UNAUDITED SOLVENCY AND FINANCIAL CONDITION REPORT

PINNACLE INSURANCE PLC

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

At 31 December 2022

CONTENTS

SUMMARY

Pinnacle Insurance plc ("the Company") is currently a composite insurance company, with a clear ambition to be the UK's leading pet healthcare and insurance services partner. All other lines of business are in run-off. The Company has c7% Pet Insurance market share - Pet being the only area of strategic focus. For all other lines of business the company is focussed on servicing existing customers.
In 2021, the Company's then owner, BNP Paribas Cardif, announced the intention to form a joint venture with JAB Holdings B.V., into which the Company would be placed.

Until June 2022, the Company remained part of the global banking group BNP Paribas S.A. Post the completion of the establishment of the joint venture, it became a wholly owned 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. The ownership structure of PPH is split between JAB Holdings B.V. (owning 70%) and BNP Paribas Cardif (owning 30%).

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

On 4 April 2023, the Company's parent, Pinnacle Pet Group Limited, announced it will acquire Animal Friends Investments Ltd, which wholly owns Animal Friends Insurance Services Ltd ("Animal Friends"). The proposed transaction is subject to the approval of the FCA and CMA. If consent is provided, following the closing of the transaction, the Company will investigate the possibility of providing underwriting capacity for all or part of the business of Animal Friends. The timing and terms upon which any underwriting may be concluded between the Company and Animal Friends are not yet determined.

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 2022.

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 International Financial Reporting Standards (IFRS) basis used for the 2022 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 2022 is as follows:

	2022	2021
	£'000	£'000
Eligible own funds	154,228	136,724
Solvency capital requirement (SCR)	84,889	73,032
Capital Surplus	69,339	63,692
Ratio of Eligible own funds to the SCR	182%	187%

The Company has a strong capital position with solvency capital surplus of £69.3m (2021: £63.7m) in excess of its solvency capital requirement. The Eligible own funds increased from £136.7m to £154.2m in 2022. The net increase of £17.5m is due to £25.0m ordinary share capital fully issued and paid by the company during the year offset by the loss for the year on solvency II basis (£7.5m).

The SCR increased from £73.0m to £84.9m between 2021 and 2022. This increase is mainly driven by the non-life underwriting risk component of SCR resulting from the increase in pet policies, and the planned growth of the 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.

Impact of the UK's departure from the EU (Brexit)

There continues to be uncertainty with Financial Services provision between the United Kingdom and the European Union (EU), particularly with regard to reform of the Solvency II regime and equivalence with the EU. As these might affect the Company developments are being monitored carefully.

Impact of Ukraine War

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

Climate change

Financial risks from climate change do not currently represent a material risk to the Company. The Executive Management and subject matter experts use the Company's Risk Register review process to review climate related risks and have concluded that no material physical or liability financial risks from climate change could arise from the current business model and operations. Business continuity is assessed as a low risk with no material impact from climate and weather related events (through disruption to the work environment or disruption to supply chains).

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

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/Information in the Annual Report and Accounts is prepared in accordance with International Financial Reporting Standards (IFRSs); 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
6th April 2023

DIRECTORS' REPORT

Directors

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

G Binet (resigned 9th February 2022)
N D Rochez * (resigned 6th June 2022)
R A Hines * (Chairman)
A M Wigg
M J Lorimer
S L P F Chevalet
S M May
H E Rennie (resigned 30th June 2022)
C A Scarr * (appointed 16th May 2022)
C A Iordache (appointed 30th June 2022)
D C L Beeckman (appointed 30th June 2022)
E de Talhouet * (appointed 30th June 2022)

* 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 2022. 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 2022 based on qualifying score being less 100. The calculations are based on the guidelines published in the PRA consultation paper CP8/18.

Approved by the Board on 6th April 2023 and signed on its behalf by:

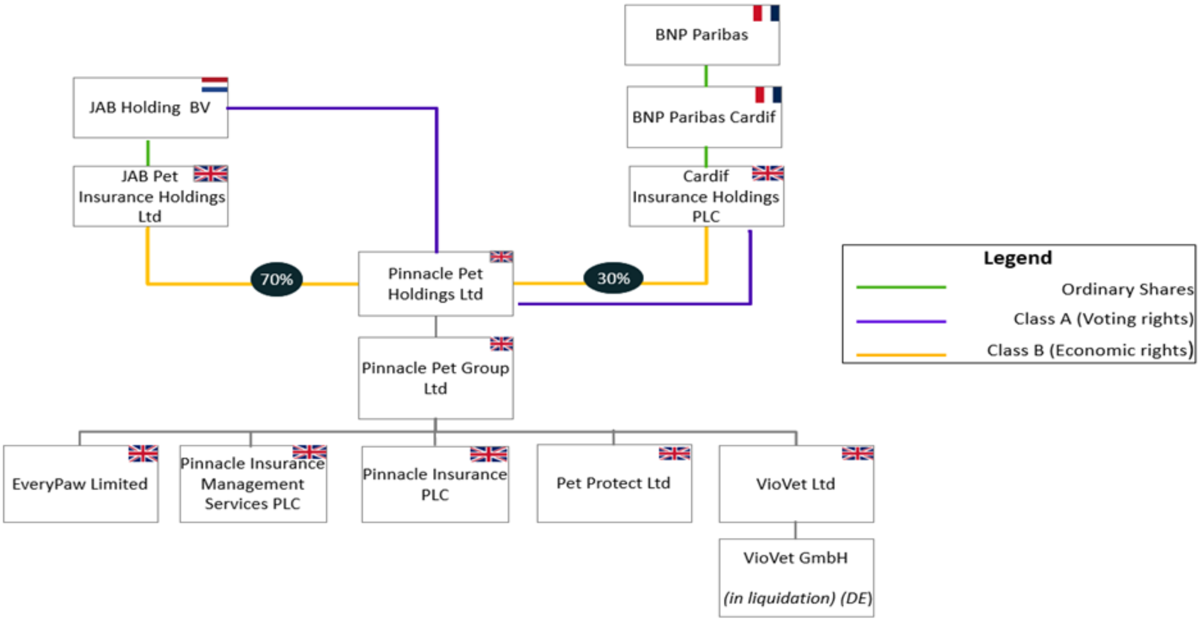
M J Lorimer
Director

A. BUSINESS AND PERFORMANCE

A.1 Business

Pinnacle Insurance plc ("the Company") 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 focussed on shareholder matters. This entity has no regulated activities, employees or business activities;
- Pinnacle Pet Group Limited ("PPG") (13626694), an intermediate holding company at which the operational group board sits.
- Pinnacle Insurance Management Services PLC ("PIMS") (02729650), a group management company authorised by the FCA;
- Everypaw Limited (03436148), a dormant entity held for brand protection purposes.
- Pet Protect Limited (01774371), a Managing General Agent (MGA) business performing intermediary and administration services, currently for a third-party insurer. It is authorised and regulated by the FCA.
- Viovet Ltd (07693671), a retail provider of pet foods, supplements, medicines and associated products.

