UNAUDITED SOLVENCY AND FINANCIAL CONDITION REPORT

PINNACLE INSURANCE PLC

Company Registration Number: 1007798
Financial Conduct Authority Firm reference number: 110866

At 31 December 2023

CONTENTS

SUMMARY

Pinnacle Insurance plc ("the Company") is currently a composite insurance company, with a clear ambition to be a UK's leading pet healthcare and insurance services partner. All other lines of business are in run-off. For the non-pet lines of business, the company is focused on servicing existing customers.

The Company is a subsidiary of Pinnacle Pet Group Ltd ("PPG"), which in turn is a subsidiary of Pinnacle Pet Holdings Ltd ("PPH" or "the ultimate parent") and the Solvency II Group to which the Company now belongs.

Since 2021, all non-pet business has been fully reinsured to Darnell DAC (a wholly owned subsidiary of the BNP Paribas Group authorised by the Central Bank of Ireland), reflecting the decision of the Company to divest of the non-pet business and focus on pet insurance business.

The report covers the Solvency & Finance Condition Report (SFCR) of the Company as a Solo entity and provides information on its solvency i.e. the Company's ability to pay liabilities.

The information in this report is from the Company's most recent financial year, which is the year ended 31 December 2023.

The Company is authorised by the Prudential Regulation Authority (PRA), and jointly regulated by the Financial Conduct Authority (FCA) and the PRA.

The following is a high-level description of the contents of each section in this document.

A. Business and performance
This section describes the Company's performance and significant events during the year, legal structure, how the Company is regulated and who the Company auditors are.

B. System of governance
This section outlines the Company's system of governance and risk management, and how the Company is managed and controlled. It also describes the Company's Human Resources policy and practices, and its adherence to the 'Fit and Proper Requirements'.

C. Risk profile
This section describes the Company's risk profile, including risk exposures, concentrations, mitigation and sensitivity.

D. Valuation for solvency purposes
This section describe the bases and methods used for the valuation of the Company's assets, technical provisions and other liabilities with an explanation of any major differences in the bases and methods used for the Solvency II valuations, compared to the UK General Accepted Accounting Principles (UK GAAP) basis used for the 2023 Annual Report and Accounts.

E. Capital management
This section describes the Company's approach to capital management, and includes information on the amount and quality of the Company's own funds.

The Company's capital position as at 31 December 2023 is as follows:

	2023	2022
	£'000	£'000
Eligible own funds	139,681	154,228
Solvency capital requirement (SCR)	50,301	84,889
Capital Surplus	89,380	69,339
Ratio of Eligible own funds to the SCR	278%	182%

The Company has a strong capital position with solvency capital surplus of £89.4m (2022: £69.3m) in excess of its solvency capital requirement. The Eligible own funds decreased from £154.2m to £139.7m in 2023. The net decrease of £14.5m is due loss for the year on UK GAAP of £12.5m and movements in Solvency 2 valuation differences of £2.0m.

The SCR decreased from £84.9m to £50.3m between 2022 and 2023. This decrease is primarily results from the introduction of new reinsurance solutions allowing the Company to mitigate some of the risks associated with its growing pet product line.

The Company's capital management policy is to maintain sufficient own funds to cover a minimum 120% of the Solvency Capital Requirement (SCR). The Company calculates its SCR using the Standard Formula under Solvency II requirements.

Environmental, Social and Governance Including climate change

Due to the increasing impact of climate change and broader Environmental, Social and Governance (ESG) activities, the Company has been developing an ESG reporting roadmap during 2023 for implementation in 2024. This roadmap was a grounds up review and included a materiality assessment of all ESG related factors relating to our business model. The Environmental considerations include the impact of our business, suppliers and customers on the planet as well as how climate change will impact our business model over time. The roadmap will outline a series of governance and reporting metrics over the material activities, tracking our progress towards a sustainable future. This will include linkage to the three categories of climate risk as outlined by the PRA. Future climate change analysis will include the impact on our operations, supply chain, as well as the impact on different breeds and the resulting pricing and claims implications. The Roadmap also looks to report on the benefits of our ESG activities to our business and customers, as well as identifying and capitalising on opportunities that may arise.

Currently, the Executive Management and subject matter experts use the Risk Register review process to review climate related risks to the Company. In view of the business model, the climate related exposure is currently 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. This is determined by the following:

Physical Risk: The impact on claims liabilities as a result of first order effects of climate change e.g. more natural disasters, is considered immaterial. Note: This is supported by quantitative analysis of historic pet claims data during UK flooding events (2014 and 2015).

The Company currently operates in line with Operational Resilience regulatory guidelines, including and annual self-assessment report over important business services. Operational resilience is rated low with no material impact from climate and weather related events (through disruption to the work environment, third party contracts or disruption to supply chains).

Any new outsourced processes are assessed under the procurement framework, including approval from the Local Outsourcing Control Committee. Performance of existing arrangements are also reported through the Vendor Risk Management Forum.

Transition Risk: Financial risks from climate change are only likely to arise as transition risks i.e. asset devaluation as a consequence of climate change factors. The company monitors exposure to climate change factors through the application of JAB policies relating to SRI (Social Responsible Investments) and ESG (Environmental, Social & Governance). This is reviewed by the Investment Committee (a sub-committee of the Board). In order to assess Transition Risk, a climate related Market risk stress scenario was included in the last Own Risk Solvency Assessment (ORSA), with no material impact to the Company or the solvency of the Company caused by a reduction in investment income from the modelled climate impact.

Liability Risk: As a result of first order physical impacts related to climate change, or the second order transition impacts, climate liability risks can arise from injured parties seeking compensation for those impacts. The Company does not have liability insurance exposed to this risk.

Basis of preparation

In line with the Company's previous SFCRs, this document is a Solo SFCR for the Company. There are two key bases for measuring and reporting solvency, which can be used under the SII regime during the UK transition period:

- the 'Standard Formula' and
- an 'Internal Model'.

The figures disclosed in the Company's SII reporting, including this document, are prepared using the Standard Formula. The Board considers that the Standard Formula delivers an SCR that is prudent and appropriate for the Company having regard to the size and the complexity of the business.

The report makes reference to the Company's Annual Report and Accounts which can be accessed from the Company's website at https://www.pinnaclepetgroup.com/ under Pinnacle Insurance plc information section. The Accounts are prepared in accordance with UK General Accepted Accounting Principles (UK GAAPs); whereas information in this report is governed by Solvency II rules. Important differences include valuation methodologies for assets, technical provisions and other liabilities. Therefore the numbers, including financial, in this report will not always correspond to those in the Annual Report and Accounts.

A M Wigg
Chief Executive Officer
4th April 2024

DIRECTORS' REPORT

Directors

The Directors who held office throughout the year (unless stated otherwise) were:

R A Hines * (Chairman)
A M Wigg
M J Lorimer
S L P F Chevalet
S M May
C A Scarr *
C A Iordache
D C L Beeckman
E de Talhouet *

* Independent Non-Executive Director

Statements of Directors' Responsibilities

The Directors are responsible for preparing the Solvency Financial Condition Report, including the attached public quantitative reporting templates, in all material respects in accordance with PRA Rules and the Solvency II Regulations.

The Solvency II Directive, the Delegated Acts, related Implementation Rules, Technical Standards and Guidelines as transposed into the PRA rulebook, as well as PRA rules provide the regulatory framework in which the Company operates. The Solvency II rules and regulations include, but are not limited to, the recognition and measurement of its assets and liabilities including technical provisions and risk margin, the calculation of its capital requirement and the reporting and disclosures of the Solvency II results.

Compliance with the Solvency II framework

The Company has complied in all material respects with the requirement of the PRA Rules and Solvency II regulations as applicable throughout the financial year 2023. The Company reasonably believes that it will comply with PRA rules and Solvency II regulations subsequently and will continue to comply for the foreseeable future.

Audit

The Company is exempt from external audit requirement of the SFCR for the year ended 31 December 2023 based on qualifying score being less than 100. The calculations are based on the guidelines published in the PRA consultation paper CP8/18.

Approved by the Board on 4th April 2024 and signed on its behalf by:

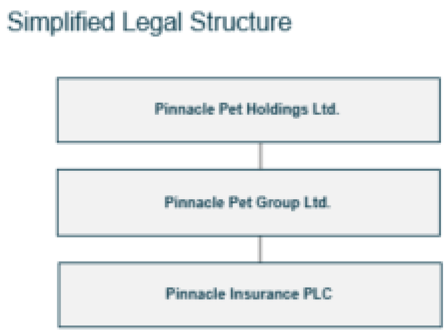
S M May
Director

A. BUSINESS AND PERFORMANCE

A.1 Business

PIC is a limited company incorporated in 1971 in the United Kingdom. The registered address of the Company is Pinnacle House, A1 Barnet Way, Borehamwood, Hertfordshire, WD6 2XX.

Related undertaking of the Company



The Solvency II Group to which the Company belongs also includes the following entities:

- Pinnacle Pet Holdings Limited (“PPH”) (13626409), a holding company focused on shareholder matters. This entity has no regulated activities, employees or business activities located in the United kingdom;

- Pinnacle Pet Group Limited (“PPG”) (13626694), an intermediate holding company at which the operational group board sits located in United Kingdom.

