Prudential International Assurance Plc.

Solvency and Financial Condition Report
Year Ended 31 December 2021

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Summary

Company background

Prudential International Assurance plc ("PIA" or "The Company") is an Irish domiciled insurance company that is authorised and regulated by the Central Bank of Ireland ("Central Bank") and whose principal activity is the transaction of life assurance business. PIA also has a UK branch and a Poland branch. The UK branch, Prudential International Assurance UK Branch (PIA UK Branch), is authorised and regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The Poland branch, Prudential International Assurance PLC SA Oddział w Polsce Branch, is supervised by the Polish Financial Supervision Authority ("KNF").

PIA is a leading insurer in the UK offshore bond market while also providing risk insurance for its UK and Polish policyholders. The focus of the Company in 2021 has been to continue to provide multi-asset solutions in the UK, the Crown Dependencies, Poland and to UK Nationals in selected countries in continental Europe.

Business and performance

The profit for the year amounted to £7.9 million which related to continuing activities (2020: loss £0.4 million). Overall profit is higher than prior year mainly due to higher fee income due to higher Assets Under Management ("AuM"), positive movements in the reserves and an increase in PIA Poland branch profits, offset to some extent by higher expenses and the unfavourable impact of FX rates on shareholder income.

System of governance

The Board is collectively responsible for the long-term success of the Company and for providing leadership within a system of effective controls. The control environment enables the Board to identify significant risks and apply appropriate measures to manage and mitigate them.

We keep our governance structures under constant review to ensure they suit the needs of our business and stakeholders. Further information on the Company's system of governance including information on the composition of its Board, key functions, risk management and internal control system is provided in section B.

Risk profile

Our Risk Management System is designed to ensure the business remains strong through stress events so we can continue to deliver on our long term commitments to our customers and shareholders.

For our shareholders, we generate value by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Company is able to withstand the impact of an adverse stressed outcome.

The Company defines 'risk' as the uncertainty that we face in successfully implementing our strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Company or the interests of its customers and clients. As such, material risks

will be retained selectively where we think there is value in doing so, and where it is consistent with the PIA risk appetite.

For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to manage appropriately the exposure.

Further information on the main risks inherent in our business (namely market risk, credit risk, insurance or underwriting risk, liquidity risk, operational risk, business environment risk and strategic risk) and how we manage these risks, and maintain an appropriate risk profile is provided in section C.

Valuation for solvency purposes

For the purposes of Solvency II reporting, the Company applies the Solvency II valuation rules to value the assets and liabilities of the Company:

(i) As a general principle, technical provisions under Solvency II are valued at the amount for which they could theoretically be transferred immediately to a third party in an arm's length transaction. The technical provisions consist of the best estimate liability and the risk margin.

(ii) The assets and other liabilities are valued under Solvency II at the amount for which they could be exchanged between knowledgeable and willing parties in arm's length transactions. The assets and other liabilities are valued separately using methods that are consistent with this principle in accordance with the valuation approaches set out in the Solvency II Directive.

Further information on the valuation of assets, technical provisions and other liabilities of the Company for solvency purposes is provided in section D.

Capital management

On 31 December 2020, as a result of Brexit, the Company changed to the standard formula approach for calculating its Solvency Capital Requirement ("SCR") as set out in the Solvency II Directive. Prior to this, the Company calculated its SCR using the M&G group's internal model (IM) as approved by the UK's Prudential Regulatory Authority ('PRA') and the Central Bank.

During 2021 Q2 an error in the methodology of the market risk SCR calculation was identified. The error was identified as part of a review carried out by the Risk Function. As a result, PIA's standard formula methodology was fully reviewed and the SCR was recalculated. The 2020 Solvency and Financial Condition Report ("SFCR") was restated and all relevant figures reflected the amended position as at 31 December 2020.

The standard formula is highly capital intensive when applied to a business such as PIAs with low lapse rates, a significant investment in alternative assets and a complex operating model. As a result, a number of management actions were enacted to improve the solvency position, including a capital contribution of £40m from our parent in June 2021 with a further capital contribution of £25m approved by the Company's Board in March 2022. An application to treat the March 2022 capital contribution as Tier 1 Own Funds was made to the Central Bank in March 2022. Subject to regulatory approval, this capital contribution is expected to improve PIA's solvency position to c.136%. Management is considering a number of actions to increase the capital efficiency of PIA's business on a standard formula basis.

