the Group as it represents otherwise liquid assets that may not be available at the Group's discretion for immediate liquidity requirements in the Group when needed.

#### 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 Baa2 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.

Except for the acquisitions signed in 2022 which will be funded from the notional cash pooling arrangement, some of the future acquisitions would be funded from future capital injections.

### 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

**Cyber risk**

As a result of the hostilities in Ukraine, the UK National Cyber Security Centre has advised that the threat level in the UK is currently heightened; meaning the likelihood of cyber-attack has increased. The local security team have communicated the need for all staff to remain vigilant and will continue to monitor the threat levels.

The group has employed an executive focused full time on cybersecurity across the company. This executive is currently developing a detailed assessment of existing cybersecurity capabilities within the group, with the ambition to implement identified enhancements over the near term.

**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 in PIC.

**Managing technical obsolescence, legacy, and a comprehensive security programme**

PIC has developed a transformation programme to oversee the implementation of new cybersecurity platforms and the decommissioning of obsolete platforms.

This will take place on a risk and resource prioritised basis in 2023 with the sponsorship of senior management.

**Delivering scalability, through process digitalisation and efficient self-service**

The group is currently exploring methods to deliver digitalization and self-service functionality at scale.

These identified efficiencies are in the process of being designed of which the delivery will be continuously monitored.

**Talent attraction and retention**

Attracting people in an evolving recruitment market has become a key risk to operations, in which demand for specific skills currently exceeds supply. In addition to developing and retaining people when employee's expectations have changed as a result of the cost-of-living crisis.
The Group has conducted an intensive recruitment drive in 2022 to attract the skills needed to develop the business. In order to attract the specialist capabilities, the Group had to ensure it continued to provide a competitive offering to prospective candidates, including challenging projects, competitive reward and hybrid working in line with its remuneration policy. This has enabled the Group to broaden the geographical area from which it has been able to source suitable candidates.

**Regulatory Change**

The Group, through its subsidiaries, is required to comply with the requirements of UK 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**

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 current 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:** As majority of the deals are subject to regulatory approval, there is a risk in relation to the completion of these transactions; 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**

It is considered that a key risk for the Group would be the failure to deliver its medium and long-term strategy which includes achieving its strategic growth targets in a highly competitive market, where the two dominant insurers account for more than half of the market by volume.

**Risk mitigation**

PIC's executive directors and other senior managers, oversee the operational deployment of the strategic plan, through participation in the committees including RAC. This is reported to the Board quarterly.

### C.6.3. Climate change:

**Risk exposures**

Financial risks from climate change do not currently represent a material risk to the Group. The Executive Management of PIC and subject matter experts use the Risk Register review process to review climate related risks and have concluded that there is no current material physical or liability risk arising, and they consider this unlikely to change over the planning horizon. Business continuity is assessed as a low risk with no material impact from climate and weather-related events (through disruption to the work environment or disruption to supply chains).

**Risk mitigation**

As a result, in view of the existing business model, the climate related exposure to PIC as an insurance undertaking 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. With PIC being the most significant and the only risk-bearing entity in the group, the risk profile of the group is materially the same as the risk profile of PIC.

The Group has identified the following stress scenarios and assessed the impact of these scenarios on its solvency position:

**Scenario 1:** Default of the Group's largest reinsurance exposure at 31 December 2022 amongst all such exposures with a credit rating of A or lower and not subject to any collateral contract, which the Group considered would materialise in an instant loss equal to the amount of the reinsurance exposure after expected liquidation recoveries (according to the Solvency II standard recovery rate parameter for the credit rating of the defaulting reinsurer), leading to an increase in the Group's net liabilities and its net underwriting SCR capital requirement as a result, together with a second-order reduction in Counterparty default risk SCR.

The stress scenario would trigger an estimated £2.2m increase in the Group's net Best Estimate Liability ("BEL"), a £2.2m reduction in Own funds and a £0.2m increase in its SCR.

**Scenario 2:** New variants of feline leukaemia virus (Cats) and canine distemper virus (Dogs) emerge for which current vaccines are not effective. The diseases spread in particular regions in the UK (e.g., London) affecting 5% of pets in those regions. The viruses contaminate 1% of the total cats and dogs insured by the Company in the UK, at an average cost per treatment of £350 per pet.

The stress scenario would trigger an estimated £1.0m increase in BEL partly mitigated by profit share, a £1.0m reduction in Own Funds and no SCR movement.