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 PKF LLP who can be contacted as follows: PKF Littlejohn LLP, 15 Westferry Circus, London, E14 4HD.

A.2 Underwriting performance

The Company reported a technical result of £24.4m (2021: £18.6m). The result was driven by the growing pet line of business £19.1m (2021: £11.2m) with 16% year on year GWP growth and favourable claims ratio, in part from favourable prior year developments. Run-off non-pet (Creditor, Motor Warranty and MGA) technical result of £5.3m (2021: £7.4m). These portfolios are 100% reinsured to Darnell DAC from 31 Dec 2021 and the £5.3m technical result represents net income to cover the administration expenses of non-pet.

Company's key performance indicators	2022	2021
	£'000	£'000
Gross Written Premiums	111,422	107,350
Net Earned Premiums	89,127	67,633
Technical Result	24,383	18,627
Investment Income	(1,314)	56
Administration Expenses	(32,180)	(25,569)
Loss Before Tax	(9,111)	(6,886)
Technical Ratio	72%	74%
Claims Ratio	58%	44%
Commission Ratio	14%	29%

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	2022	2021	*Change*
	£'000	£'000	Increase/ (decrease)
Pet	99,604	83,263	16,341
Creditor	10,915	14,162	(3,247)
Warranty and GAP	711	8,808	(8,097)
Household and Motor	(2)	(4)	2
	111,228	106,229	4,999
Inward reinsurance	-	719	(719)
	111,228	106,948	4,280
Long-term business	194	403	(209)
Gross written premiums	**111,422**	**107,350**	**4,072**

GWP increased in the year by £4.1m (4%) due to the growth of the pet business offset by the continued decrease in creditor and warranty and GAP:

Pet
The Company offers lifetime, per condition and time limited products. Policies are sold under the Company's own brand, Everypaw and Helpucover, direct to consumer and also through aggregators. The business also operates through partnerships with consumer brands and a number of smaller niche intermediaries.

Gross written premium for pet business increased by 20% to £99.6m mainly due to growth in business from partnership arrangements.

Creditor
Gross written premiums reduced to £10.9m (2021: £14.2m). The sale of new Creditor products ceased from 2019 and all intermediary business is in run-off. This portfolio is reinsured 100% to Darnell DAC.

Warranty and GAP
Gross written premiums for the warranty and GAP business decreased to £0.7m (2021: £8.8m). The reduction was driven by a GAP partnership with a leading car manufacturer which ceased at the end of 2021. This portfolio is reinsured 100% to Darnell DAC.

Household and Motor
All of the company's motor and household MGA business ran off during 2016. This business is now closed and there are no more policies on risk. Claims continue to run off for some long tail personal injury claims arising on the motor book. This portfolio is reinsured 100% to Darnell DAC.

Long-Term business
Long-term business includes business underwritten for mortgage loan protection, creditor and standard of living guarantee income products. This business is in run-off and gross written premiums were £0.2m (2021: £0.4m). This portfolio is reinsured 100% to Darnell DAC.

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

Net Earned Premiums (NEP): represents the portion of the policy's premium that applies to the expired portion of the policy. NEP increased by £21.5m, to £89.1m. Due to the reinsurance with Darnell all the NEP relates to Pet.

Technical Result: represents the balance of earned income less incurred claims, commission and profit share payments, net of associated reinsurance balances.

Technical Ratio: Reflects the profitability of the general business before direct and indirect costs and is calculated as the sum of commission and net incurred claims expressed relative to NEP. The technical ratio in 2022 decreased to 72% (2021: 74%).

Claims Ratio: Calculated as net claims incurred expressed as a percentage of NEP. The claims ratio in 2022 increased to 58% (2021: 44%). 2022 relates to pet only claims ratio, non-pet (Creditor, Motor Warranty and MGA) is 100% reinsured to Darnell DAC. 2021 claims ratio excluding Darnell risk transfer was 50%.

A like for like comparison for pet claims ratio is 58% (2021: 67%). Claims developments have shown a prudence of circa 4% in 2021 which was released in 2022.

Commission Ratio: Commission incurred expressed as a percentage of NEP. The Commission ratio in 2022 decreased to 14% (2021: 29%). 2021 included a non-pet Deferred Acquisition Cost write off, excluding this the commission ratio was 24%. 2022 commission ratio includes Darnell DAC reinsurance income to cover non-pet expenses, excluding this the commission ratio was 20% (2021: 18%). The increase is due to a higher portion of our pet business now relating to partners.

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.

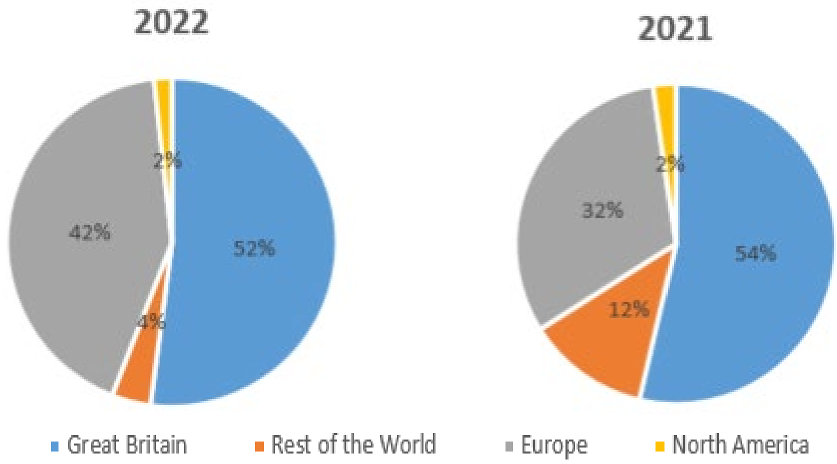
The investment portfolio comprises bonds, cash and term deposits of high credit quality. The total portfolio was valued at £162.2m at 31 December 2022 (2021: £137.7m) of which 32%

(2021: 37%) was held in bonds, 54% (2021: 52%) in term-deposits with credit institutions and 14% (2021: 11%) in cash and cash equivalents.