The Company's solvency capital requirement has been met during 2021. The Company's Solvency II position at 31 December 2021 is shown in the table below.

	2021 £m
Own funds	298
Solvency Capital Requirement ('SCR')	237
Surplus	**61**
Solvency ratio	**126%**
Minimum Capital Requirement ('MCR')	59

Additional information on the components of the Company's Own Funds and SCR is provided in section E.

Business and Performance

A.1 Business

A.1.1 Name and legal form

Prudential International Assurance plc ("The Company" or "PIA") is an Irish domiciled insurance company that is authorised and regulated by the Central Bank and whose principal activity is the transaction of life assurance business.

PIA's immediate parent company is The Prudential Assurance Company Limited ("PAC"), with the ultimate parent entity being M&G plc. Each immediate parent company has a 100% interest in the equity capital of its subsidiary.

PIA is subject to the relevant regulatory requirements and guidelines of the Central Bank, who are based at New Wapping Street, North Wall Quay, Dublin 1, Ireland.

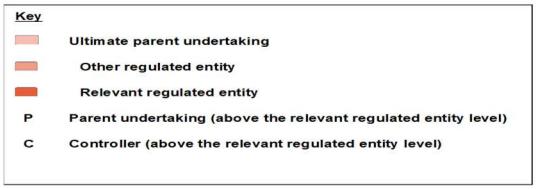
PIA also has a UK branch and a Poland branch. The UK branch, Prudential International Assurance UK Branch (PIA UK Branch), is authorised and regulated by the PRA and the Financial Conduct Authority ("FCA"). The Poland branch, Prudential International Assurance PLC SA Oddział w Polsce Branch, is supervised by the Polish Financial Supervision Authority ("KNF").

PIA's parent company M&G plc., is a holding company, some of whose subsidiaries are authorised and regulated, as applicable, by the PRA and the FCA. The PRA offices are based at Bank of England, Threadneedle Street, London, EC2R 8AH, United Kingdom.

PIA's independent external auditor is KPMG. Their offices are based at 1 Harbourmaster Place, IFSC, Dublin 1.

On 28 October 2020, the Board approved the appointment of PricewaterhouseCoopers LLP (PwC) as its external auditor for the year ending 31 December 2022. This followed a competitive tender process actively overseen by the Audit Committee and resulted in a recommendation which was approved by the Board. Consequently, KPMG will resign as the Group's statutory auditor at the conclusion of the 2021 audit and the Board will resolve to appoint PwC to fill the vacancy.

Simplified structure of Prudential International Assurance plc as at 31 December 2021



A.1.2 Business operations

PIA is a leading insurer in the UK offshore bond market. Its focus in 2021 has been on the sale of multi-asset solutions to UK nationals resident in the UK, the Crown Dependencies and selected countries in continental Europe.

PIA's current markets outside of the UK include Poland (via the Poland Branch), France, Spain, Malta, Cyprus, Gibraltar and the Crown Dependencies (Isle of Man, Jersey and Guernsey). The Company also receives top up premiums for existing policies in other countries where it previously had operations (including for example Belgium, Germany, Austria and South America).

PIA UK Branch sells an investment bond to UK customers. The onshore product is an open architecture bond allowing customers to have access to a number of funds offered by external fund managers.

PIA Poland Branch mainly sells with-profit endowment products and non-profit protection term life products with a range of optional riders attached to its products. They also offer other short term protection products to the Polish market However, an affinity protection product which was previously offered, is now closed to new business. In 2021, a new single premium, unit-linked product was launched.

PIA has three lines of business: *insurance with profit participation, unit-linked insurance*, *and other life insurance*.

Insurance with profit participation business comprises all single premium investment products that are invested in the PAC with-profits funds via a reinsurance arrangement and the with-profit endowment products written by PIA Poland branch, which are also reinsured to PAC.

PIA unit-linked business ranges from proprietary to open architecture products and also includes products that offer mortality and morbidity benefits. Proprietary products are products where the policyholder can only invest in funds offered by PIA, whereas open architecture products allow policyholders to invest in a wide range of external funds and other assets.

The *Other life insurance* line of business relates to non-profit insurance products written by the PIA Poland Branch.

A.1.3 Significant events during the period

The Company did not propose or pay dividend during the year (2020: nil) on the ordinary shares.