Pinnacle Pet Holdings Ltd, a holding company, is the head of the insurance group for Solvency II purposes and therefore results of the Company are also consolidated in the insurance group SFCR.

Supervision and External Audit

Pinnacle Insurance plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
www.bankofengland.co.uk/pra
www.fca.org.uk
The Company’s statutory annual financial statements are audited by Ernst & Young LLP who can be contacted as follows: Ernst & Young LLP, The Paragon, Counterslip, Bristol, BS1, 6BX.

A.2 Underwriting performance

The Company reported a pre-tax loss of £12.7m (2022: loss of £9.1m). The 2023 loss was impacted by an increase in overheads of £7.3m, predominantly due to inflation and transitional costs incurred for the separation from BNP Paribas Cardif as a result of the ownership restructure. The Technical Result reduced by £4.6m due to an increase in claims incurred. This was offset by an increase in investment Income by £8.3m due to favourable bond market movements and increase in interest rates.

Key Performance Indicators (KPI’s) are measures by which the performance or position of the Company can be assessed effectively. The Company’s management monitor the progress of the Company’s pet business by reference to the following KPIs.

	2023 £'000			2022 £'000		
	Pet	*Non Pet*	*Total*	**Pet**	*Non Pet*	*Total*
Gross Written Premiums	**143,704**	*6,905*	*150,609*	**99,603**	*11,625*	*111,228*
Net Earned Premiums	**119,437**	*0*	*119,437*	**89,126**	*0*	*89,126*
Technical Result *	**14,033**	*5,733*	*19,766*	**19,119**	*5,264*	*24,383*
Investment Income	**7,014**	*0*	*7,014*	**(1,314)**	*0*	*(1,314)*
Administration Expenses	**(33,444)**	*(6,024)*	*(39,468)*	**(26,350)**	*(5,829)*	*(32,179)*
Loss Before Tax	**(12,397)**	*(291)*	*(12,688)*	**(8,546)**	*(565)*	*(9,111)*
Claims	**72%**			**58%**		
Acquisition costs	**16%**			**20%**		
Gross Margin	**12%**			**22%**		

Gross Written Premiums (GWP): represents the total premiums written in a given year before deductions of reinsurance and ceding commission and is analysed as:

GWP by line of business	2023	2022	*Change*
	£'000	£'000	Increase/ (decrease)
Pet	129,987	99,604	30,384
Creditor, Warranty and MGA	6,885	11,624	(4,739)
	136,873	111,228	25,645
Inward reinsurance Pet	13,717	-	13,717
	150,589	111,228	39,362
Long-term business	20	194	(174)
Gross written premiums	**150,609**	**111,422**	**39,188**

GWP increased in the year by £39.2m (35%) due to the growth of the pet business slightly offset by the continued decrease in creditor, warranty and MGA:

Pet

Gross written premium for pet business increased to £143.7m (2022: £99.6m), £21m of the increase comes from our own brand, Pet Protect. The underwriting of this book commenced in the year, the remainder of the growth being from partnership arrangements.

Creditor, Warranty and MGA

Gross written premiums reduced to £6.9m (2022: £11.6m). This business is in run-off and this portfolio is reinsured 100% to Darnell DAC.

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired period of the policy. NEP grew by £30.3m during the year, of this £16m comes from the underwriting of Pet Protect, the remainder of the growth being from partnership arrangements.

Technical Result: represents the balance of earned income less incurred claims, commission and profit share payments, net of associated reinsurance balances. The non pet result is 100% reinsured, however the non pet technical profit is shown as overheads, which is reimbursed to the Company by reinsurance commission. The reduction in the technical result of £4.9m is due to the increase in the claims ratio.

The Company's business entirely relates to one geographical market (United Kingdom).

Claims Ratio: relates to pet business only and is calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2023 increased to 72% (2022: 58%), the increase being the impact of inflation and new business strain in the year along with prior year reserve releases in 2022 which decreased the 2022 loss ratio by 3pts.

Acquisitions Costs Ratio: relates to pet business only and is calculated as a percentage of NEP. The ratio in 2023 reduced to 16% (2022: 20%).

Gross Margin Ratio: reflects the profitability of the pet business before direct and indirect costs and is calculated as net earned premium (NEP) net of acquisition costs and incurred claims expressed as a percentage of NEP. The ratio reduced to 12% (2022: 22%).

A.3 Investment performance

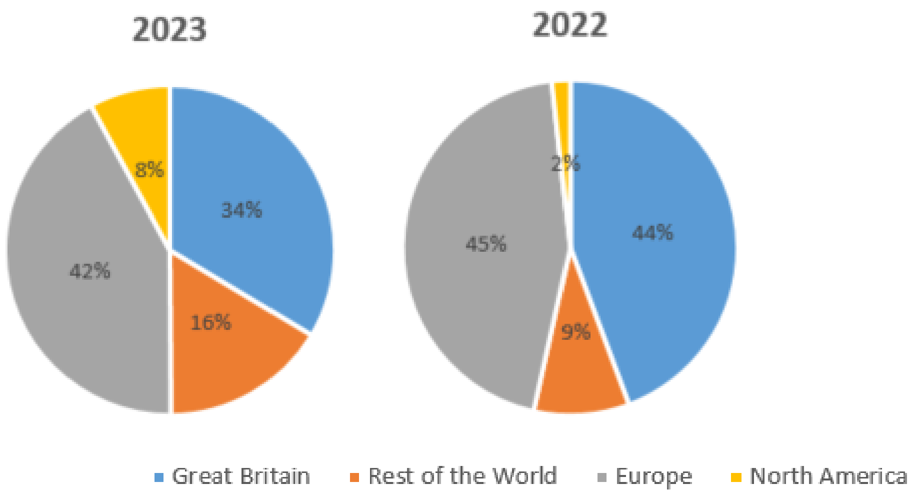
Investment income represents income arising from the Company's investment portfolio including the impact of marked to market revaluations and realised losses on investments.

The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £156.0m at 31 December 2023 (2022: £162.2m) of which 28% (2022: 32%) was held in bonds, 58% (2022: 54%) in term-deposits with credit institutions and 14% (2022: 14%) in cash and cash equivalents.

Total net investment return for the year is a profit of £7.0m (2022: loss £1.3m) which comprises interest earned on financial investments of £5.5m (2022: £2.3m), realised loss on bonds of £1.8m (2022: loss £1.1m) and unrealised profit of £3.3m (2022: loss £2.5m).

	2023		2022	
By assets class	**Investments**	**Return on investments**	**Investments**	**Return on investments**
	£'000	£'000	£'000	£'000
Bonds	43,263	2,436	51,238	(2,735)
Deposits	90,551	4,033	87,446	1,305
Cash at bank	22,216	545	23,517	116
Total	**156,030**	**7,014**	**162,201**	**(1,314)**

The chart below provides geographical split of the investments as follows:



A.4 Performance of other activities

Administration expenses represent those operating expenses incurred by the Company, which are not classified as either acquisition or claims handling costs. Administration expenses increased by £7.3m to £39.5m (2022: £32.2m), £1.5m of the increase is due to inflation, £1.7m of the increase is due to transition service agreement costs from BNP Paribas and £2m higher staff costs for enhanced pricing and data capabilities. Remainder of the increase is due to the impact of development costs incurred and premium growth impacting variable costs.

A.5 Other information

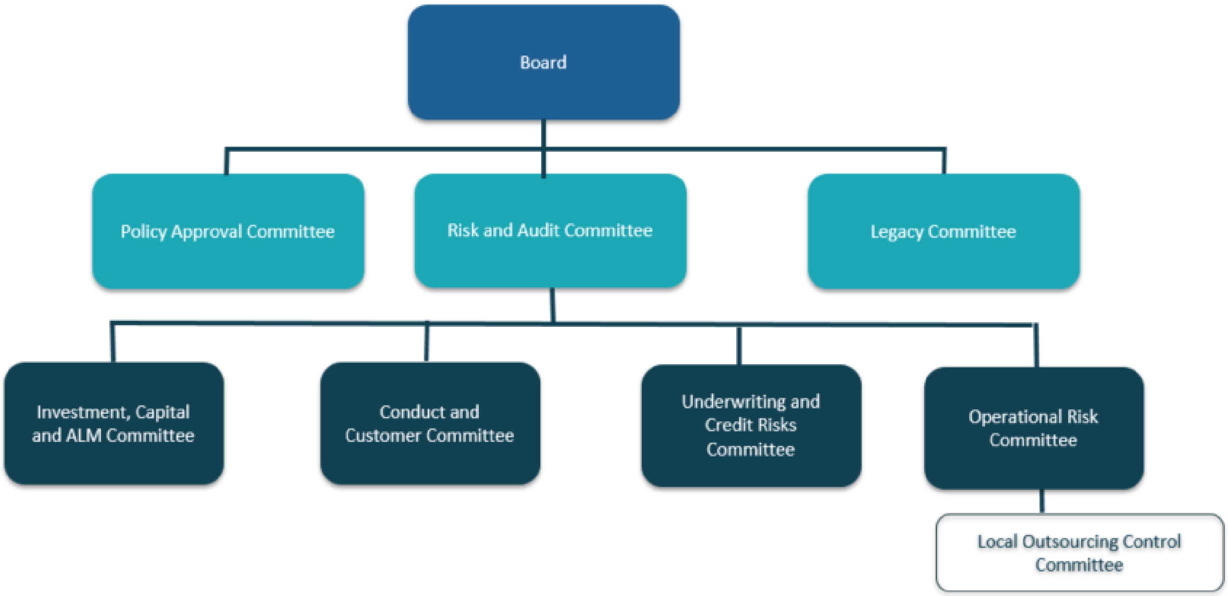
None

B. SYSTEM OF GOVERNANCE

B.1 General Information on the system of governance

The Company's Board comprises Directors and Non-Executive Directors who are responsible to the shareholder and other stakeholders for ensuring that the Company is appropriately managed and achieves its objectives. The Board met 6 times in 2023 to determine the Company's strategic direction, review operating and financial performance, and to ensure that the Company is adequately resourced and effectively controlled.