Total net investment return for the year is a loss of £1.3m (2021: £0.1m) which comprises interest earned on financial investments of £2.3m (2021: £2.2m), realised loss on bonds of £1.1m (2021: loss £1.2m) and unrealised loss of £2.5m (2021: £1.0m).

	2022		2021	
By assets class	**Investments**	**Return on investments**	**Investments**	**Return on investments**
	£'000	£'000	£'000	£'000
Bonds	51,238	(2,735)	51,232	(850)
Deposits	87,446	1,305	71,810	904
Cash at bank	23,517	116	14,697	3
Total	**162,201**	**(1,314)**	**137,739**	**57**

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 £6.6m to £32.2m (2021: £25.6m), £2.6m of the increase is due to transition costs from leaving the BNP group, £1.6m of the increase is due to asset write down of legacy policy management system and £1.4m is due to recognition of marketing costs in overheads (2021: nil) . Aside from this, expenses increased by £1m, materially due to amortisation.

A.5 Other information

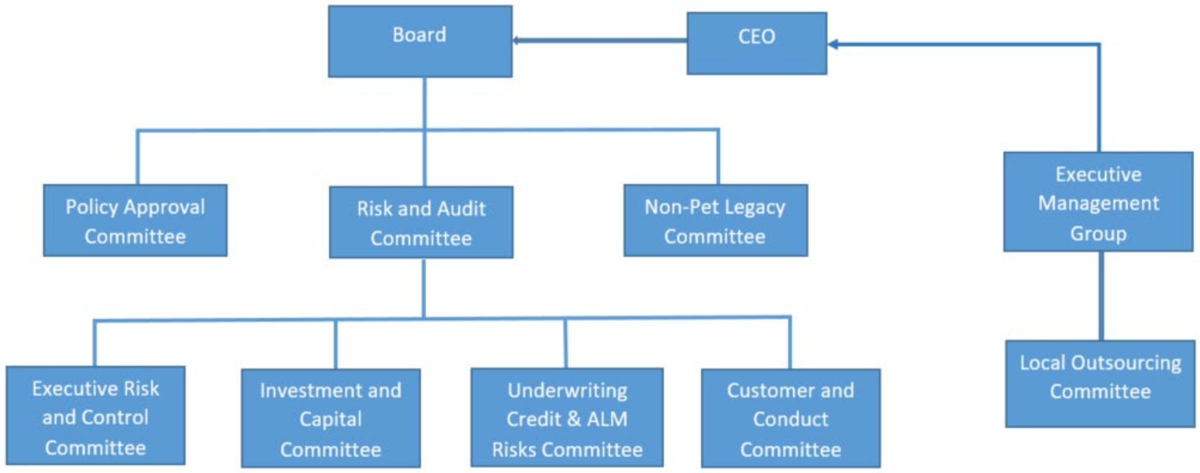
None

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 eight times in 2022 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 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
Carmen Iordache	SMF 3	Executive Director
	SMF 20	Chief Actuary
	SMF 23	Chief Underwriting Officer
Matthew Lorimer	SMF 16	Compliance Oversight
	SMF 17	Money Laundering Reporting Officer (MRLO)
Sophie May	SMF 2	Chief Finance Officer
	SMF 3	Executive Director
Gerard Binet	SMF 9	Chair of Governing Body
Richard Hines*	SMF 9	Chair of Governing Body
Craig Scarr *	SMF 10	Chair of the Risk Committee
	SMF 11	Chair of the Audit Committee
Stanislas Chevalet	SMF 7	Group Entity Senior Manager
Dirk Beeckman	SMF 7	Group Entity Senior Manager

* Independent non-Executive Director
G.Binet held the SMF 9 until 9th February 2022, thereafter R. Hines took over this function

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.

Policy Approval Committee

This Committee is chaired by an Executive Director 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
- to ensure all approved policies are communicated to and adopted by the relevant business areas

Non-Pet 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 business and policies related to non-pet business 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 Legacy Business Portfolio Transfer
- make decisions in respect of engagement and costs of third party service provider or professional advisor for the purposes of the Legacy Business Reinsurance Agreement and/or Legacy Business Portfolio transfer
- monitor and manage the financial performance and prospects of Legacy Business including expenditure against the Legacy Business budget and costs relating to individual projects;
- monitor the cost allocation, expenditure and time recording relating to the Legacy Business for the purposes of Profit and Loss Adjustment Mechanism
- monitor the operation and implementation of the foregoing to seek to ensure compliance with Group companies' regulatory obligations (including the requirement to treat the Company's policyholders fairly); and
- make decisions in respect of any disputes relating to Legacy Business

Investment and Capital Committee

The Committee is chaired by the Chief Executive Officer and reports to the Risk and Audit Committee. 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; and

- 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.

Underwriting, Credit Risk and Asset Liability Management Committee (UCAR)

This Committee is chaired by the Head of Actuarial Closing and Risk. The Underwriting, Credit Risk Committee and ALM 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, credit risk and ALM 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 an Executive Director and reports to the RAC. It reviews and provides direction on the Company's Conduct Risk strategy, including overseeing all product governance controls and reviews, and provides direction on the development of products. The Committee's main responsibilities are to identify, assess and report on key Conduct Risks faced by the Company, specifically to:

- promote and encourage a corporate culture that ensures the recognition of Conduct Risk and the delivery of good outcomes for customers;
- continue to encourage the development, analysis and use of further Conduct Risk Indicators (CRI) or other management information and to ensure the CRI measures are constantly challenged;
- ensure that staff appropriately record Conduct Risk issues including the findings and resulting outcomes using an agreed process or system such as (but not limited to) Incident Reporting and Root Cause Analysis ("RCA") database;
- demonstrate a positive attitude and company-wide commitment to delivering good outcomes;
- review issues brought to the CCC and make recommendations that are in the best interests of the customer and ensure those recommendations are acted upon as required; and
- monitor and maintain an understanding of developments in the market, regulatory and legal environments that may impact on the Conduct Risk framework, and to research and highlight industry best practice.