During the year, PIA completed the development of a new offshore bond product, International Portfolio Bond (IPB). The new product offers an automation to Offshore Bond products enabling a fully digital journey for Financial Advisers and company.

PIA has also entered into commercial agreements with third party distributors to make investment in the PAC With-Profits Fund available in European markets. The product has been made available for wholesale distribution through the first third party distributor in early 2022. PIA has been fully engaged with the Central Bank to communicate the change in business plan and operating model, with regulatory approval having been attained in December 2021.

During 2021, PIA extended its single premium investment product offering to the Polish market. In line with PIA's existing investment bond, this product offers investment in the With-Profits Fund of our parent, PAC, through a reinsurance agreement. It provides a low level of protection cover with the possibility of top-ups and partial and regular withdrawals. In 2021 the product generated limited premiums and a revised version of the product with additional fund choice is planned in 2022.

PIA has continued to evidence good operational resilience in 2021 in the wake of the Coronavirus (Covid-19) pandemic. The crisis is likely to have a long-lasting effect on the business environment. PIA's solvency and liquidity positions during 2021 have not been materially impacted by the outbreak. PIA's mortality and morbidity exposures are limited due to the nature of the reinsurance arrangements in place, with at least 75% of the risk being reinsured to a highly rated external counterparty. Both mortality and persistency are closely monitored on a monthly basis and no specific provisions are deemed necessary for potential future COVID-19 impacts at Q4 2021.

From 31st December 2020, the company has utilised the standard formula approach to calculate its capital requirements under Solvency II Regulations. During 2021 Q2 an error in the methodology of the market risk SCR calculation was identified. The error was identified as part of a review carried out by the Risk Function. As a result, PIA's standard formula methodology was fully reviewed and the SCR was recalculated. The 2020 SFCR was restated.

The standard formula is highly capital intensive when applied to a business such as PIAs with low lapse rates, a significant investment in alternative assets and a complex operating model. As a result, a number of management actions were enacted to improve the solvency position, including receipt of a £40m capital contribution from our parent PAC in June 2021. with a further capital contribution of £25m approved by the Company's Board in March 2022. An application to treat this capital contribution as Tier 1 Own Funds was made to the Central Bank in March 2022. Subject to regulatory approval, this capital contribution is expected to improve PIA's solvency position to c.136%. Management is considering a number of actions to increase the capital efficiency of PIA's business on a standard formula basis.

No other significant events took place during the year.

A.2 Underwriting performance

The Company's financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2014, and the European Union (Insurance Undertakings: financial statements) Regulations 2015.

IFRS profit broadly equates to premiums less claims (including change in technical provision) and expenses together with investment returns. Given the linkage between the movement of technical provisions and movement in investments (e.g. for unit-linked funds, investment return (whether positive or negative) results in a corresponding change in unit-linked technical provisions), PIA has defined IFRS profit as its underwriting performance as discussed in this section.

A detailed breakdown of the principal components of the IFRS profit is contained in Section A.5.

A.2.1 Overview of IFRS profits

Overview of IFRS profits	2021 £m	2020 £m	Diff %
Gross IFRS Profits	**14.0**	**1.5**	**12.5**
Tax credit / (charge) attributable to shareholders' returns	(6.1)	(1.9)	(4.2)
Profit / (loss) for the year attributable to shareholders	**7.9**	**(0.4)**	**8.3**

The profit for the year amounted to £7.9 million which related to continuing activities (2020: loss £0.4 million). Overall profit is higher than prior year mainly due to higher fee income due to higher Assets Under Management ("AuM"), positive movements in the reserves and an increase in PIA Poland branch profits, offset to some extent by higher expenses and the negative impact of FX rates on shareholder income.

The tax charge includes a deferred tax relating to the UK Branch of £3.2m and a current tax charge for the UK Branch of £1.6m.

A.2.2 IFRS profit analysed by Solvency II lines of business

The gross IFRS profit is allocated by material Solvency II lines of business as follows:

Gross IFRS Profits	2021 £m	2020 £m	Diff £m
Insurance with profit participation	7.3	0.2	7.1
Unit-linked Insurance	2.9	0.1	2.8
Other life insurance	3.8	1.2	2.6
Total	**14.0**	**1.5**	**12.5**

A.2.3 IFRS profit analysed by material geographical territory

The operating profit, as discussed above is allocated by material territory as follows:

Gross IFRS Profits	2021 £m	2020 £m	Diff £m
UK & Crown Dependencies	9.7	0.2	9.5
Other	4.3	1.3	3.0
Total	**14.0**	**1.5**	**12.5**

A.3 Investment performance

A.3.1 Investment analysis

The following investments are held in respect of shareholder and policyholder linked assets. The increase in Fixed Income Securities during 2021 reflects increased investment in Euro government bonds to mitigate currency risk exposure arising from Euro denominated expenses.