The Company's governance regime is summarised as follows:



The following Board and Executive team members were the holders of significant management functions during the year (unless stated otherwise):

Name	Function	Description of a controlled function
Andrew Wigg	SMF1	Chief Executive Officer
	SMF 3	Executive Director
	SMF 20	Chief Actuary
Carmen Iordache	SMF 23	Chief Underwriting Officer
	SMF 16	Compliance Oversight
Matthew Lorimer	SMF 17	Money Laundering Reporting Officer (MRLO)
	SMF 2	Chief Finance Officer
Sophie May	SMF 3	Executive Director
Richard Hines*	SMF 9	Chair of Governing Body
	SMF 10	Chair of the Risk Committee
Craig Scarr *	SMF 11	Chair of the Audit Committee
Stanislas Chevalet	SMF 7	Group Entity Senior Manager
Dirk Beeckman	SMF 7	Group Entity Senior Manager
Christopher Bernau	SMF 4	Chief Risk Officer
Al Hadfield (resigned 5th Jan 24) **	SMF 24	Chief Operating Officer

* Independent non-Executive Director
** SMF 24 now held by Andrew Wigg

Remuneration Practices

Remuneration is determined within the Company 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: 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.

The Company may at its absolute discretion pay employees a sum in respect of variable remuneration. 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.

Variable compensation: 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 Company, 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.

Risk and Audit Committee (RAC)

This committee is chaired by an independent Non-Executive Director. 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;
- provide a channel of communication to the Board for the internal and external auditors;
- 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;
- have oversight of the work of the Investment, Capital and ALM Committee, Conduct and Customer Committee, Underwriting and Credit Risks Committee and the Operational Risk Committee and to receive minutes and verbal updates in respect of the above mentioned Committees;
- receive reports from the Compliance Function 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 BNP Paribas Group and JAB 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 firm's most significant risks on the Risk Register, 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
- satisfy itself that there is sufficient quality and quantity of resource within Risk Management.
- 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.
- review the scope of the internal audit work and the extent of the implementation of recommendations by Management.
- review any reports of major fraud.
- 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.
- make recommendations on the appointment, reappointment and removal of the external auditors.

- review the external auditors' fees for statutory audit work, and ensure that any Group requirements for audit fees are followed.
- approves the terms of the engagement and remuneration of the external auditors.
- assess annually the independence and objectivity of the external auditors.
- make sure at the start of each audit cycle that there are appropriate plans in place for the audit and review the external auditors' proposed audit scope and approach, including the co-ordination of their work with internal audit and the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- assess the effectiveness of the external audit process.
- 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 significant accounting or reporting issues, including complex or unusual transactions, or recent professional and regulatory notices, and understand their impact on the financial statements.
- agree the content of any letters of representation provided to the external auditors.
- 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.
- review other sections of the annual report and related regulatory submissions before release and consider the accuracy and completeness of the information.
- agree the wording of the Corporate Governance statement and any statements in relation to internal financial control and the management of risk for inclusion in the annual Report and Accounts; and.
- review the assumptions and outcomes of reserve methodology, the ORSA report and stress testing.

Policy Approval Committee

This Committee is chaired by the General Counsel and reports into the Board. The Committee meets quarterly and the sole purpose is to oversee the timely review and approval of all policies and other documents assigned to the Board.

The main responsibilities are to:

- to ensure all policies are reviewed and approved annually, have sufficient discussion and debate and delegates to management and
- to ensure all approved policies are communicated to and adopted by the relevant business areas

Legacy Committee

This committee is chaired by an Executive Director of BNP Paribas Cardif and reports into the Board.

This committee was established in July 2022 by the Board following the joint business venture of JAB Holding Company and BNP Paribas Cardif.

The committee's purpose is to oversee and control the performance and operational management of all non pet business and policies until the date on which the Legacy Business portfolio transfer has been completed.

This committee meets quarterly, its main responsibilities are to:

- monitor and make decisions in respect of the Legacy Business Reinsurance Agreement
- monitor and make decisions in respect of the Legacy Business Portfolio Transfer
- make decisions in respect of engagement and costs of third party service providers or professional advisors 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 the Profit and Loss Adjustment Mechanism
- monitor the operation and implementation of the foregoing to ensure compliance with Group companies' regulatory obligations (including the requirement to deliver good outcomes to Customers); and
- make decisions in respect of any disputes relating to Legacy Business

Investment, Capital and ALM Committee

The Committee is chaired by an Executive Director and reports to the RAC. It meets on a quarterly basis and its main responsibilities are to:

- ensure asset exposures do not exceed the limits set in the investment policy;
- maximise investment return within the risk framework of the investment policy and regulatory requirements;
- agree investment returns to be used for future investments, new products types, constraints of asset duration, constraints on credit rating, counterparties and removal of counterparties' restrictions;
- monitor the Investment impacts on solvency capital requirements of market and counterparty default risks;
- manage investments within the tolerances provided by the ALM policy of managing and matching the assets with liabilities while complying with financial objectives, risk appetite and regulatory constraints;
- review the investment guidelines and ALM management procedures; and
- review investment and ALM policies at least once a year and make proposal of change to the RAC

Underwriting and Credit Risk Committee (UCR)

This Committee is chaired by the Head of Actuarial Closing and Risk and reports to the RAC. The Underwriting and Credit Risk Committee meets quarterly. The Committee's main responsibilities are:

- provide effective risk monitoring & risk follow up for all the key underwriting & credit risk and provide an escalation process (alert system);
- review the underwriting and credit risk exposure and the related risk mitigation technique and the related risk map;
- review the new products that could lead to a material change of the company's risk profile;
- review the adequacy of the reinsurance programme as part of the risk mitigation techniques; and
- review the underwriting and credit risk management procedures and the underwriting policy at least once a year and make proposals of change to the RAC.

Conduct and Customer Committee (CCC)

The Committee is chaired by General Counsel and reports to the RAC.

It provides oversight of Conduct Risk within PIC and adherence by members of PIC with Conduct Risk principles and guidance.

There are a number of operational forums that sit under the CCC for which the Committee provides oversight. These are the Product Approval Group (PRAG), the Customer Outcome Review Group (CORG) and the Root Cause Analysis Forum (RCA). The CCC manages the operation and outputs from these respective groups and ensure that any items of note are discussed at the CCC and are raised at the RAC in a timely manner. In addition:

- it identifies, assesses and reports on key Conduct Risks faced by PIC;
- it promotes and encourages a culture to ensure the recognition of Conduct Risk, the fair treatment of customers and adherence to Consumer Duty requirements ;
- it implements a regular two-way communication programme that demonstrates a positive attitude and company-wide commitment to Conduct Risk;
- it encourages the development, analysis and use of further Conduct Risk Indicators (CRIs) or other management information to measure and achieve better outcomes for customers by ensuring that the results are acted upon;
- it ensures that staff appropriately record Conduct Risk issues including the findings and resulting outcome using an agreed process or system such as (but not limited to) the Incident Reporting, Root Cause Analysis ("RCA"); and
- it reviews issues brought to the CCC and make recommendations that are in the best interests of the customer.
- it reviews issues brought to the CCC and make recommendations that are in the best interests of the customer.

Operational Risk Control Committee (ORC)

The ORC is chaired by the Chief Risk Officer and reports to the RAC

The scope is Operational and Strategic Risk and is focused on the provision of a comprehensive overview of the most critical risks impacting the key business processes, internal controls, monitoring of action plans and the implementation of recommendations. This aligns with local management, the shareholder and the UK regulator's requirements for risk management.

The committee's main responsibilities are to:

- oversee the risk management culture in the company;
- identify, assess and report on all relevant operational risks including Legal & Regulatory (FCA and PRA), Reputational, Strategic (including ESG, outsourced activities and Emerging risks) faced by the company;
- review the effectiveness of the internal control and compliance arrangements in the company, including the outputs from the Risk and Control Self-Assessment (RCSA) process
- report effectiveness of current controls to the RAC, highlighting any areas of concern;
- identify key controls; request control operation reports from control owners;
- review and approve the operational elements of the annual business strategy;
- review the level of change across the organisation and report on any dependencies or delivery issues;
- review key audit open issues, compliance and risk control indicators, and risk event reports and identify required actions;
- Identify the impact on risk appetite levels arising from control failures;
- review planned controls mitigating the impact of new or emerging risks;
- review implementation of control improvements and;
- perform risk deep dives and thematic risk reviews

Local Outsourcing Committee (LOC)

This Committee is chaired by an Executive Director. It reports into the ORC which reports to the RAC.