Executive Risk and Controls Committee (ERCC)

The ERCC is chaired by the Chief Operating Officer and reports to the RAC. It provides a forum for the coordination and decision-making related to the internal control system. The committee's scope is non-financial risks and controls (specifically excluding underwriting, investment, capital and conduct risks that are addressed in other committees) and is focused on the provision of a comprehensive overview of the most critical risks, internal controls, monitoring of action plans and the implementation of recommendations.

Its main responsibilities are to:

- oversee the risk management culture in the Company;
- identify, assess and report on key non-financial risks faced by the Company including those relating to outsourced activities (in accordance with the Group Guidance "Control of Risks Associated with Outsourced Processes");
- review the effectiveness of the internal control and compliance arrangements;
- review the Risk Appetite Limits (non-quantitative) on a regular basis
- review the Risk Register on a regular basis;
- establish effective systems of internal control and reporting for key risks, appropriate to the size, nature and complexity of the Company;
- establish effective systems of compliance appropriate to the size, nature and complexity of the Company;
- monitor the performance of all suppliers of outsourced activities (operational performance, quality indicators and technical monitoring including KPIs & SLAs);
- monitor the performance of security and business continuity by review of security incidents, test and exercises, critical IT risks and recommendations in progress;
- receive updates from the Data Steering Committee (DSC) on data deficiencies, to approve and monitor remediation plans, to review the data policy, communication programme and training and
- monitor the performance of all change activity by review of the IT Critical Path analysis, change incidents and key change risks and issues.

Outsourcing Committee (OCC)

This Committee is chaired by an Executive Director. It reports into the Executive Management Group which reports to the Board.

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;
- ensure relevant controls are in place.

B.2 "Fit and proper" requirements

The Company applies the "Fit and Proper Requirement" 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 (SM&CR).

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

- financial soundness;
- honesty, integrity and reputation;
- 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 Risk and Audit Committee (RAC) oversees 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 Internal Audit, which undertakes both regular and ad-hoc reviews the results of which are reported to the RAC.

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.

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 ERCC 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 ERCC will inform the RAC and the Board who will consider whether a requirement to re-run the ORSA has arisen.

The ORSA 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, approves the draft ORSA content and drafting. The Board challenges as it deems fit and will approve 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;
- 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 Board regularly reviews the effectiveness of the Company's systems of internal control. Where weaknesses were identified as part of the control review, mitigating actions have been taken or plans put in place. These are monitored by the appropriate Committee 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 Risk and Audit Committee 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 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. 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 Pinnacle 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

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

C. RISK PROFILE

The 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 91% of the solvency capital requirement at the end of 2022 (2021: 89%).

Non-life underwriting risks mainly relate to the premium and reserve risk accounting for 50% after diversification (2021: 49%) and the catastrophe risk representing 48% (2021: 46%), the remaining 2% arising from lapse risk (2021: 5%).

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 86% of the non-life exposure (2021: 79%) comprising unemployment risk and pet health insurance;
- the motor liability, general liability and fire lines of business with 9% of exposure (2021: 10.5%) comprising motor insurance cover and household for claims outstanding mainly; and
- the other motor line of business with 5% of exposure (2021: 10.5%) 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 0.1% 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 2023.

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 (on all non-pet product lines and pet third party liability risk);
- re-pricing when deemed necessary;
- risk monitoring dashboards and risk monitoring committee; and

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

i) "A" or better +20%; and

ii) "A" or lower, to a maximum of 80%.

No holdings are permitted in BBB- rated investments. The Investment Policy also stipulates specific concentration exposure and duration limits and these are considered before an investment can be made.

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.

<u>Investment activities</u>

The Company, through the Board and the Investment and Capital Committee, seeks to limit, as far as is practical, exposure to credit risk from its investment activities. The investment credit risk 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 and Capital Committee on 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 IFRS investment portfolio by credit quality:

Investment portfolio by credit quality	**2022**		**2021**	
	£'000	**%**	**£'000**	**%**
AAA	30,880	19%	15,053	11%
AA-	47,512	29%	39,164	28%
A+	45,485	28%	27,484	20%
A	13,165	8%	38,737	28%
A-	22,302	14%	17,300	13%
BBB+	2,857	2%	-	0%
	162,201	**100%**	**137,739**	**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 2022, the Company has £15.1m (2021: £15.3m) investment with a single issuer with a credit rating of "A+" (2021: A+) with a duration of 2 months (2021: 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 £14.0m (2021: £20.3m) rated AA- (2021:AA-).

The technical provisions ceded as at 31 December 2022 under an IFRS basis are £51.1m (2021: £71.7m), of this £18.2m relates to the reinsurance of non-pet activities with Darnell DAC (2021: £26.7m), and £43.0m under Solvency II basis (2021: £63.1m). See section D(e) 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. Concentration risk is also monitored for large partners/brokers.

The carrying value of the insurance and other receivables at 31 December 2022 is £64.0m (2021: £62.9m) net of bad debts provisions of £nil (2021: £nil). The value of these receivables under Solvency II basis is £21.2m (2021: £25.1m). See section D 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;
- selection of reinsurance counterparties from a pre-approval list or for new approvals according to actuarial governance framework;
- 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	2022	1 Year	2-3 Years	4-5 Years	Over 5Years	2021
Highly liquid resources	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments	138,684	87,143	37,526	6,490	7,525	123,041
Cash & cash equivalents	23,517	23,517	-	-	-	14,697
	162,201	**110,660**	**37,536**	**6,490**	**7,525**	**137,738**
Expected liabilities						
Gross insurance liabilities	52,549	24,671	7,977	1,936	17,965	70,517
Other payables	17,967	17,967	-	-	-	14,833
	70,516	**42,638**	**7,977**	**1,936**	**17,965**	**85,350**
Surplus funds	**91,685**	**68,022**	**29,549**	**4,554**	**(10,440)**	**52,388**

The table above shows the Company has surplus funds of £91.7m (2021: £52.4m). 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 increase in EPIFP from last year is a reflection of the business growth achieved by the Company on the pet product line over the year.