	2021 £m	2020 £m	Change %
Fixed Income Securities	122	28	336%
Collective Investment Schemes	2,030	1,808	12%
Equities	25	18	39%
Cash and Deposits	118	163	-15%
Other	3	-12	-
Total Assets	**2,298**	**2,005**	**15%**

Note: Any apparent inconsistencies in the summation of items in the table above is due to rounding.

Investment in Collective Investment Schemes accounted for 88% of the total asset portfolio in 2021 and 90%in 2020. Shareholder investment in Fixed Income Securities accounted for 5% of the total asset portfolio in 2021 and for 1% in 2020.

A.3.2 Investment return

	2021 £m	2020 £m
Income		
Fixed Income Securities	1.3	0.7
Collective Investment Schemes	7.4	15.3
Cash and Deposits	0.3	0.6
Total income	**9.0**	**16.6**
Total realised gains	**122.2**	**59.8**
Total unrealised (losses) / gains	**66.9**	**(1.0)**
Total investment return	**198.1**	**75.4**

Investment income comprises interest, dividends and realised investment gains and losses on investments at fair value through profit or loss. Unrealised investment gains and losses on investments at fair value through profit or loss are separately disclosed in unrealised (losses)/gains on investments. Dividends are recognised on an ex-dividend basis. Interest is accounted for on an effective interest rate basis.

Investment income decreased in 2021 due to lower dividends on collective investment schemes, offset by higher interest on fixed income securities due to the purchase of a German bond.

The increase in investment return from £75.4m in 2020 to £198.1m in 2021 principally reflects the increase in realised gains on Collective Investment Funds due to market movements over the period.

A.3.3 Investment management expenses

The Company incurred £27 m (2020: £22 m) in investment management expenses ('IMEs') over the period. Investment management expenses have increased in 2021 by 23%. This includes an increase in the IMEs on the sterling With-Profits Funds, partly driven by an increase in allocation to alternative assets, a reclassification of reinsurance cost of capital charges not previously considered within IMEs and an increase in investment administration expenses. These increases were partly offset by a reduction in other reinsurance charges.

A.4 Performance of other activities

There are no material activities carried out by the Company other than those described above.

A.5 Any other information

A.5.1 Additional analysis of IFRS profits before tax by nature of revenue and charges

The following table shows the Company's total revenue and total charges for the years presented:

es for the years presented:	2021 £m	2020 £m
Gross premiums written	581	612
Outward reinsurance premiums	(537)	(569)
Earned premiums, net of reinsurance	**44**	**43**
Investment income	131	76
Other income	78	69
Unrealised (losses) gains on investments	67	(1)
Total revenue, net of reinsurance	**320**	**187**
Claims paid - Gross amount	(567)	(519)
Claims paid - Reinsurers' share	525	473
Change in provision for claims - gross amount	(16)	(10)
Change in provision for claims - reinsurers' share	(1)	3
Change in life assurance provision - gross amount	(440)	(178)
Change in life assurance provision - reinsurers' share	441	174
Change in technical provision for linked liabilities	(34)	11
Change in financial liabilities – investment contracts	(126)	(58)
Net operating expenses	(57)	(60)
Investment expenses and charges	(27)	(22)
Foreign exchange gains/(losses)	(4)	-
Profit on ordinary activities before tax	**14**	**1**

Total IFRS profit before tax attributable to shareholders for the year ended 2020 is £13.98 million (2020: £1.49million). Analysis of profit before tax is shown below by nature of revenue and charges.

A.5.2 Premiums, claims and expenses

A.5.2.1 Comparison of earned premiums with the prior period

Premiums earned (IFRS)	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	2021 Total £m	2020 Total £m
Gross	524	41	16	581	612
Reinsurer's share	514	20	3	537	569
Net	**10**	**21**	**13**	**44**	**43**

The table above is made up of premiums earned on an IFRS basis from insurance contracts split by lines of business.