The Committee's main responsibilities are to:

- review the risk position of the outsourcing;
- ensure that any proposed outsourcing delivers benefits that outweigh risks;
- review potentially severe incidents on outsourced running activities;
- review all inputs relating to the supervision of outsourced activity;
- oversee the invocation of exit plans and
- ensure relevant controls are in place.

B.2 "Fit and proper" requirements

The Company applies the "Fit and Proper Requirements" criteria laid down by the FCA and PRA in the appointment of controlled function holders including those individuals encompassed in the Senior Managers & Certification Regime (SMCR).

The Company assesses individuals' fitness and propriety by giving consideration to their:

- financial soundness;

- honesty, integrity and reputation and
- competence and capability.

The Company employs the following procedures to assess “fit and proper”:

- compliance with the applicable PRA Conducts Standards and FCA Conduct Rules;
- compliance with internal policies and procedures;
- disclosure and barring service (DBS) checks;
- annual performance reviews and assessments;
- self-attestation annually; and
- references completed by a candidate’s previous employer.

B.3 Risk management system including the own risk and solvency assessment (ORSA)

The Board has overall responsibility for the establishment and oversight of the risk management framework. The RAC has been delegated responsibility from the Board to oversee how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework.

The RAC is assisted in its oversight role by both the second line (Risk and Compliance) and the third line (Internal Audit) assurance functions, which undertake both regular and ad-hoc reviews the results of which are reported to the RAC. These reviews are scheduled and tracked through the Assurance Matrix, a document that tracks all assurance and oversight activity performed over the key risks to the business. The Assurance Matrix is reviewed and approved annually by the RAC to ensure sufficient coverage of assurance activity based on the residual risk profile.

Risk management policies and procedures are established to identify and analyse the risks faced by the Company, to set appropriate risk appetites and limits, and to identify, measure, record, manage and report on existing and emerging risks, so that they can be managed within Board-approved risk appetites.

Risk management policies and systems are reviewed at least annually to ensure that they remain effective and appropriate for the management of the Company’s risks.

The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and responsibilities under the risk management framework.

Own Risk and Solvency Assessment (ORSA)
In line with Solvency II, the Company is required to assess its solvency at least every 12 months, by conducting an Own Risk & Solvency Assessment (ORSA). Risk profile changes are monitored by the RAC through review of risk appetite limits.

The ORC reviews the occurrence (and ongoing relevance) of ORSA triggering events and reports to the RAC on any material changes. If a triggering event occurs, the ORC will inform the RAC and the Board who will consider whether a requirement to re-run the ORSA has arisen.

The ORSA reporting is conducted in accordance with the Board’s ORSA policy. The Board and RAC provide guidance to the process, e.g. by setting the stress and scenario tests to be used in the ORSA, requiring amendments to the ORSA content, etc. The Board receives updates through the RAC (setting out work completed, key tasks and deliverables, etc.) and together with the RAC, reviews and approves the draft ORSA content. The Board challenges as it deems fit and approves the final version for publication.

B.4 Internal control framework

The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness, while the implementation of internal control systems is the responsibility of the executive management. The Company'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 Company has an established governance framework, the key features of which include:

- a Corporate Governance manual including matters reserved for the Board and Terms of Reference for each of the Board's Committees;
- a clear organisational structure, with documented delegation of authority from the Board to executive management, including the appointment of appropriate SMF's under SMCR;
- a policy and procedures framework, which sets out risk management and control standards for the Company's operations; and
- defined procedures for the approval of major transactions.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The Company's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of its business objectives. The Company has a set of formal policies that govern the management and control of both financial and non-financial risks.

The risk management framework includes a taxonomy of risks that are relevant to the Company, with assigned ownership for each risk at the executive level. These risks are captured and maintained in the risk register and associated risk and control matrices.

The executive management and the Board regularly review the effectiveness of the Company's systems of internal control. Where weaknesses are identified as part of the control review, mitigating actions are taken or plans are put in place. These are monitored by the appropriate Committees on behalf of the Board.

B.5 Internal Audit function

The Company has outsourced its Internal Audit function to Grant Thornton UK LLP, which provides assurance to the RAC and to the Board as to the effectiveness of Company's internal systems and controls, making recommendations and monitoring progress against those recommendations as appropriate.

Findings may contain recommendations, which will include agreed actions for closure that are deemed to have been completed only once Internal Audit is satisfied with them. The Risk function supports the action closure process by tracking closure dates with action owners and ensuring suitable evidence is obtained for Internal Audit review.

The RAC agrees the audit schedule set out by Internal Audit. Where required, the schedule is adjusted in consultation with the RAC to address new or emerging risks. This might be the case if the RAC or Board wants a particular area of the Company's operations to be reviewed, perhaps in response to external drivers such as new regulations.

B.6 Actuarial function

The Company has an in-house Actuarial team which carries out a day-to-day actuarial role, including claims reserving. The formal role of the actuarial function under Article 48 of the Solvency II Directive as transposed into the PRA rulebook is to report formally to the Board on technical provisions, reinsurance and underwriting policy.

B.7 Outsourcing

This section of the report details the outsourcing arrangements for the Company's material outsourced and material third party activities.

The outsourcing role is carried-out by one full-time employee, supported by a Group function. However, Subject Matter Experts are drawn from across all functions.

Before an activity is outsourced, the Company conducts a comprehensive pre-outsourcing assessment of the potential outsource provider in line with its procedures and the Board approved 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 Company applies 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.

B.8 Compliance

The Company has an in-house Compliance function that reports to an Executive Director to identify relevant legislative, regulatory and Group requirements. The Compliance function is responsible for ensuring the Company implements the necessary arrangements, systems and controls so as to facilitate adherence to these obligations.

The RAC agrees the annual Compliance monitoring schedule and all findings from the periodic reviews are reported to the RAC. The findings may contain recommendations which are monitored and closed by the Compliance function.

B.9 Any other information

None

C. RISK PROFILE

The Company's activities expose the business to a number of key risks, which have the potential to affect the Company's ability to achieve its business objectives. The Board is responsible for ensuring that an appropriate structure for managing these risks is maintained. The key risks and risk mitigation framework are highlighted below:

C.1 Underwriting risk

The non-life underwriting risk is the main component of the Company's risk profile, representing 81% of the solvency capital requirement at the end of 2023 (2022: 91%).

Non-life underwriting risks mainly relate to the premium and reserve risk accounting for 85% after diversification (2022: 50%) and the catastrophe risk representing 11% (2022: 48%), the remaining 4% arising from lapse risk (2022: 2%).

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

The gross of reinsurance non-life exposure relates to:

- primarily the miscellaneous line of business with 90% of the non-life exposure (2022: 86%) comprising unemployment risk and pet health insurance;
- the motor liability, general liability and fire lines of business with 7% of exposure (2022: 9%) comprising motor insurance cover and household for claims outstanding mainly; and
- the other motor line of business with 3% of exposure (2022: 5%) corresponding to motor warranty products.

Since the introduction of a quota-share reinsurance treaty with Darnell DAC in 31/12/2021, the Company retains 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 0.2% on General Liability insurance line, relating to pet third party liability cover).

Catastrophe risk arises from infrequent shock events that give rise to large numbers of claims or large individual claims and relates to the pet insurance only after reinsurance. Natural catastrophe risks arising from the Company's motor GAP exposure, non-life catastrophe associated with unemployment covers of the Company's creditor book and other relatively limited life or health catastrophe are fully reinsured with Darnell DAC.

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

The Company's exposure to underwriting risk on pet health insurance cover has increased as business is projected to continue to grow substantially in 2024.

On the creditor book, the Company's underwriting risk profile relates mainly to the risk inherent to unemployment and temporary disability. The exposure is reducing in line with the business volumes but the Company continues to be exposed to the risk of economic downturn.
The Company's motor and household exposure to risks ceased at the end of 2016. However, the Company continues to be exposed to the development of some historic claims (reserving risk) and

notably for large bodily injury motor claims.

The Company's annuity and assurance book is in run-off leading to a continuously decreasing exposure to longevity risk.

The Company adopts the following to mitigate these risks:

- underwriting policy, risk tolerance and pricing and reserving procedures;
- reinsurance;
- re-pricing when deemed necessary; and
- risk monitoring dashboards and risk monitoring committee

C.2 Market risk

Market risk is the risk that the Company is adversely affected by movements in the value of its financial assets arising from market movements.

The Company is mainly exposed to interest rate risk, concentration risk and spread risk. Concentration risk arises with exposures on the same counterparty over a certain threshold and spread risk arises from the change in credit spread over the risk-free interest rate term structure.

The Company is exposed to interest rate risk. This risk exists for all investment assets, best estimate liability and best estimate ceded reinsurance liability which are sensitive to changes in term structure of interest rate.