As at 31 December	Unaudited 2022	Unaudited 2021
	£'000	£'000
EPIFP	5,310	4,098

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 is exposed to the following material operational risks:

- Inflation & Cost of living crisis: The cost of living crisis is expected to continue to have an impact on our policyholders who may find they need to adapt their behaviour and priorities. Rising inflation also directly impacts the cost of claims. The cost of living crisis has created uncertainty in the UK pet insurance market with some policyholders looking to reduce their premiums or to have to face the prospect of giving up their pet altogether. We have increased our communication to customers to prompt them to call us should they come into financial difficulty and are offering choices for them to be able to continue cover such as step down. These choices will include either a step-down cover (reducing the insured limits and associated premium) or coinsurance (where the customer shares future claims costs in return for a lower premium)

- Regulatory risk including Data Management: Ensuring quality and accuracy of the data underlying the information fundamental to strategic decisions, and 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, decommissioning of obsolete platforms will take place on a risk and resource prioritised basis in 2023.

- Delivering scalability, through process digitalisation and efficient self-service; efficiencies to be designed, delivered and monitored - this work continues to be ongoing.

- Attracting people in an evolving recruitment market, in which demand for specific skills currently exceeds supply. In addition developing and retaining people when employee's expectations have changed as a result of the cost of living crisis. The Company has conducted an intensive recruitment drive in 2022 to attract the skills needed to develop the business. In order to attract the specialist capabilities the 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.

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

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

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 to monitor regulatory updates and risk to ensure these are understood and communicated to the business and 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 2022 amongst all such exposures with a credit rating of Ai1 or lower and not subject to any collateral contract, which the Company considered would materialise in an instant loss equal to the amount of the reinsurance exposure after expected liquidation recoveries (according to the Solvency II standard recovery rate parameter for the credit rating of the defaulting reinsurer), leading to an increase in the Company's net liabilities and its net underwriting SCR capital requirement as a result, together with a second-order reduction in Counterparty default risk SCR.

The stress scenario would trigger an estimated £2.2m increase in the Company's net BEL, a £2.0m reduction in Own funds and a £0.2m increase in its SCR.

Scenario 2: New variants of feline leukaemia virus (Cats) and canine distemper virus (Dogs) emerge for which current vaccines are not effective. The diseases spread in particular regions in the UK (e.g. London) affecting 5% of pets in those regions. The viruses contaminate 1% of the total cats and dogs insured by the Company in the UK, at an average cost per treatment of £350 per pet.
The stress scenario would trigger an estimated £1.0m increase in BEL partly mitigated by profit share, a £1.0m reduction in Own Funds and no SCR movement.
Under both scenarios, the Company's solvency ratio remains above 175%.

[1] Standard & Poor's or equivalent credit rating

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

The following table summarises the assets held by the Company as at 31 December 2022 with analysis of the differences between Solvency II and IFRS valuation rules:

Total Assets	Notes	2022 IFRS	Adjustment for Solvency purpose	Unaudited 2022 Solvency II	Unaudited 2021 Solvency II
		£'000	£'000	£'000	£'000
Financial investments	D.1 (a)	138,683	19,652	158,335	133,202
Reinsurance assets	D.1 (b)	51,140	(8,139)	43,001	63,061
Insurance and other receivables	D.1 (c)	64,144	(42,842)	21,302	25,205
Cash and cash equivalents	D.1 (d)	23,517	(19,500)	4,017	4,797
Deferred acquisition Costs	D.1 (e)	6,385	(6,385)	-	-
Deferred tax asset	D.1 (f)	1,469	-	1,469	1,121
Total Assets		**285,338**	**(57,214)**	**228,124**	**227,386**

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 International Financial Reporting Standards ("IFRS") adopted by the European Commission in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, except where this is not consistent with Article 75 of the Solvency II Directive.

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	2022 IFRS	Reclassification for Solvency purpose	Unaudited 2022 Solvency II	Unaudited 2021 Solvency II
	£'000	£'000	£'000	£'000
Corporate bonds	18,012	122	18,134	21,867
Government bonds	33,226	31	33,257	29,627
Investments funds	-	19,500	19,500	9,900
Deposits with credit institutions	87,445	-	87,445	71,809
Total	**138,683**	**19,653**	**158,336**	**133,202**

Adjustment for Solvency II purposes represents reclassification of:

- Highly liquid deposit of £19.5m (2021: £9.9m) into Solvency II balance category of "Investment Fund" which is held within cash and cash equivalents under IFRS basis; and
- Accrued interest of £0.1m (2021: £0.3m) is recognised in the valuation of 'investments' on the Solvency II balance sheet, but held within 'other assets' on the IFRS balance sheet. The amount is split between Corporate and Government bonds as appropriately required.

Under the IFRS basis, 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 IFRS.

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

D.1 (b) Reinsurance assets: These are valued at £51.1m under IFRS and £43.0m under Solvency II resulting in a (£8.1m) Solvency II valuation difference (2021: £8.7m).

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

Reinsurance assets	2022 IFRS	Valuation differences (IFRS vs. SII)	Unaudited 2022 Solvency II	Unaudited 2021 Solvency II
	£'000	£'000	£'000	£'000
Non-life excluding health	24,287	(5,793)	18,494	24,729
Health similar to non-life	2,699	(162)	2,537	3,948
Life excluding health	24,154	(2,184)	21,970	34,385
Total Assets	**51,140**	**(8,139)**	**43,001**	**63,061**

The valuation difference of (£8.1m) between IFRS basis to Solvency II basis arises from:

- the de-recognition of premium asset receivables arising from annual policies payable monthly, ceded to reinsurance which are annualised in the IFRS balance sheet, £2.0m;

- the de-recognition of the commission element booked within the IFRS unearned premium reserve ceded to reinsurance, but not booked as ceded IFRS deferred acquisition costs for non-pet business, £4.3m;
- the recognition of the margin included in the Company's IFRS claims provisions £5.9m and premium provisions £2.4m ceded to reinsurance; and
- different discount rates used to convert future cash-flows in today's monetary value, £0.6m;

mainly, offset by the following factors:

- the provision for extra expenses, primarily overheads, within Solvency II provisions ceded to reinsurance, -£3.9m;
- the reclassification of loss-absorbing element of profit share payables into technical provisions under Solvency II ceded to reinsurance , -£2.2m;
- an allowance for events not in data (or ENID) ceded to reinsurance, -£0.7m (note, this excludes the EPIFP ENID of £0.1m, making the total ENID £0.8m gross of reinsurance);
- an allowance for expected profits in future premiums within Solvency II provisions, -£0.3m; and
- other factors with less material contributions (combined under £0.1m).