Under both scenarios, the Group's solvency ratio remains above its target minimum ratio of 120%.

# D. Valuation for solvency purposes

The consolidated group financial statements have been prepared in accordance with IFRS.

The measurement and valuation policies for IFRS reporting purposes applied by the Group are consistent with the consolidated group financial statements. This report summarises any differences to those valuation policies for solvency purposes with reconciliation of key valuation and classification differences.

For the purposes of the recognition within its financial statements, the assets and liabilities related to its non-pet business are categorised as held for sale in accordance with IFRS 5, amounting to £58.2m and £57.4m respectively. For the purposes of this report, these have been included in same asset and liability classes as those not held for sale.

PPH, PPG and PIC are fully consolidated for Solvency II purposes. All other subsidiaries are treated as "Other" Related Undertakings.

## D.1. Assets

The Assets of the Group as of 31 December 2022 are outlined as follows:

| *Assets (£'000)* | *2022 IFRS* | *Reclassification* | *Solvency II Valuation Adjustments* | *2022 Solvency II* |
|---|---|---|---|---|
| Goodwill (D.1.1.) | 126,583 | 0 | -126,583 | 0 |
| Deferred tax assets (D.1.2.) | 7,822 | -536 | -1,130 | 6,156 |
| Fixed Assets (D.1.3.) | 8,111 | -8,111 | 0 | 0 |
| Intangible assets (D.1.4.) | 22,490 | -22,490 | 0 | 0 |
| Financial investments (D.1.5.) | 138,683 | 53,738 | -22,490 | 169,930 |
| Reinsurance assets (D.1.6.) | 51,141 | 2,150 | -10,290 | 43,001 |
| Reinsurance receivable (D.1.7.) | 7,043 | -2,150 | 0 | 4,893 |
| Insurance and other receivables (D.1.8.) | 70,181 | -11,942 | -40,540 | 17,699 |
| Cash and cash equivalents (D.1.9.) | 280,545 | -27,677 | 0 | 252,868 |
| Deferred acquisition costs (D.1.9.) | 670 | 0 | -670 | 0 |
| **Total Assets** | **713,270** | **-17,018** | **-201,704** | **494,548** |

### D.1.1. Goodwill

Goodwill shall be treated as £Nil for Solvency II purposes. This results in a difference between IFRS and Solvency II of -£126.6m.

### D.1.2. Deferred tax assets

Deferred tax assets amount to £7.8m which is consistent with the group financial statements. A valuation adjustment of -£1.1m results from the valuation principles under Solvency II. Deferred tax assets are ultimately considered non-fungible for group solvency purposes are ultimately treated as £Nil for in the determination of Eligible Own Funds ("EOF"). Further information of this is outlined in E.1.4.

### D.1.3. Fixed assets

Fixed Assets relate to Property, Plant & Equipment held within the Group. In accordance with the accounting-consolidation method, the entities which hold these assets are subsidiaries are held as a single asset 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 -£8.1m.

### D.1.4. Intangible assets

For the purposes of the Group's solvency position, the full value of the assets has been reclassified to Holdings in related undertakings, including participations under Financial Investments as these are assets held by "Other" Related Undertakings which are based on the adjusted equity method.

The assets are subsequently treated as £Nil. (See section D.1.5)

### D.1.5. Financial investments

Solvency II, generally provides for undertakings to recognise and value assets and liabilities other than technical provisions in accordance with the International Financial Reporting Standards ("IFRS"), except where this is not consistent with Solvency II as adopted in the PRA rulebook.

Under IFRS basis, financial assets are classified into fair value through profit or loss, held to maturity investments, available-for-sale and loans and receivables. The Group designates its financial investments at fair value through profit or loss. The investments are valued under three tiers of hierarchy based in the characteristics of inputs available in the marketplace. The tiers are:

- **Level 1:** quoted market prices in active markets for the same assets.
- **Level 2:** quoted market prices in active markets for the similar assets with adjustments to reflect differences.
- **Level 3:** alternative valuation methods which make use of relevant market inputs.