The Company has a low risk appetite for market risk, which has been translated into a policy allowing the Company to invest predominantly in short-term bonds to match the short-tail nature of most of its claims. The risk is managed by the Investment Committee.

C.3 Credit / Counterparty risk

The Company's exposure to credit risk arises from its direct insurance trading activities, the exposure to the reinsurance it purchases and those of its investment activities. The risk is the risk of default arising from any of these exposures.

The primary source of credit risk for the Company is:

- Investments portfolio including deposits, cash and cash equivalents;
- Amounts due from reinsurer; and
- Amounts due from insurance intermediaries.

Investment activities

The Company, through the Board and the Investment, Capital and ALM Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. The investment credit risk managed through established guidelines and procedures. The Company's investment policy prescribes the investments limits and credit quality of the investments, which are monitored and reviewed by the Investment, Capital and ALM Committee on a quarterly basis.

The Company maintains a low risk, high quality investment portfolio with exposure concentrated in bonds, bank deposits and cash. The table below provides UK GAAP investment portfolio by credit quality:

Investment portfolio by credit quality	**2023**		**2022**	
	£'000	**%**	**£'000**	**%**
AAA	33,317	21%	30,880	19%
AA-	25,288	16%	47,512	29%
A+	53,739	35%	45,485	28%
A	20,585	13%	13,165	8%
A-	15,140	10%	22,302	14%
BBB+	7,961	5%	2,857	2%
	156,030	**100%**	**162,201**	**100%**

Concentration of credit risk exists where the Company has significant exposure to an individual counterparty or a group of counterparties. As at 31 December 2023, the Company has £15.6m (2022: £15.1m) investment with a single issuer with a credit rating of "A" (2022: A+) with a duration of 6 months (2022: 2 months). The single party exposure is within the Company's prescribed investment policy limit.

Reinsurance risk

The Company manages the risk through the use of preferred reinsurers. No reinsurance counterparty has a rating lower than BBB+.

The highest exposure to single reinsurance counterparty is £13.3m (2022: £14m) rated AA- (2022:AA-).

The technical provisions ceded as at 31 December 2023 under a UK GAAP basis are £44m (2022: £51.1m), of this £4.1m relates to the reinsurance of non-pet activities with Darnell DAC (2022: £18.2m), and £38.2m under Solvency II basis (2022: £43m). See section D1 for details on the valuation differences.

Insurance debtors and other receivables

The Company 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. Credit risk is also monitored for large partners/brokers. The Company's standard credit policy is 30 days after the amount becomes due.

The carrying value of the insurance and other receivables at 31 December 2023 is £87.2m (2022: £64.0m) net of bad debts provisions of £nil (2022: £nil). The value of these receivables under Solvency II basis is £27.2m (2022: £21.2m). See section D.1 (b) for detail on the valuation differences.

The Company mitigates its credit risk and risk concentration as follows:
- individual counter-party risk assessment using second worse of Standard & Poor, Moody and Fitch credit rating assigned to each counterparty;
- credit and concentration risk limits relating to cash, short term deposits and bond investments are defined in the Investment Policy. The Company has a very low risk appetite for any default by counterparties with whom deposits are placed and will not place funds with counterparties whose S&P credit rating is lower than BBB- or lower rated investments;

- monies held in trust accounts (or in segregated accounts); and
- contractual audit rights and rights to terminate contracts due to the failure of counterparties to perform agreed duties including the right to set-off.

C.4 Liquidity risk

Liquidity risk is the risk that sufficient financial resources are not available in cash to enable the Company to meet obligations as they fall due. The Company mitigates liquidity risk in the following ways:

- The Company 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 Company prepares forecasts to predict the required level of liquidity levels both for short-term and medium-term and adjusts the assets accordingly.

The tables below analyses the liquid resources available to meet Company's liabilities as they fall due:

As at 31 December	2023	1 Year	2-3 Years	4-5 Years	Over 5Years	2022
Highly liquid resources	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments	133,814	81,649	37,823	4,841	9,471	138,684
Cash & cash equivalents	22,216	22,216	-	-	-	23,517
	156,030	**103,865**	**37,853**	**4,841**	**9,471**	**162,201**
Expected liabilities						
Gross insurance liabilities	54,729	30,379	5,874	1,854	16,622	52,549
Other payables	24,375	24,375	-	-	-	17,967
	79,104	**54,754**	**5,874**	**1,854**	**16,222**	**70,516**
Surplus funds	**76,926**	**49,111**	**31,979**	**2,987**	**(7,151)**	**91,685**

The table above shows the Company has surplus funds of £76.9m (2022: £91.7m). The apparent deficit of funds for the period greater than 5 years is due to the table representing the current maturity profile of investments. As investments mature, they are reinvested which will rectify the greater than 5 years negative position.

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. The decrease in EPIFP from last year is a reflection of contracting margins in the pet product line in a particularly high inflation environment, partly absorbed by the Company's pricing management initiatives.

As at 31 December	Unaudited 2023	Unaudited 2022
	£'000	£'000
EPIFP	2,295	5,310

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 Company manages operational risk through a framework of robust systems and controls, which includes:

- Internal committees, including the quarterly Operational Risk Committee (ORC) reviewing and reporting key operational risks;
- Incident reporting system: The mechanism for staff to report any operational incidents, including risk events and near misses. These are reviewed and managed by the Business Risk Team (BRT) who ensure that appropriate preventive and corrective actions in place;
- Risk and Control Self-Assessment (RCSA): A Company-wide risk and controls assessment is conducted quarterly to identify key risks and controls to form a view on the company's risk and control environment. All key processes are included in this exercise and reviewed by the respective business owner, as well as a specific operational risk register reviewed by the accountable executives. The review and follow up of the assessments, including the follow up of ineffective controls, are conducted by the business with BRT support.
- Risk reports on elevated operational risks are sent to the ORC, then onto the RAC, which in turn reports to the Board: Reports are regularly submitted across all risk areas within the business. Suitable management actions to return each risk to appetite are included in the reporting of elevated risks.

The company is exposed to the following material operational risks:

- Model Risk: The Company adopts a series of models within its key business processes, such as Pricing and Actuarial. These models are required to be stored, accessed and updated in a controlled way to avoid errors or delays in processing.
- Regulatory Risk: The Company is required to comply with the requirements of the Prudential Regulation Authority and Financial Conduct Authority. 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 ensure these are understood and communicated to the business and we adhere to regulatory requirements.
- Data Management: Ensuring appropriate governance, including quality and accuracy of the data used by the business is fundamental to the appropriateness of strategic decisions, as well as the continued compliance with regulations including general data protection and privacy; FCA and PRA updates are monitored and communicated by the Compliance and Risk Teams and a Data Protection Officer is in place.
- Managing technical obsolescence, legacy and a comprehensive security programme; to mitigate this risk, a decommissioning review of all obsolete platforms took place in 2023 on a risk and resource prioritised basis. A detailed assessment was undertaken of existing cybersecurity, business continuity and disaster recovery capabilities within PIC. An action plan has been created to implement any near term process improvements whilst also reflecting the longer-term IT strategy.

- The work to deliver scalability through process digitalisation and efficient self-service is ongoing. Efficiencies have been realised in 2023, with further elements to be designed, delivered and monitored in 2024.

Attracting the right people in an evolving recruitment market can be a challenge, in which demand for specific skills currently exceeds supply. In addition, developing and retaining people has a renewed focus, especially when employee's expectations have changed as a result of high inflationary environment. The Company has conducted an intensive recruitment drive in 2023 to attract the skills needed to achieve our strategic objectives. In order to attract the specialist capabilities the Company had to ensure it continued to provide a competitive offering to prospective candidates, including challenging projects, competitive reward and hybrid working. This has enabled the Company to broaden the geographical area from which it has been able to source suitable candidates. The change of ownership and associated investment increased the Company's ability to attract candidates who are drawn to the prospect of working within a growing environment with a larger industry footprint and where adherence to regulatory requirements takes place.

C.6 Risk sensitivities

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

Scenario 1: Default of the Company's largest reinsurance exposure at 31 December 2023. This excludes any reinsurance exposure with a Standard and Poor credit rating of A or lower, further any reinsurance exposures subject to any collateral contract are also excluded.

The stress scenario would trigger an estimated £1.9m increase in the Company's net BEL, a £1.9m reduction in Own funds and a £0.4m 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 £1.8m increase in BEL slightly mitigated by profit share, a £1.8m reduction in Own Funds and no SCR movement.