Total gross insurance premiums have decreased compared to the prior year due mainly to a reduction in Offshore business, partly offset by an increase in sales in the Polish Branch.

IFRS requires contracts written by insurers to be classified as either 'insurance contracts' or 'investment contracts'. For investment contracts, premiums are not included in the income statement. They are reflected as deposits on the balance sheet within technical provisions.

The table below represents total premiums earned from both insurance and investment contracts as reported in QRT S.05.01.

Premiums earned (SII)	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	2021 Total £m	2020 Total £m
Gross	524	146	16	686	685
Reinsurer's share	514	20	3	537	569
Net	**10**	**126**	**13**	**149**	**116**

A.5.2.2 Comparison of claims with the prior period

Claims incurred (IFRS)	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	2021 Total £m	2020 Total £m
Gross	509	72	2	583	528
Reinsurer's share	509	14	1	524	477
Net	**-**	**58**	**1**	**59**	**51**

The table above is made up of claims incurred on an IFRS basis from insurance contracts split by line of business.

The increase in claims is primarily driven by increases in partial surrenders, full surrenders and advisor charges, offset by a decrease in claim protection.

IFRS requires contracts written by insurers to be classified as either 'insurance contracts' or 'investment contracts'. For investment contracts, claims are reflected as withdrawals on the balance sheet within technical provisions.

The table below represents total claims incurred from both insurance and investment contracts as reported in QRT S.05.01.

Claims incurred (SII)	Insurance with profit participation £m	Index-linked and unit-linked insurance £m	Other life insurance £m	2021 Total £m	2020 Total £m
Gross	509	131	2	642	592
Reinsurer's share	509	14	1	524	477
Net	**-**	**117**	**1**	**118**	**115**

A.5.2.3 Comparison of expenses with the prior period

Net operating expenses have decreased by 5% over the period. This is due mainly to a decrease in project costs, including Orion, IFRS17 and Project TIM, offset by increases in TOM costs and Central Bank levy.

B. System of Governance

B.1 General information on the system of governance

PIA as an Irish regulated entity is subject to the relevant requirements and guidelines of the Central Bank, the PRA and FCA in the UK (UK activities only) and the Polish Financial Supervision Authority (KNF) (Poland branch only), the European Insurance and Occupational Pension Authority ("EIOPA") and European Union (Insurance and Reinsurance) Regulations 2015 ("Solvency II"). PIA is also required to comply with the General Good Requirements of the jurisdictions into which it sells on a Freedom of Service ("FoS") basis including France, Spain, Gibraltar, Malta and Cyprus. PIA is also permitted to sell into Jersey, Guernsey and the Isle of Man.

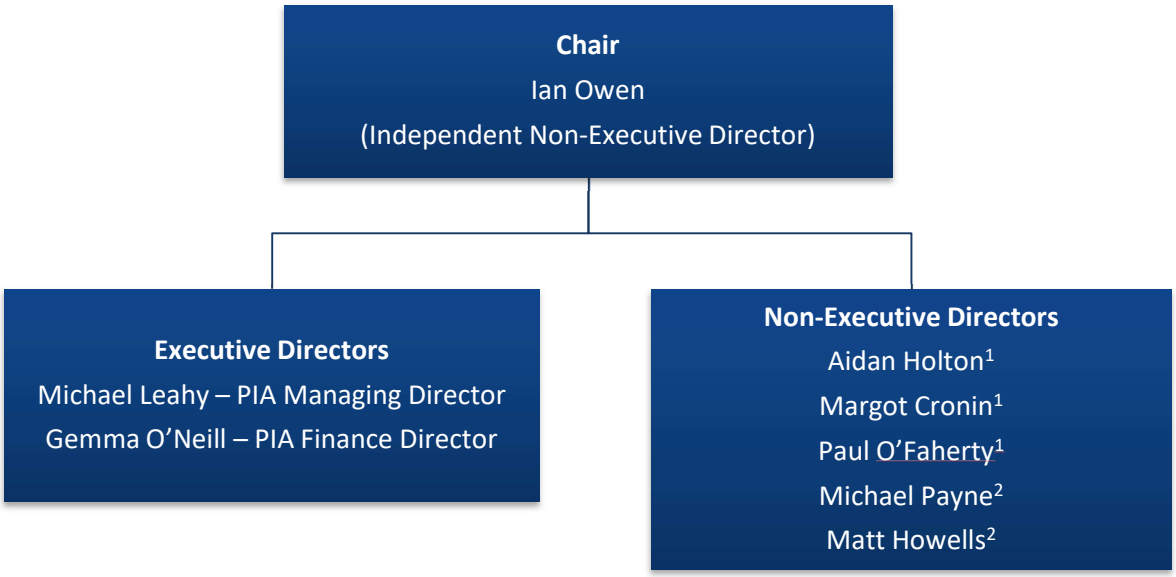
The PIA Board believes that an effective governance structure is a prerequisite to ensure effective decision-making and clear accountability. The PIA Governance Framework covers all activities, structures and delegations specifically designed for the oversight and management of the PIA business. The Framework describes the scope and authority of the governance structures established within the business, and highlights the delegations provided from the Board to Board Committees and to the executive management team to run the business on a day-to-day basis. The Framework meets and supports several requirements including:

- Solvency II and EIOPA requirements and guidelines;
- Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings; and
- M&G plc and PAC Governance Framework, Standards and Policies.

B.1.1 Board & Senior Management

PIA's Board of Directors are set out below.

Figure 1: PIA Board of Directors as at 31 December 2021



[1] *Independent Non-Executive Director*
[2] *M&G Group Appointed Director*

The PIA Board comprises eight members:

- An Independent Non-Executive Chair;
- Five Non-Executive Directors (NEDs); and
- Two PIA Executive Directors, namely the PIA Managing Director (CEO) and the PIA Finance Director (CFO).

The Board has complied with the requirements of the corporate governance code in relation to the balance of Executive Directors and NEDs on the Board and its Committees. The NEDs are responsible for both supporting and overseeing executive management whilst, as members of a unitary board, sharing in the wider duty to promote the success of PIA and to ensure PIA continues to meet the minimum conditions required to undertake its regulated activities.

The appointment of independent NEDs on the Board recognises PIA's obligation, as a regulated entity, to take decisions independently in the interests of the safety and soundness of PIA and its customers, as well as to meet relevant legal and governance responsibilities.

The Board operates within the overall ambit of the M&G plc Group Governance Framework (GGF), which sets out the respective roles and responsibilities between the Group and the entities, allowing for the appropriate management of potential conflicts of interest, as well as the required interactions and two way flow of information, including requirements as to the upward and downward escalation of relevant issues. The membership of the Board and their roles as at 31 December 2021 is detailed in Figure 2 below.

Figure 2: Composition of the PIA Board as at 31 December 2021:

Board Members	Role
Ian Owen	Independent Non-Executive Director Chair of the Board
Michael Leahy	Executive Director Managing Director
Gemma O'Neill	Executive Director Finance Director
Aidan Holton	Independent Non-Executive Director Chair of Audit Committee
Paul O'Faherty	Independent Non-Executive Director Chair of Risk Committee
Margot Cronin	Independent Non-Executive Director Chair of Remuneration & Nomination Committee
Michael Payne*	Non-Executive Director
Matt Howells*	Non-Executive Director