The recoverable from reinsurance contracts are £43.0m (2021: £63.1m). The decrease in recoverable is driven by the run off of non-pet business reinsured to a quota share partner Darnell.

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 £64.1m (2021: £62.9m) under IFRS and £21.3m (2021: £25.1m) under Solvency II. The total valuation difference is £42.8m made up of:

- Insurance receivables of £41.6m (2021: £33.9m);
- Reinsurance receivables of £2.2m (2021: nil)
- Receivables (trade, not insurance) of -£1.1m (2021: £3.6m); and
- Accrued interest of £0.1m (2021: £0.3m).

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 £41.6m is allowed for in the Solvency II BEL calculations as future inflows within the premium provisions. The valuation difference of -£1.1m on Receivables (trade, not insurance) relates to reinsurance of the non-pet premium not received, not recognised under Solvency 2. The valuation difference of £2.2m 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 IFRS and Solvency II technical provisions. (See note E.1).

Accrued interest of £0.1m held as part of other receivables under IFRS 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 IFRS, cash and cash equivalents are £23.5m (2021: £14.7m) which have reduced to £4.1m (2021: £4.8m) due to a reclassification of a highly liquid deposit of £19.5m (2021: £9.9m) 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 IFRS financial statements.

D.1 (e) Deferred acquisition costs (DAC): Under IFRS, 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 IFRS balance sheet. However, under Solvency II, the DAC of £6.3m (2021: £5.4m) 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 under IFRS. Deferred tax on Solvency II has not been recognised.

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 2022 were:

Balance Sheet Extracts –Technical provisions As at 31 December	Unaudited 2022	Unaudited 2021
	£'000	£'000
Technical provisions – non-life (excluding health)		
Best Estimate	28,297	35,872
Risk margin	5,011	4,472
Technical provisions - health (similar to non-life)		
Best Estimate	2,537	3,947
Risk margin	10	16
Technical provisions – life		
Best Estimate	21,970	34,385
Risk margin	200	447
TECHNICAL PROVISIONS INC. BEST ESTIMATE OF LIABILITIES – SOLVENCY II	**58,025**	**79,138**
TECHNICAL PROVISIONS IFRS	**108,026**	**121,259**

IFRS technical provisions: comprises unearned premium reserves, claims outstanding and long-term business provisions, decreased from £121.3m to £108.0m in 2022 due to:

- Unearned premium reserve: increased by £4.8m from £50.7m in 2021 to £55.5m in 2022 mainly due to a significant increase in pet, £9.5m offset by a reduction in non-pet business £4.7m which is 100% reinsured to Darnell.

- *Claims outstanding:* decreased by (£9.7m) from £44.3m in 2021 to £34.6m in 2022 largely due to:
  - non-pet reserves decreased by £10m which is 100 % reinsured to Darnell; offset by
  - pet reserve increase of £0.3m, in line with business growth.

Solvency II technical provisions against IFRS: decreased by £50.0m (2021: decreased by £42.1m) from £108.0m to £58.0m 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 IFRS balance sheet, £42.5m;
- the de-recognition of the commission element booked within the IFRS unearned premium reserve but not booked as IFRS deferred acquisition costs for non-pet business, £4.3m;
- the recognition of the margin included in the Company's IFRS claims provisions £7.2m and premium provisions £3.0m;
- an allowance for expected profits in future premiums (or EPIFP) within Solvency II provisions £5.0m; and
- different discount rates used to convert future cash-flows in today's monetary value, £0.9m;

mainly offset by the following factors:

- the provision for extra expenses, primarily overheads, within Solvency II provisions, -£4.9m;
- the reclassification of the loss-absorbing element of profit share payables into technical provisions under Solvency II, -£2.2m;
- an allowance for events not in data (or ENID), -£0.8m (note, this excludes the EPIFP ENID of £0.3m, making the total ENID £1.1m gross of reinsurance);
- the addition of the Solvency II risk margin reflecting the cost of capital, -£5.2m; 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 decreased by £21.1m from £79.1m to £58.0m in 2022 are explained by:

- Best estimate claims provisions: decreased by £8.5m from £37.6m to £29.1m, mainly explained by a reduction on motor liability risks driven by upward movements in interest rates used for discounting (£6.6m), continuing run-off of creditor and household books (£1.3m and 1.2m respectively), partly offset by an increase in pet outstanding claims pet risks (-£0.7m), and relatively small contributions the remaining product lines (circa £0.1m).

- Best estimate premium provisions (for unexpired risks): decreased by £12.9m from £36.6m to £23.7m, mainly explained by a reduction in life annuities risks driven by upward movements in interest rates used for discounting (£7.7m), continuing run-off on motor and creditor books (£3.8m and £1.8m respectively), partly offset by an increase in pet premium risks reflecting sustained growth in this product line (-£0.4m).
- Risk margin: The risk margin calculated is £5.2m (2021: £4.9m) and represents 9.0% (2021: 6.2%) of the overall gross technical reserves. The increasing proportion is driven by the reduction in technical provisions before reinsurance, reflecting gradual run-off and some termination of non-pet risk during the year.