Under both scenarios, the Company's solvency ratio remains above 250%.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

The following table summarises the assets held by the Company as at 31 December 2023 with analysis of the differences between Solvency II and UK GAAP valuation rules:

Total Assets	Notes	2023 UK GAAP	Adjustment for Solvency purpose	Unaudited 2023 Solvency II	Unaudited 2022 Solvency II
		£'000	£'000	£'000	£'000
Financial investments	D.1 (a)	133,814	15,419	149,233	158,335
Reinsurance assets	D.1 (b)	44,011	(5,855)	38,156	43,001
Insurance and other receivables	D.1 (c)	87,564	(60,348)	27,216	21,302
Cash and cash equivalents	D.1 (d)	22,216	(15,000)	7,216	4,017
Deferred acquisition Costs	D.1 (e)	10,047	(10,047)	-	-
Deferred tax asset	D.1 (f)	1,175	-	1,175	1,469
Total Assets		**298,827**	**(75,831)**	**222,996**	**228,124**

Solvency II Directive and Delegated Regulation (EU) 2015/35 as transposed into the PRA rulebook generally provides for undertakings to recognise and value assets and liabilities other than technical provisions in accordance with the UK Generally Accepted Accounting Principles ("UK GAAP), provided that this is consistent with Article 75 of the Solvency II Directive and where the UK GAAP is proportionate with respect to the nature, scale and complexity of risks inherent in the business of the company.

The valuation principles applied between each material asset class are explained below:

D.1 (a) Financial investments: The Company's financial investments comprise bonds and term-deposits which are analysed below:

Financial investments	2023 UK GAAP	Reclassification for Solvency purpose	Unaudited 2023 Solvency II	Unaudited 2022 Solvency II
	£'000	£'000	£'000	£'000
Corporate bonds	21,783	(221)	21,562	18,134
Government bonds	21,480	640	22,120	33,256
Investments funds	-	15,000	15,000	19,500
Deposits with credit institutions	90,551	-	90,551	87,445
Total	**133,814**	**15,419**	**149,233**	**158,335**

Adjustment for Solvency II purposes represents reclassification of:

- Highly liquid deposit of £15.0m (2022: £19.5m) into Solvency II balance category of "Investment Fund" which is held within cash and cash equivalents under UK GAAP basis; and

- Accrued interest of £0.4m (2022: £0.1m) is recognised in the valuation of 'investments' on the Solvency II balance sheet, but held within 'other assets' on the UK GAAP balance sheet. The amount is split between Corporate and Government bonds as appropriately required.

Financial assets, which also include financial investments, are classified into the following specified categories:

- financial assets at fair value through profit or loss (FVTPL);
- held to maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company designates 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.

Deposits with credit institutions are classified as loans and receivables which carry fixed payments that are not quoted in the active market. These are measured at amortised cost under UK General Accepted Accounting Principles (UK GAAP).

The Solvency II valuation rules for financial investments are consistent and in line with those applied in the UK GAAP financial statements.

D.1 (b) Reinsurance assets: These are valued at £44.0m under UK GAAP and £38.2m under Solvency II resulting in a (£5.8m) Solvency II valuation difference (2022: (£8.1m)).

The table below provides the difference between the UK GAAP and Solvency II carrying values:

Reinsurance assets	2023 IUK GAAP	Valuation differences (UK GAAP vs. SII)	Unaudited 2023 Solvency II	Unaudited 2022 Solvency II
	£'000	£'000	£'000	£'000
Non-life excluding health	19,806	(4,087)	15,719	18,494
Health similar to non-life	1,527	90	1,617	2,537
Life excluding health	22,678	(1,858)	20,820	21,970
Total Assets	**44,011**	**(5,855)**	**38,156**	**43,001**

The valuation difference of (£5.8m) between UK GAAP basis to Solvency II basis arises from:

- the recognition of the margin included in the Company's UK GAAP claims provisions £5.3m and premium provisions £1.8m ceded to reinsurance;
- the de-recognition of the commission element booked within the UK GAAP unearned premium reserve ceded to reinsurance, but not booked as ceded UK GAAP deferred acquisition costs for non-pet business, £2.1m;
- the de-recognition of premium asset receivables arising from annual policies payable monthly, ceded to reinsurance which are annualised in the UK GAAP balance sheet, £0.5m; and

- the de-recognition of a UK GAAP asset held to amortise the cost of catastrophe reinsurance premium paid out earlier in the year, such cost being fully recognised under Solvency II, £0.5m;

mainly, offset by the following factors:

- the provision for extra expenses, primarily overheads, within Solvency II provisions ceded to reinsurance, -£2.8m;
- the reclassification of loss-absorbing element of profit share payables into technical provisions under Solvency II ceded to reinsurance, -£0.7m;
- an allowance for events not in data (or ENID) ceded to reinsurance, -£0.7m (note, this excludes the EPIFP ENID of under £0.1m, making the total ENID £0.8m ceded to reinsurance);
- different discount rates used to convert future cash-flows in today's monetary value,-£0.4m;
- an allowance for expected profits in future premiums within Solvency II provisions ceded to reinsurance, negligible (less than £0.1m); and
- other factors with less material contributions (combined under £0.2m).

The recoverable from reinsurance contracts are £38.2m (2022: £43.0m). The decrease in recoverable is driven by the run-off of the Company's non-pet business which is 100% reinsured.

The valuation difference resulted in a decrease in the carrying value of the reinsurance assets and is reflected in the reconciliation reserves (see section E.1).

D.1 (c) Insurance and other receivables: value as at the year-end is £87.6m (2022: £64.1m) under UK GAAP and £27.2m (2022: £21.3m) under Solvency II. The total valuation difference is £60.4m made up of:

- Insurance receivables of £59.3m (2022: £41.6m);
- Reinsurance receivables of £0.7m (2022: £2.2m)
- Receivables (trade, not insurance) of £nil (2022: -£1.1m); and
- Accrued interest of £0.4m (2022: £0.1m).

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, and premiums due at the valuation date are recognised as an asset. Hence, the valuation difference of £59.3m is allowed for in the Solvency II BEL calculations as future inflows within the premium provisions. There is no valuation difference on Receivables (trade, not insurance) which relates to reinsurance of the non-pet premium not received, not recognised under Solvency 2. The valuation difference of £0.7m relates to the reclassification of loss-absorbing element of reinsurance profit share receivable under Solvency II.

The impact of the adjustments are reflected in the reconciliation reserves to offset against the valuation difference between UK GAAP and Solvency II technical provisions. (See note E.1).

Accrued interest of £0.4m held as part of other receivables under UK GAAP is reclassified within corporate bonds and government bonds for Solvency II purposes.

Other elements within other receivables including amounts due from group undertakings and prepayments are considered a close approximation to the fair value due their short-term nature.

D.1 (d) 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 a change in value.

Under UK GAAP, cash and cash equivalents are £22.2m (2022: £23.5m) which have reduced to £7.2m (2022: £4.1m) due to a reclassification of a highly liquid deposit of £15.0m (2022: £19.5m) into Solvency II balance category of "Investment Fund".

The Solvency II valuation rules for cash and cash equivalents are consistent and in line with those applied in the UK GAAP financial statements.

D.1 (e) Deferred acquisition costs (DAC): Under UK GAAP, the acquisition costs should be deferred commensurate with the unearned premiums provisions. The deferred acquisition costs (DAC) are separately presented as an asset in the UK GAAP balance sheet. However, under Solvency II, the DAC of £10.0m (2022: £6.3m) is valued as nil as it is included in the premiums provisions valuation (part of Solvency II best estimates) and therefore not included as an asset.

D.1 (f) This represents deferred tax of £1.2m under UK GAAP.

D.2 Technical provisions

Technical provisions are valued in accordance with Article 77 of the Solvency II Directive as transposed into 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 as at 31 December 2023 were:

Balance Sheet Extracts –Technical provisions As at 31 December	Unaudited 2023	Unaudited 2022
	£'000	£'000
Technical provisions – non-life (excluding health)		
Best Estimate	37,082	28,297
Risk margin	2,020	5,011
Technical provisions - health (similar to non-life)		
Best Estimate	1,617	2,537
Risk margin	7	10
Technical provisions – life		
Best Estimate	20,820	21,970
Risk margin	241	200
TECHNICAL PROVISIONS INC. BEST ESTIMATE OF LIABILITIES – SOLVENCY II	**61,787**	**58,025**
TECHNICAL PROVISIONS UK GAAP	**127,623**	**108,026**

UK GAAP technical provisions: comprises unearned premium reserves, claims outstanding and long-term business provisions, increased from £127.6m to £108.0m in 2023 due to:

- Unearned premium reserve: increased by £17.4m from £55.5m in 2022 to £72.9m in 2023 mainly due to a significant increase in pet, £22.4m offset by a reduction in non-pet business £4.9m which is 100% reinsured to Darnell.
- Long term business amount: decreased by £0.6m from £18.0m in 2022 to £17.4m in 2023 reduction in non-pet business £0.6m which is 100% reinsured to Darnell
- *Claims outstanding:* increased by £2.7m from £34.6m in 2022 to £37.3m in 2023 largely due to:
  - pet reserve increase of £5.4m, in line with business growth**;** partially offset by
  - non-pet reserves decreased by £2.6m which is 100 % reinsured to Darnell

Solvency II technical provisions against UK GAAP: decreased by £65.8m (2022: decreased by £50.0m) from £127.6m under UK GAAP to £61.8m under Solvency II, which is explained by the combination of the main following factors:

- the de-recognition of premium asset receivables arising from annual policies payable monthly, which are annualised in the UK GAAP balance sheet, £59.8m;
- the de-recognition of the commission element booked within the UK GAAP unearned premium reserve but not booked as UK GAAP deferred acquisition costs for non-pet business, £2.1m;
- the recognition of the margin included in the Company's UK GAAP claims provisions £7.1 m and premium provisions £3m; and
- an allowance for expected profits in future premiums (or EPIFP) within Solvency II provisions £2.3m;

mainly offset by the following factors:

- the provision for extra expenses, primarily overheads, within Solvency II provisions, -£4.4 m;
- the reclassification of the loss-absorbing element of profit share payables into technical provisions under Solvency II, -£0.7m;
- an allowance for events not in data (or ENID), -£0. 9m (note, this excludes the EPIFP ENID of £0.4m, making the total ENID £1.3m gross of reinsurance);
- the addition of the Solvency II risk margin reflecting the cost of capital, -£2.3m;
- different discount rates used to convert future cash-flows in today's monetary value, -£0.2m; and
- other factors with less material contributions (less than £0.1m combined).