* *M&G Group Appointed Director*

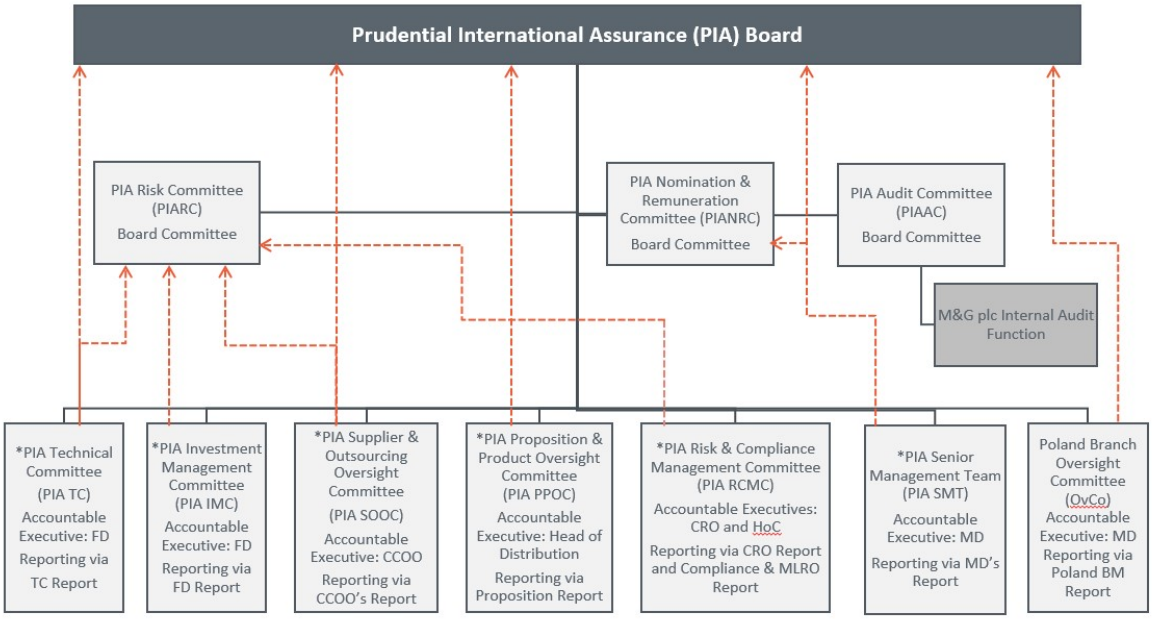
The PIA Board membership has changed since year end 2021. On 23 February 2022, Matt Howells has resigned from the PIA Board while Clare Bousfield was appointed as Non-Executive Director and has been added as a member to the PIA Board and PIA Remuneration & Nomination Committee.

Currently the PIA Board comprises of eight members:

- An Independent Non-Executive Chair;
- Five Non-Executive Directors (NEDs); and
- Two PIA Executive Directors.

The PIA Board, the various committees, and the key functional areas involved in governance, risk management and oversight are set out below. The delegation of authority to committees and individuals is a Board responsibility. Each committee may refer agenda items to other relevant committees as required. For example, compliance and/or customer matters from any of the committees may be referred to the Risk and Compliance Management Committee.

Figure 3: PIA committee structure: statutory committees as at 31 December 2021



** Includes oversight of PIA, UK Branch and Poland Branch*

Acronyms: *MD, Managing Director;* *CRO, Chief Risk Officer;* *HoC, Head of Compliance;* *FD, Finance Director;* *BM, Branch Manager;* *CCOO, Chief Commercial & Operating Officer*

The Board has delegated functions of the Board to the following statutory committees:

- PIA Audit Committee (PIAAC)
- PIA Risk Committee (PIARC)
- PIA Nomination and Remuneration Committee (PIANRC)

The Board has delegated authority to the Managing Director of the Company to exercise all the powers of the Directors of PIA subject to the limits imposed and approvals required by the PIA Governance Framework and the M&G plc Group Governance Framework; and matters reserved to the Board.

To assist the Managing Director and the Board in the operations of the business the following advisory committees were established:

- PIA Technical Committee (PIA TC)
- PIA Investment Management Committee (PIA IMC)
- PIA Supplier & Outsourcing Oversight Committee (PIA SOOC)
- PIA Proposition & Product Oversight Committee (PIA PPOC)
- PIA Risk and Compliance Management Committee (PIA RCMC)
- Poland Branch Oversight Committee (OVCO)
- PIA Senior Management Team (PIA SMT)

For the PPOC, TC, SOOC, IMC and RCMC, a quarterly report on decisions made and issues to be escalated is provided to the PIA Board and Risk Committee for information and the right to amend any decisions. The Board also receives a quarterly report from the PIA Poland Branch Director and updates from OVCO.

Functions

As at 31 December 2021 PIA is organised on a functional basis, as detailed below:

- Managing Director
- Finance
- Actuarial
- Risk
- Compliance
- Operations, Commercial and Marketing
- Product Management, Proposition Development and Delivery
- Change and Transformation
- IT Services (Outsourced)
- Internal Audit (Outsourced)
- Poland Branch
- UK Branch

Heads of Functions together form the PIA Senior Management team (PIA SMT), with a reporting line into the PIA Managing Director, who in turn reports to the Board of PIA. The role, responsibilities and reporting lines of each member of the PIA SMT are documented in the relevant PIA SMT job role profile descriptions.

The Chief Risk Officer ("CRO") presents an update on risk to the Risk Committee each quarter and attends the Board meetings.