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

| *Financial investments (£'000)* | *2022 IFRS* | *Reclassification* | *Solvency II Valuation Adjustments* | *Unaudited 2022 Solvency II* |
|---|---|---|---|---|
| Holdings in related undertakings, including participations | - | 34,085 | -22,490 | 11,594 |
| Corporate bonds | 18,012 | 122 | - | 18,134 |
| Government bonds | 33,226 | 31 | - | 33,257 |
| Investments funds | - | 19,500 | - | 19,500 |
| Deposits with credit institutions | 87,445 | - | - | 87,445 |

| | | | | |
|---|---|---|---|---|
| **Total** | **138,683** | **53,738** | **-22,490** | **169,930** |

Adjustments for Solvency II purposes represents reclassification of:

- All related undertakings except PPH, PPG and PIC (which are fully consolidated) are classified as "Other" related undertakings for Solvency II purposes and are based on quoted prices in active markets or where that is not possible, the adjusted equity method. The value of related undertakings results amounted to £34.1m.
- Accrued interest of £0.2m is recognised in the valuation of 'investments' on the Solvency II balance sheet but held within 'other assets' on the IFRS balance sheet. The amount is split between Corporate and Government bonds as appropriately required; and
- A Highly liquid deposit of £19.5m into Solvency II balance category of "Investment Fund" which is held within cash and cash equivalents under IFRS basis.

The valuation difference of -£22.5m 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. PIC is the only investor 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 Solvency II valuation rules for financial investments are consistent and in line with those applied in the IFRS financial statements.

### D.1.6. Reinsurance assets

Reinsurance assets are valued £51.1m under IFRS basis and £43.0m under Solvency II basis resulting in an £8.1m difference. The recoverable from reinsurance contracts is mainly related to the reinsurance of non-pet business with Darnell. The valuation difference resulted in a decrease in the carrying value of the reinsurance assets and is reflected in the reconciliation reserves. The table below provides a reconciliation of the differences between IFRS and Solvency II carrying values:

| Reinsurance assets (£'000) | 2022 IFRS | Reclassification adjustment | Valuation adjustment | 2022 Solvency II |
|---|---|---|---|---|
| Non-life excluding health | 24,288 | 1,043 | -6,838 | 18,494 |
| Health similar to non-life | 2,699 | 833 | -994 | 2,537 |
| Life excluding health | 24,154 | 274 | -2,459 | 21,970 |
| **Total Assets** | **51,141** | **2,150** | **-10,290** | **43,001** |

The valuation difference of -£10.3m between the IFRS basis to Solvency II basis arises from:

- Premium receivables from annual premiums that are payable monthly are recognised in full under IFRS. Under Solvency II these are de-annualised resulting in a decrease in the asset of -£2.0m.

- The reinsured portion of the unearned premium reserve is gross of commission receivable. The related commission is not accounted for as deferred acquisition revenue under IFRS. Under Solvency II, this is considered net of commission which results in a decrease in the asset of -£4.3m.
- Margins are included under IFRS relating to claims and premium provisions of -£5.9m and -£2.4m respectively. Under Solvency II, these margins are derecognised resulting in a reduction of reinsurance assets relating to these margins.
- The differences in the expense reserving methodology between IFRS and Solvency II amount to an increase of £3.9m which is receivable as reinsurance assets.
- Other minor components include the effect of discounting (£0.6m); an allowance for Events Not In Data ("ENID") ceded to reinsurance of (-£0.7m) and an allowance for expected profits in future premiums within Solvency II provision (£0.3m)

In addition, under Solvency II it is required for the reclassification of the loss-absorbing element of profit share payables into reinsured technical provisions amounting to an increase in assets of £2.2m.

### D.1.7. Reinsurance receivable

Similar to the opposing effect under reinsurance assets, it is required for the reclassification of the loss-absorbing element of profit share receivables into technical provisions. This results in a reclassification adjustment of -£2.2m.

### D.1.8. Insurance and other receivables

The value as at the period-end is £70.2m under IFRS and £17.7m under Solvency II. The total difference is £52.5m made up of:

- Insurance receivables of -£40.5m;
- Accrued interest of -£0.2m; and
- Other assets of -£11.8m

In accordance with Solvency II guidelines, 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 -£40.5m.

The accrued interest of -£0.2m is reclassified from "insurance and other receivables" heading within IFRS financial statement to the underlying investments within Solvency II balance sheet.

Assets held in Other Related Undertakings are reclassified from the Other Assets to Holdings in related undertakings, including participations under Financial Investments amounting to -£11.8m.

### D.1.9. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with banks together with short-term 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 IFRS, cash and cash equivalents are £280.6m which have reduced by -£27.7m to £252.9m due to a reclassification of a highly liquid deposit of -£19.5m into Solvency II balance category of “Investment Fund" and cash held in “Other” Related Undertakings of -£8.2m treated as Holdings in related undertakings, including participations under Financial Investments.