Solvency II technical provision against prior year: comprise best estimates claims provisions, premium provisions and the risk margin net of reinsurance. The technical provisions before reinsurance increased by £3.8m from £58.0m to £61.8m in 2023 are explained by:

- Best estimate claims provisions: increased by £3.8m from £29.1m to £32.9m, mainly explained by increased outstanding claims on pet business reflecting growth of the product line (£5.4m), offset by continuing run-off of motor books (-£1.3m) and creditor book (-£0.4m), with a relatively small contribution from other business lines (+£0.1m).

- Best estimate premium provisions (for unexpired risks): increased by £2.9m from £23.7m to £26.6m, mainly explained by pet premium risks reflecting sustained growth in this product line (£6.7m), partly offset by continuing run-off on the Company's creditor, warranty/GAP and life books (-£1.7m, -1.6m and -0.5m respectively).
- Risk margin: The risk margin calculated is £2.3m (2022: £5.2m) and represents 3.7% (2022: 9.0%) of the overall gross technical reserves. The reducing proportion is driven by a 33% reduction in cost of capital rate to 4% (2022: 6%), the impact of new pet reinsurance decreasing the SCR run-off, together with the increase in gross BEL during the year.

The BEL is the sum of the claims provision BEL (valuation of outstanding claims reserves run-off under Solvency II) and the premium provision BEL (arising from future events).

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

By line of business	Unaudited 2023			Unaudited 2022		
	Best estimate	Risk margin	Total	Best estimate	Risk margin	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Income protection	1,617	7	1,624	2,538	10	2,548
Motor vehicle liability	9,245	120	9,365	10,254	92	10,346
Other motor	1,655	7	1,662	3,154	8	3,162
Fire & other damage to property	344	1	345	186	-	186
General liability	2,548	6	2,554	2,270	6	2,276
Miscellaneous financial loss	23,290	1,886	25,176	12,432	4,905	17,337
Non-life	**38,699**	**2,027**	**40,726**	**30,834**	**5,021**	**35,855**
Annuities stemming from non-life	3,962	185	4,147	4,288	157	4,445
Other life	16,858	56	16,914	17,682	43	17,725
Life	**20,820**	**241**	**21,061**	**21,970**	**200**	**22,170**
TOTAL TECHNICAL PROVISIONS	**59,519**	**2,268**	**61,787**	**52,804**	**5,221**	**58,025**

In the above table:

- The gross BEL for Miscellaneous financial loss line of business is £23.3m (2022: £12.4m), comprising pet and creditor unemployment risks, together representing 60% (2022: 40%) of the Company's overall non-life BEL;
- The gross BEL for the motor vehicle liability line is £9.2m (2022: £10.2m) representing 23% (2022: 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 £2.5m (2022: £2.3m) and relates to third-party liability cover on pet dog policies.

The life long term fund BEL is £20.8m (2022: £22.0m) representing 35% of the total BEL (2022: 42%). This includes large outstanding bodily injury claims that have settled in prior to 31

December 2023 as a periodical payment orders (PPO), and have then transferred from the motor vehicle liability line to the Annuities stemming from non-life line, for a total gross BEL of £4.0m (2022: £4.3m).

D.2 (a) 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
- recoveries from reinsurance.

Assessment of the reinsurance recoverable

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

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

The above adjustment is applicable only on pet business. Pinnacle 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 Solvency Capital Requirement (SCR) necessary to support the insurance obligations over their lifetime. It is calculated as 4% 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 run off risk profile of the portfolio.

D.2 (b) 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.

D.2 (c) 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 are 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 Events Not In Data (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.

D.2 (d) Details on key assumptions

The key assumptions used in the projection are the following:

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

Overheads

The overheads are projected using two main components: administration costs and claims management expenses.

The overheads projections are based on the detailed analysis of 2023 costs structure taking into account expected future inflation.

Loss ratio

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

D.3 Other liabilities

The table below provides total liabilities analysis including other liabilities as at 31 December 2023 of £21.5m (2022: £15.9m).

Liabilities as at 31 December	Notes	Unaudited 2023 Solvency II	Unaudited 2022 Solvency II
		£'000	£'000
Technical provisions incl. best estimate of liabilities (BEL)	D.2	**61,788**	**58,025**
Insurance & intermediaries payables		9,051	10,541
Insurance payable-reinsurance operations		6,120	552
Amounts owed to group undertakings		276	-
Other taxation and social security		4,810	4,461
Accruals and deferred income		1,270	317
Other liabilities	D.3(a)	**21,527**	**15,871**
Excess of assets over liabilities (basic own funds)	E.1	**139,681**	**154,228**
Total Liabilities		**222,996**	**228,124**

D.3 (a) Differences between Solvency II valuation and UK GAAP valuation by material class of other liabilities

Insurance & intermediaries payables: represents profit share and claims payable, which are due to be settled after the reporting period.

There is a valuation difference between UK GAAP carrying value of insurance and intermediaries payable and Solvency II basis. The valuation difference relates to profit share payable of £0.6m (2022: £2.2m) and reinsurance of premium payable of £2.4m not recognised (2022: £0.1m).

Under Solvency II Level 1 Directive, Article 77(2) as transposed into the PRA rulebook, the cash flow projections to estimate the technical provisions should take into account all cash in and out flows required to settle the insurance and reinsurance obligations. Therefore, the profit share payable for contracts within the contract boundaries is included within BEL calculations resulting in reclassification of the amount to the reconciliation reserve (see note E.1).

As a result of the valuation difference, the amount relating to insurance and intermediaries payables under UK GAAP decreased from £12.1m to £9.1m under Solvency II basis. The UK GAAP amount includes PS10/12 PPI and ARS provision of £0.2m (2022: £0.2m).

Amounts owed to group undertakings: represent short-term intercompany liability which is valued at amortised cost. The carrying value of £0.3m (2022: £nil) which is subject to 30 days credit terms deemed to be fair value as at the year end. Therefore there is no difference between the UK GAAP and Solvency II carrying values.

Other taxation and social security: represents Insurance Premium Tax (IPT) payable to HM Revenue & Customs (HMRC). The IPT is a financial liability valued as loans and receivables under UK GAAP which is deemed to be an approximate to fair value due to the short-term settlement time after the reporting date.

The following amounts included within other liabilities above in the table are under UK GAAP principles:

- Insurance payable-reinsurance operations;
- Amounts owed to credit institutions; and
- Accruals and deferred income.

The carrying value of these liabilities is deemed to be a close approximation to fair value as they are all due within one year. Therefore, no adjustment is required under Solvency II.

D.4 Alternative methods for valuation (article 263)

The Company does not use any alternative methods for valuation.

D.5 Any other information

The Company does not apply the:

- Matching adjustment referred to in Article 77b of Directive 2009/138/EC*;
- Volatility adjustment referred to in Article 77d of Directive 2009/138/EC*;
- Transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC*; and
- Transitional deduction referred to in Article 308d of Directive 2009/138/EC*.

* As transposed into the PRA rulebook

E. CAPITAL MANAGEMENT

E.1 Own funds

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

The Company's capital management policy is to maintain its own funds in excess of SCR with a target minimum coverage of 120%. The following table provides Company's own funds position as at 31 December 2023:

Own Funds	Unaudited 2023	Unaudited 2022
	£'000	£'000
Ordinary share capital	151,557	151,557
Share premiums	23,323	23,323
Reconciliation reserve	(36,374)	(22,121)
Deferred tax asset	1,175	1,469
Total available own funds to meet SCR	**139,681**	**154,228**

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds as at 31 December 2023. The Company 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 Company's own funds items fall under Tier 1-unrestricted category except the net deferred tax asset classified as Tier 3 capital.

The reconciliation reserves decreased by (£14.5m) mainly due to UK GAAP loss for the year of (£12.5m), and decrease of S2 valuation differences of (£2.0m) (see details below).