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

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

By line of business	Unaudited 2022 Best estimate	Unaudited 2022 Risk margin	Unaudited 2022 Total	Unaudited 2021 Best estimate	Unaudited 2021 Risk margin	Unaudited 2021 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Income protection	2,538	10	2,548	3,948	16	3,963
Motor vehicle liability	10,254	92	10,346	12,343	198	12,541
Other motor	3,154	8	3,162	6,960	10	6,970
Fire & other damage to property	186	-	186	1,412	-	1,412
General liability	2,270	6	2,276	638	2	640
Miscellaneous financial loss	12,432	4,905	17,337	14,518	4,282	18,780
Non-life	**30,834**	**5,021**	**35,855**	**39,819**	**4,487**	**44,306**
Annuities stemming from non-life	4,288	157	4,445	8,721	368	9,090
Other life	17,682	43	17,725	25,664	78	25,742
Life	**21,970**	**200**	**22,170**	**34,385**	**446**	**34,832**
TOTAL TECHNICAL PROVISIONS	**52,804**	**5,221**	**58,025**	**74,204**	**4,934**	**79,138**

In the above table:

- The gross BEL for Miscellaneous financial loss line of business is £12.4m (2021: £14.5m), comprising pet and creditor unemployment risks, together representing 40% (2021: 37%) of the Company's overall non-life BEL;
- The gross BEL for the motor vehicle liability line is £10.2m (2021: £12.3m) representing 33% (2021: 31%) of the non-life BEL. As the activity on motor ceased in 2015, this only includes outstanding claims;
- The gross BEL for the General liability line is £2.3m (2021: £0.7m) and relates to third-party liability cover on pet dog policies.

The life long term fund BEL is £22.0m (2021: £34.4m) representing 26% of the total BEL (2021: 46%). This includes large outstanding bodily injury claims that have settled in prior to 31 December 2022 as a periodical payment orders (PPO) has been transferred from the motor vehicle liability line to the Annuities stemming from non-life line, for a total gross BEL of £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
- recoverable from reinsurance.

Assessment of the reinsurance recoverable

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

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

The above adjustment is applicable only on pet business. 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 6% of the present value of the projected SCR at the end of each year. The SCR is assessed based on year end using drivers for each component based on the 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 2022 costs structure taking into account expected future inflation.

Loss ratio

The loss ratio used for the purpose of BEL premium assessment is calibrated using a tailor made study for most material homogeneous risk 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 2022 of £15.9m (2021: £11.5m).

Liabilities as at 31 December	Notes	Unaudited 2022 Solvency II	Unaudited 2021 Solvency II
		£'000	£'000
Technical provisions incl. best estimate of liabilities (BEL)	D.2	**58,025**	**79,138**
Insurance & intermediaries payables		10,541	6,725
Insurance payable-reinsurance operations		552	210
Amounts owed to group undertakings		-	703
Other taxation and social security		4,461	3,443
Accruals and deferred income		317	443
Other liabilities	D.3(a)	**15,871**	**11,524**
Excess of assets over liabilities (basic own funds)	E.1	**154,228**	**136,724**
Total Liabilities		**228,124**	**227,386**

D.3 (a) Differences between Solvency II valuation and IFRS 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 IFRS carrying value of insurance and intermediaries payable and Solvency II basis. The valuation difference relates to profit share payable of £2.2m (2021: £3.6m) and reinsurance of premium payable of £0.1m not recognised (2021: £0.1m and netted off the 2021 premium receivables in assets).

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 IFRS decreased from £12.9m to £10.5m under Solvency II basis. The IFRS amount includes PS10/12 PPI and ARS provision of £0.2m (2021: £0.3m).

Amounts owed to group undertakings: represent short-term intercompany liability which is valued at amortised cost. The carrying value of £nil (2021: £0.7m) 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 IFRS 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 IFRS 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 IFRS 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 2022:

Own Funds	Unaudited 2022	Unaudited 2021
	£'000	£'000
Ordinary share capital	151,557	126,557
Share premiums	23,323	23,323
Reconciliation reserve	(22,121)	(14,276)
Deferred tax asset	1,469	1,120
Total available own funds to meet SCR	**154,228**	**136,724**

None of the Company's own funds are subject to transitional arrangements and the Company has no ancillary own funds as at 31 December 2022. 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 ordinary share capital increased by £25m from 2021 to 2022 as the Company's issued £25m ordinary share capital during the year. The reconciliation reserves decreased by (£6.4m) mainly due to IFRS loss for the year of (£7.4m), offset by increase of S2 valuation differences of £1.0m (see details below)

Reconciliation reserve (£'000)	Notes	Unaudited 2022	Unaudited 2021
		£000's	£000's
IFRS Retained earnings		**(15,754)**	**(8,379)**
-reinsurance share of technical provisions	D.1(b)	(8,139)	(8,672)
-gross technical provisions liability	D.2	50,001	42,121
-premium receivables	D.1(c)	(40,375)	(33,900)
-profit share payable	D.3(a)	-	-
-de-recognition of deferred acquisition costs	D.1(e)	(6,385)	(5,446)
-deferred tax asset	D.1(f)	(1,469)	-
Solvency II valuation differences		**(6,367)**	**(5,897)**
Reconciliation reserve		**(22,121)**	**(14,276)**

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

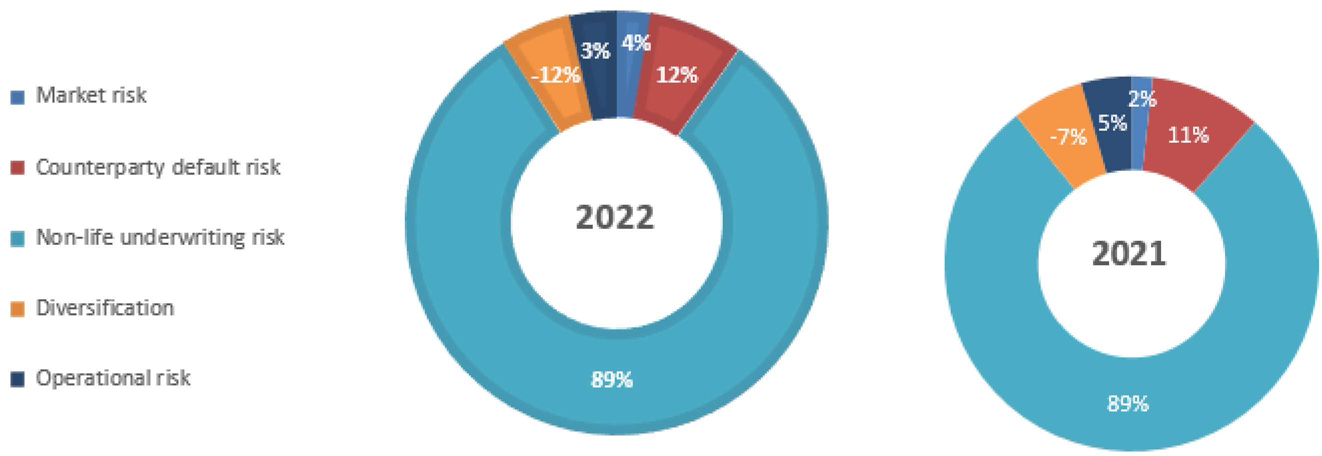
The Company's SCR as at 31 December 2022 is £84.9m (2021: £73.0m). The Company's MCR as at 31 December 2022 is £21.2m (2021: £18.3m). The SCR of the Company is the aggregation of the market, counterparty and underwriting risks, less a credit for diversification and an additional charge to represent the operational risks faced by the Company.