Cash balances of the amount £244.8m are part of the notional cash pool arrangement and are recognised as cash and cash equivalents albeit as an encumbered asset. 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 IFRS, acquisition costs are deferred commensurate with the unearned premiums provisions. The deferred acquisition costs (DAC) are separately presented as an asset in the IFRS balance sheet. However, under Solvency II, the DAC of £0.7m is valued as £Nil as it is included in the premium’s provisions valuation (part of Solvency II best estimates) and therefore not included as an asset.

#### D.1.11. Any other information

Nothing further to be disclosed in this section.

### D.2. Technical provisions

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 technical provisions excluding reinsurance recoverable as of 31 December 2022 were:

| Technical provisions (£'000) | 2022 |
|---|---|
| **Technical provisions – non-life (excluding health)** | |
| Best Estimate | 28,296 |
| Risk margin | 5,011 |
| **Technical provisions - health (similar to non-life)** | |
| Best Estimate | 2,537 |
| Risk margin | 10 |
| **Technical provisions – life** | |
| Best Estimate | 21,970 |
| Risk margin | 200 |
| **TECHNICAL PROVISIONS Solvency II Balance Sheet** | **58,025** |
| | |
| **TECHNICAL PROVISIONS IFRS Balance Sheet** | **113,870** |

IFRS technical provisions: comprises unearned premium reserves, claims outstanding and long-term business provisions amounting to £113.9.m in 2022 under IFRS.

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 IFRS decreased by £55.8m from £113.9m to £58.0m 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 IFRS. Under Solvency II these are de-annualised resulting in a decrease in technical provisions of -£42.5m.
- The unearned premium reserve is gross of commission payable. The related commission is not accounted for as deferred acquisition costs under IFRS. Under Solvency II, this is considered net of commission which results in a decrease in technical provisions of -£4.3m.
- Margins are included under IFRS relating to claims and premium provisions of -£7.2m and -£3.0m 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 -£5.0m reducing the liability;
- The differences resulting from the expense reserving methodology between IFRS and Solvency II amounting to an increase of £4.9m of technical provisions;
- Under Solvency II, the risk margin reflecting the cost of capital is included resulting in an increase of £5.2m.
- A fair value adjustment is recognised under an IFRS basis however is derecognised under a Solvency II basis, resulting in a valuation difference of -£5.8m.
- Other minor components include the effecting of discounting (-£0.9m) and an allowance for Events Not In Data ("ENID") ceded to reinsurance of (£0.8m).

Under Solvency II it is also required for the reclassification of the loss-absorbing element of profit share receivables into technical provisions amounting to an increase in liabilities of £2.2m.

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

| ***By line of business (£'000)*** | | | ***2022*** |
|---|---|---|---|
| | ***Best estimate*** | ***Risk margin*** | ***Total*** |
| | £'000 | £'000 | £'000 |
| Income protection | 2,538 | 10 | 2,548 |
| Motor vehicle liability | 10,254 | 92 | 10,346 |
| Other motor | 3,154 | 8 | 3,162 |
| Fire & other damage to property | 186 | - | 186 |
| General liability | 2,270 | 6 | 2,276 |
| Miscellaneous financial loss | 12,432 | 4,905 | 17,337 |
| **Non-life** | **30,834** | **5,021** | **35,855** |
| Annuities stemming from non-life | 4,288 | 157 | 4,445 |
| Other life | 17,682 | 43 | 17,725 |
| **Life** | **21,970** | **200** | **22,170** |
| **TOTAL TECHNICAL PROVISIONS** | **52,804** | **5,221** | **58,025** |

- The gross BEL for Miscellaneous financial loss line of business is £12.4m, comprising pet and creditor unemployment risks, together representing 40% of the Group's overall non-life BEL;

- The gross BEL for the motor vehicle liability line is £10.2m representing 33% 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 £2.3m and relates to third-party liability cover on pet dog policies.
- The Life BEL is £21.9m representing 41% of the total BEL. This includes large outstanding bodily injury claims that have settled prior to 31 December 2022 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

### Assessment of the Best Estimate Liabilities

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

For annuities and assurances products, the projections are made for each individual policy in line with the financial statement methodology. For the other lines of business (Non-life and Health), the projections are made by homogeneous risk groups. 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 non-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 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.

**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 group for liabilities arising from future premiums. However, this risk is limited due to the short projection horizon of future premium.