Reconciliation reserve (£'000)	Notes	Unaudited 2023	Unaudited 2022
		£000's	£000's
UK GAAP Retained earnings		**(28,263)**	**(15,754)**
-reinsurance share of technical provisions	D.1(b)	(5,856)	(8,139)
-gross technical provisions liability	D.2	65,836	50,001
-premium receivables	D.1(c)	(56,869)	(40,375)
-de-recognition of deferred acquisition costs	D.1(e)	(10,047)	(6,385)
Solvency II valuation differences		**(6,936)**	**(4,898)**
Deferred tax	D.1(f)	(1,175)	(1,469)
Reconciliation reserve		**(36,374)**	**(22,121)**

E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

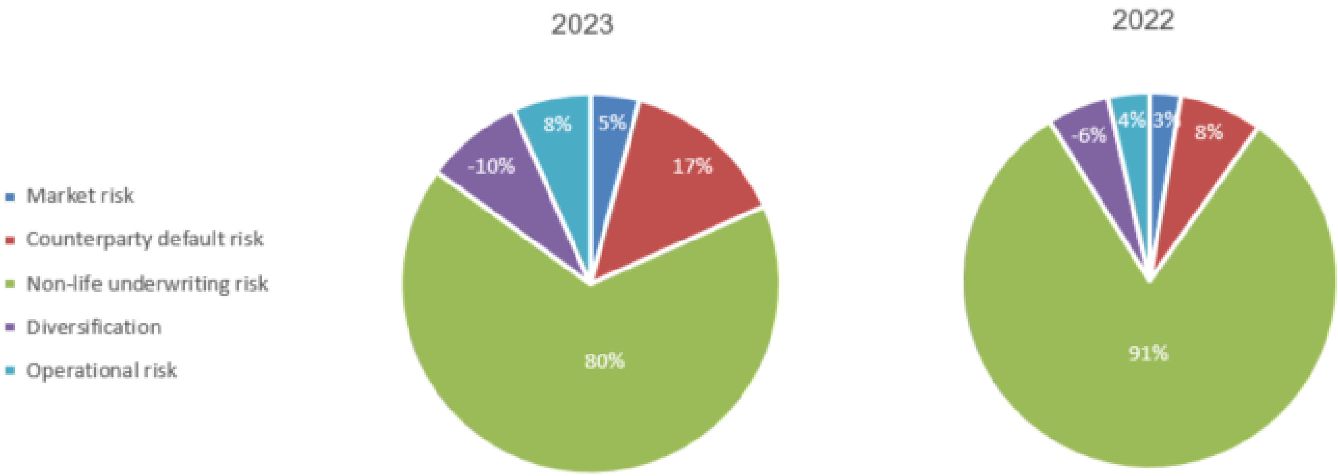
The Company's SCR as at 31 December 2023 is £50.3m (2022: £84.9m). The Company's MCR as at 31 December 2023 is £21.2m (2022: £21.2m). The SCR of the Company is the aggregation of the market, counterparty and underwriting risks, less a credit for diversification and an additional charge to represent the operational risks faced by the Company.

The table below provides the breakdown of the SCR by risk:

Solvency Capital requirement (SCR) by risk	Unaudited 2023	Unaudited 2022
	£'000	£'000
Market risk (diversified)	2,281	2,616
Counterparty default risk	8,406	6,879
Non-life underwriting risk	40,686	77,308
Diversification	(5,229)	(5,117)
Basic Solvency Capital Requirement	**46,144**	**81,686**
Operational risk	4,157	3,203
Solvency Capital Requirement	**50,301**	**84,889**

Non-life underwriting risk remained the main component of the SCR.

The Company has not used Undertaking Specific Parameters to calculate the SCR pursuant to Article 104(7) of the Solvency II Directive as transposed into the PRA rulebook. The SCR remains subject to formal supervisory assessment and includes no adjustments or capital add-on.



Market Risk: a component of the SCR is driven by the risks inherent within the Company's assets and liabilities portfolio and the details of the changes over the reporting period are as follows:

Solvency Capital Requirement	Unaudited 2023	Unaudited 2022
	£'000	£'000
Interest rate risk	1,967	2,481
Spread risk	656	558
Concentration risk	952	615
	3,575	**3,654**
Less: Diversification effect	(1,294)	(1,038)
Market risk	**2,281**	**2,616**

The Market risk SCR net of diversification is £2.3m (2022: £2.6m). The Market Risk arises from:

Interest rate risk: driven by changes in assets and liabilities of the Company due to changes in term structure of interest rates. The Company's interest rate risk decreased to £2.0m (2022: £2.5m) impacted by decrease in risk free rates over the year following a more optimistic longer term interest rate outlook.

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 Company's holdings in corporate bonds. The spread risk increased to £0.7m (2022: £0.5m) driven by a higher proportion of non - government bonds being held in 2023 against 2022 which are subject to spread risk. The spread risk was also impacted by different credit ratings and bond durations mix changes.

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 Company's concentration risk increased to £1.0m (2022: £0.6m) due to increased holding of a corporate bond with a lower credit rating.

Currency risk: arises from changes in the level or volatility of currency exchange rates which the company is not exposed to.

The Company does not hold any investments in equities or properties, hence no SCR required.

Diversification effect: between the sub-modules of Market SCR increased to £1.3m (2022: £1.0m).

Counterparty default risk: module of £8.4m (2022: £6.9m) arises from risk of default on reinsurance recoverable and cash at bank and deposits. The table below provides a breakdown by each asset class.

	Unaudited 2023	Unaudited 2022
	£'000	£'000
Type 1 - rated		
Reinsurance recoverable	757	422
Cash at bank and deposits	4,198	3,747
Type 2 - unrated		
Receivables from intermediaries	4,025	3,175
Diversification	(574)	(465)
Counterparty default risk	**8,406**	**6,879**

The Counterparty default SCR was £8.4m (2022: £6.9m) the main changes were as follows:

- Receivables from intermediaries increased to £4.0m (2022: £3.2m) due to the growth in pet policies impacting premium receivable;

- Cash at bank and deposits increased to £4.2m (2022: £3.7m) due to increased holdings of cash and deposits
- Reinsurance recoverable increased to £0.8m (2022: £0.4m) due to a growing exposure to risk of default of reinsurers sharing some of the Company's pet insurance risk.
- The Diversification effect increased to £0.6m (2022: £0.5m)

Non- life underwriting risk: SCR risk module comprises:

	Unaudited 2023	Unaudited 2022
	£'000	£'000
Non-life premium & reserve	39,146	49,815
Non-life Lapse	1,815	1,924
Non-life Catastrophe	4,890	47,931
Diversification	(5,165)	(22,363)
Non-life underwriting risk	**40,686**	**77,308**

The non-life underwriting risk SCR arises from:

- premium and reserve risks of £39.1m (2022: £49.8m) mostly driven by premium exposure to the miscellaneous financial loss line (pet business) and reducing reflecting the introduction of new reinsurance covers on pet business;
- catastrophe exposure of £4.9m (2022: £47.9m) mostly driven by future premium exposure on the miscellaneous financial loss line, reflecting planned growth of the Company's pet business and reducing following the introduction of new reinsurance covers on pet business; and
- lapse risk of £1.8m (2022: £1.9m) on future premium arising from existing contracts up to their contractual term.

Operational risk: of £4.2m (2022: £3.2m) is driven by life and non-life gross earned premium.

Solvency Capital requirement	Unaudited 2023	Unaudited* 2022
	£'000	£'000
Premium component		
-Gross earned premium non-life x3%	4,156	3,195
-Gross earned premium life x 4%	1	8
Provision component		
-Gross non-life BEL x 3%	-	-
-Gross life BEL x 0.45%	-	-
Operational risk	**4,157**	**3,203**

The Gross Earned Premium (GEP) element includes an additional capital charge for potential GEP growth in excess of 20% against the previous year.

The Company 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 year. The result of the calculation is then subject to a floor and a cap, of 25% and 45% of the SCR respectively.

Minimum Capital Requirement	Unaudited 2023	Unaudited 2022
	£'000	£'000
Linear minimum capital requirement	21,236	13,874
Solvency capital requirement - SCR	50,301	84,889
Minimum capital requirement cap	22,636	38,200
Minimum capital requirement floor	12,575	21,222
Combined minimum capital requirement	21,376	21,222
Absolute floor of the minimum capital requirement	6,465	6,889
Minimum Capital Requirement - MCR	**21,236**	**21,222**

Capital position

The Company has Solvency II capital surplus of £89.4m and Solvency ratio of 278%. The Company's capital position as at 31 December 2023 is detailed below:

Solvency Ratio	Unaudited 2023	Unaudited 2022
	£'000	£'000
Available own funds to meet the solvency capital requirement	139,681	154,228
Available own funds to meet the minimum capital requirement	138,506	152,759
Solvency capital requirement (SCR)	50,301	84,889
Minimum capital requirement (MCR)	21,236	21,222
Ratio of Eligible own funds to the solvency capital requirement	278%	182%
Ratio of Eligible own funds to the minimum capital requirement	652%	720%

E.3 Any Other Information

The Company does not use an internal model to calculate the Solvency Capital Requirement.

There was no breach of the Solvency Capital Requirement (and hence the Minimum Capital Requirement) over the reporting period.

ANNEX - QUANTITATIVE REPORTING TEMPLATES

The following templates form part of the published SFCR report.

Templates	
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business - life
S.05.01.02	Premiums, claims and expenses by line of business - non-life
S.12.01.02	Life and health SLT technical provisions
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.21	Solvency Capital Requirement - for undertakings on Standard Formula
S.28.02.01	Minimum Capital Requirement - Both life and non-life insurance activity

These templates are un-audited.