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

Solvency Capital requirement (SCR) by risk	Unaudited 2022	Unaudited 2021
	£'000	£'000
Market risk (diversified)	2,616	1,744
Counterparty default risk	6,879	7,757
Life underwriting risk	-	-
Health underwriting risk	-	-
Non-life underwriting risk	77,308	64,682
Diversification	(5,117)	(4,815)
Basic Solvency Capital Requirement	**81,686**	**69,368**
Operational risk	3,203	3,664
Solvency Capital Requirement	**84,889**	**73,032**

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 2022	Unaudited 2021
	£'000	£'000
Interest rate risk	2,481	1,455
Spread risk	558	745
Currency risk	-	4
Concentration risk	615	628
	3,654	**2,822**
Less: Diversification effect	(1,038)	(1,078)
Market risk	**2,616**	**1,744**

The Market risk SCR net of diversification is £2.6m (2021: £1.7m). 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 increased to £2.5m (2021: £1.5m) impacted by upward movement in interest rate risk following from the uncertainty in the macro environment.

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 decreased to £0.5m (2021: £0.7m). This was due to a lower proportion of non - government bonds being held in 2022 against 2021 and a different credit rating and bond durations mix.

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 remained constant at £0.6m (2021: £0.6m) despite there being a different credit rating and asset mix from 2021.

Currency risk: arises from changes in the level or volatility of currency exchange rates.

There was a change in methodology in 2022 where the full though approach was applied to collective investment undertaking (CIU) in Market risk. Cash at bank and deposits within the CIU were treated as counterparty default risk (see below). There was no material impact on market risk as a result of this change as the CIU increased to £19.5m in 2022 (2021: £9.9m) of which the amount exposed to market risk from corporate bonds was £11.8m.

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

Diversification effect: between the sub-modules of Market SCR remain fairly consistent at £1.0m (2021: £1.1m).

Counterparty default risk: module of £6.9m (2021: £7.8m) 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 2022	Unaudited 2021
	£'000	£'000
Type 1 - rated		
Reinsurance recoverable	422	648
Cash at bank and deposits	3,747	3,877
Type 2 - unrated		
Receivables from intermediaries	3,175	3,763
Diversification	(465)	(531)
Counterparty default risk	**6,879**	**7,757**

The Counterparty default SCR was £6.9m (2021: £7.8m) the main changes were as follows:

- Receivables from intermediaries decreased to £3.2m (2021:£3.8m) due to the settlement on BNP Paribas group intercompanies during the year, offset slightly by growth in pet policies impacting premium receivable;

- Cash at bank and deposits decreased to £3.7m (2021: £3.9m). There was a change of methodology in 2022 taking account of single rather than grouped counterparties exposures. The impact of this change was a £1m decrease in counterparty default risk on cash and deposits. This was offset by a change in methodology from using the simplified approach on collective investment undertaking (CIU) to the full look-through approach where cash at bank and deposit for the CIU were included in market risk in 2021 whereas in 2022 they were now included in counterparty default risk. This impact was a £0.3m increase in counterparty default risk.

- Reinsurance recoverable decreased to £0.4m (£2021: £0.6m)

- The Diversification effect remained stable at £0.5m (2021: £0.5m)

Non- life underwriting risk: SCR risk module comprises:

	Unaudited 2022	Unaudited 2021
	£'000	£'000
Non-life premium & reserve	49,815	42,095
Non-life Lapse	1,924	4,888
Non-life Catastrophe	47,931	39,463
Diversification	(22,362)	(21,764)
Non-life underwriting risk	**77,308**	**64,682**

The non-life underwriting risk SCR arises from:

- premium and reserve risks of £49.8m (2021: £42.1m) mostly driven by premium exposure to the miscellaneous financial loss line (pet business);
- catastrophe exposure of £47.9m (2021: £39.5m) mostly driven by future premium exposure on the miscellaneous financial loss line, reflecting planned growth of the Company's pet business; and
- lapse risk of £1.9m (2021: £4.9m) on future premium arising from existing contracts up to their contractual term.

Operational risk: of £3.2m (2021: £3.7m) is driven by life and non-life - gross earned premium.

Solvency Capital requirement	Unaudited 2022	Unaudited* 2021
	£'000	£'000
Premium component		
-Gross earned premium non-life x3%	3,195	3,648
-Gross earned premium life x 4%	8	16
Provision component		
-Gross non-life BEL x 3%	-	-
-Gross life BEL x 0.45%	-	-
Operational risk	**3,203**	**3,664**

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. As at 31 December 2022, the MCR is of £21.3m and within the SCR corridor at 25% of SCR.

Minimum Capital Requirement	Unaudited 2022	Unaudited 2021
	£'000	£'000
Linear minimum capital requirement	13,874	12,110
Solvency capital requirement - SCR	84,889	73,032
Minimum capital requirement cap	38,200	32,864
Minimum capital requirement floor	21,222	18,258
Combined minimum capital requirement	21,222	18,258
Absolute floor of the minimum capital requirement	6,889	6,262
Minimum Capital Requirement - MCR	**21,222**	**18,258**

Capital position

The Company has Solvency II capital surplus of £69.3m and Solvency ratio of 182%. The Company's capital position as at 31 December 2022 is detailed below:

Solvency Ratio	Unaudited 2022	Unaudited 2021
	£'000	£'000
Available own funds to meet the solvency capital requirement	154,228	136,724
Available own funds to meet the minimum capital requirement	152,759	135,604
Solvency capital requirement (SCR)	84,889	73,032
Minimum capital requirement (MCR)	21,222	18,258
Ratio of Eligible own funds to the solvency capital requirement	182%	187%
Ratio of Eligible own funds to the minimum capital requirement	720%	743%

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.