**Material differences with financial statements valuation**

For the purpose of 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.

Compared to the financial statements, the future cash flows arising from premium exposure at the end of the financial year (unearned premium reserve 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.

**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 2022 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.

## D.3. Other liabilities

### D.3.1. Other liabilities as at period-end

The table below details the Other Liabilities as of 31 December 2022 of £50.1m.

| Other Liabilities (£'000) | *2022 IFRS* | *Reclassification* | *Valuation Adjustments* | 2022 Solvency II |
|---|---|---|---|---|
| Insurance & intermediaries payables | 26,857 | - 2,150 | - | 24,707 |
| Reinsurance payables | 552 | - | - | 552 |
| Payables (trade, not insurance) | 16,114 | - 1,449 | - | 14,665 |
| Any other liabilities, not elsewhere shown | 25,627 | - 15,570 | 124 | 10,181 |
| **Other liabilities** | **69,149** | **- 19,168** | **124** | **50,104** |

### D.3.2. Differences between Solvency II valuation and IFRS valuation by material class of other liabilities

Under Solvency II it is required for the reclassification of the loss-absorbing element of profit share payables into reinsured technical provisions amounting to a decrease in liabilities of -£2.2m.

Liabilities held in Other Related Undertakings are reclassified from Payables (trade, not insurance) of -£1.5m and any other liabilities, not elsewhere shown of -£15.6m to a single line in the financial investments under the adjusted equity method.

## D.4. Alternative methods for valuation

The Group does not use any alternative methods for valuation.

## D.5. Any other information

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 .

# E. Capital management

## E.1. Own Funds

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

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. Overall, the Group's capital position as of 31 December 2022 is as follows:

| *Solvency Position (£'000)* | Actual 2022 |
|---|---|
| Eligible Own Funds | 135,542 |
| Standard Capital Requirement | 86,280 |
| Minimum Capital Requirement | 21,570 |
| Capital Surplus | 49,262 |
| Solvency Ratio | 157% |

The Group has a Solvency Position of 157% which consisted of only Tier 1 assets with a group SCR of £86.3m based on 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. All of the Group's own funds items fall under Tier 1-unrestricted category. The Group does not have recognise any Tier 1 restricted, Tier 2 or Tier 3 capital as at the period-end.

The reconciliation reserve is analysed as:

| *Reconciliation reserve (£'000)* | 2022 |
|---|---|
| IFRS retained earnings | - 36,702 |
| - related undertakings not in scope of financial statements | 286 |
| - goodwill | - 126,582 |
| - intangible assets | - 22,490 |
| - reinsurance share of technical provisions | - 8,140 |
| - gross technical provisions liability | 55,845 |
| - premium receivables | - 40,540 |
| - de-recognition of deferred acquisition costs | - 670 |
| - valuation adjustment of deferred tax assets | - 1,254 |
| - derecognition of residual deferred tax assets | - 6,032 |
| - minority interests | - 88 |
| **Solvency II valuation differences** | **-149,665** |
| **Reconciliation reserve** | **-186,368** |

### E.1.2. Own funds eligible to meet the SCR as of 31 December 2022

| *Own Funds (£'000)* | 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 | | |
| **Total basic own funds** | **380,299** | 380,299 | | |
| An amount equal to the value of net deferred tax assets | 6,032 | | | 6,032 |
| Minority interests (if not reported as part of a specific own fund item) | 88 | 88 | | |
| Total deductions | - 6,120 | - 88 | | - 6,032 |
| Encumbered Assets | - 244,757 | - 244,757 | | |
| **Own funds eligible to meet the SCR** | **135,542** | 135,542 | - | - |
| **Own funds eligible to meet the MCR** | **135,542** | 135,542 | - | - |

As outlined in Section C.3.1, the majority 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. The cash will be used as and when required to support the growth of the Group's business, including future M&A and related transaction costs. The funding will be under the ownership and control of, and shall be recognized as equity for, PPG. JAB Holding Company S.a.r.I. is the guarantor of the notional cash pooling arrangement. The credit-rating of JAB is Baa2 with stable outlook, as assigned by Moody's Investors Services Limited, and BBB+ with a stable outlook, as assigned by S&P Global Ratings.

Cash balances under the notional cash pool arrangement are recognised as cash and cash equivalents albeit as an encumbered asset. Therefore, this cash is treated as £Nil towards Own Funds for group solvency purposes. Given the contribution of this cash balance to Own Funds is removed entirely, the Group SCR does not include a charge in the counterparty default risk module (as the loss in Own Funds would be £nil for a balance not recognised as available Own Funds).

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 2022.

#### E.1.4. Deferred Tax

Deferred tax assets are considered non-fungible for Group Solvency's purposes and are therefore £Nil for Solvency II.

### E.2. SCR and MCR

#### E.2.1. Overview

The Group's SCR and MCR as of 31 December 2022 is £86.3m and £21.5m respectively.

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, and an additional charge to represent the operational risks faced by the Group:

| SCR (£'000) | 2022 |
|---|---|
| Market Risk | 6,244 |
| Default Risk | 7,232 |
| Life SCR | 0 |
| Health SCR | 0 |
| Non-Life SCR | 77,308 |
| Diversification | -7,773 |
| **BSCR** | **83,011** |
| Operational Risk SCR | 3,269 |
| **SCR** | **86,280** |

PIC as on the only risk-bearing entity of the group represents 98% 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 £21.2m which is representative of the only insurer's MCR being PIC. 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 SCR are:

**Market Risk**

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

| Market Risk (£'000) | 2022 |
|---|---|
| Interest rate risk | 2,481 |
| Equity Risk | 2,551 |
| Spread risk | 558 |
| Currency risk | 72 |
| Concentration risk | 4,865 |
| | 10,527 |
| Less: Diversification effect | -4,283 |
| **Market risk** | **6,244** |

The Market risk SCR net of diversification is £6.2m and arises from:

- **Interest rate risk:** driven by changes in assets and liabilities of PIC 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.
- **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 PIC's holdings in corporate bonds.
- **Currency risk:** arises from changes in the level or volatility of currency exchange rates relating to its German subsidiary VV GmbH.
- **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 SCR required.

The diversification effect between the sub-modules of Market SCR remain amounted to £4.3m.

**Counterparty default risk:**

The table below provides a breakdown by each asset class:

| Counterparty Default Risk (£'000) | 2022 |
|---|---|
| Type 1 - rated | 4,344 |
| Type 2 - unrated | 3,378 |
| Diversification | -491 |
| **Counterparty default risk** | **7,232** |

The Counterparty default risk module amounted to £7.2m which arises from risk of default on reinsurance recoverable and cash at bank and deposits.

**Non- life underwriting risk:**

The table below provides a breakdown by component:

| Non-life Underwriting Risk (£'000) | 2022 |
|---|---|
| Non-life premium & reserve | 49,815 |
| Non-life Lapse | 1,924 |
| Non-life Catastrophe | 47,931 |
| Diversification | -22,362 |
| **Non-life underwriting risk** | **77,308** |

The non-life underwriting risk SCR arises from:

- premium and reserve risks of £49.8m mostly driven by premium exposure to the miscellaneous financial loss line (pet business);
- catastrophe exposure of £47.9m mostly driven by future premium exposure on the miscellaneous financial loss line, reflecting planned growth of the pet business; and
- lapse risk of £1.9m on future premium arising from existing contracts up to their contractual term.

**Operational risk:**

Operational risk amounted to £3.2m and is driven by life and non-life gross earned premium.

| Operational Risk (£'000) | 2022 |
|---|---|
| Premium component | |
| -Gross earned premium non-life x3% | 3,266 |
| -Gross earned premium life x 4% | 2 |
| **Operational risk** | **3,268** |

### E.2.2. Inputs to calculate the MCR

The Group has calculated the MCR based on rules set out in the Delegated Regulation.

| Minimum Capital Requirement (£'000) | 2022 |
|---|---|
| Linear minimum capital requirement | 13,874 |
| Solvency capital requirement - SCR | 86,280 |
| Minimum capital requirement cap | 38,826 |
| Minimum capital requirement floor | 21,570 |
| Combined minimum capital requirement | 21,570 |
| Absolute floor of the minimum capital requirement | 6,889 |
| **Minimum Capital Requirement - MCR** | **21,570** |

The Group has calculated the MCR based on rules set out in the Delegated Regulation. The MCR calculation is mainly based on the net value of technical provisions and the volume of premiums written in the last period. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively. As of 31 December 2022, the MCR is of £21.6m and within the SCR corridor at 25% of 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 SCR.

## E.5. Non-compliance with the MCR and non-compliance with the SCR

No non-compliance with the SCR and MCR has been reported during the reporting period.

## E.6. Any other information

This is not applicable.