The Head of the Actuarial Function ("HoAF") attends the quarterly Board meetings, Audit Committee and Risk Committee meetings.

The Head of Compliance and Money Laundering Reporting Officer ("HoC") presents an update on compliance and financial crime matters to the Risk Committee on a quarterly basis. The HoC also provides a quarterly update on compliance monitoring activity to the Audit Committee, and the HoC also attends the Board meetings.

The CRO, and HoAF are members of the Technical Committee ("PIATC") and the HoC also attends. The purpose of the PIATC is to assist the Finance Director of PIA in providing leadership, direction and oversight of the technical bases and practices of the PIA business for regulatory and statutory reporting purposes, in addition to all other technical, financial and actuarial aspects of running the business.

Audit Committee

The PIA Board has established an Audit Committee that has responsibilities in respect of PIA and all its branches. In particular, the Committee assists the Board in meeting its responsibility for the integrity of the Company's financial statements, for the effectiveness of the Company's internal control and risk management systems and for monitoring the effectiveness and objectivity of the internal and external auditors.

The Audit Committee submits reports on its activities to the PIA Board and the PAC Board Audit Committee ("BAC"). The BAC reports to the Group Audit Committee which has oversight responsibilities over financial reporting, internal control and audit processes for the entire M&G plc Group.

The membership of the Audit Committee consists of at least three members all of which are Non-Executive Directors. The majority are independent, one of which takes the Chair.

Key responsibilities:

- Financial Reporting - including monitoring the integrity of financial reporting and the Company's financial statements. Reviewing the following items and making recommendations to the Board for approval: the PIA annual report and financial statements; the PIA Poland Branch financial statements; and letter of representation to the external auditor in relation to financial reporting.
- Solvency II - annual reporting including reviewing and recommending to the Board the Solvency and Financial Condition Report ("SFCR"), Regular Supervisory Report ("RSR") and annual quantitative reporting templates.
- Regulatory Disclosures - including the review of material disclosures to PIA's regulators.
- Internal Control and risk management - considering any findings of major investigations of internal control over financial reporting matters and management's response to these. Reviewing the framework and effectiveness of the Company's systems of internal control, which includes the adequacy of resources, qualifications and experience of accounting, internal audit, compliance and financial reporting staff and their training programmes.
- External Audit - ensuring that appropriate plans are in place for the audit with the Company's auditor and that the scope of the audit plans reflects the terms of the engagement letter. Approving the procedure for the external statutory auditor's selection, managing the audit cycle including: agreeing the statutory auditor's plans, approving the auditor's fees, and the policy for non-audit services.
- Internal Audit - reviewing the framework and effectiveness of the Company's systems of internal control, which includes the adequacy of resources, qualifications and experience of accounting, internal audit, compliance and financial reporting staff and their training programmes.
- Compliance - reviewing, and seeking assurances on, the effectiveness of the Company's compliance framework. Approving the annual compliance plan for the Companies; monitoring progress and key control findings from compliance reviews; assessing whether the compliance function is adequately resourced and has appropriate standing within the Companies, and where appropriate requesting that the compliance function undertakes specific work.
- Tax - reviewing reports on tax compliance matters, and if relevant, monitoring any remediation actions.

Risk Committee

The PIA Board has established a Risk Committee that has responsibilities in respect of PIA and all its branches. It assists the Board in meeting its responsibilities by ensuring that the System of Governance operating in the

Company is effective. Specifically, the Risk Committee ensures that the Company has implemented an appropriate risk framework and that the Company's risk function operates effectively.

The membership of the Risk Committee consists of at least 3 members of which a majority being non-executive directors, independent non-executive directors or a combination of both.

The Risk Committee is responsible for assisting the Board in its oversight of risk, including but not limited to:

- Risk appetite, risk tolerances and risk strategy - advising the Board on the Company's overall risk appetite, risk tolerances and risk strategy.
- Risk Management Framework ("RMF") - reviewing the Company's RMF and advising the Board on its overall effectiveness.
- Risk Policies - approving the Company's risk policies and/or recommending to the Board approval of the Company's risk policies.
- Risk Review & Mitigation - reviewing current and potential future risks and the mitigation strategies for these.
- Internal Controls - in conjunction with the Audit Committee reviewing the effectiveness of financial and non-financial controls across the Group's internal control framework.
- Internal Models - reviewing the effectiveness of internal models including stress testing.
- ORSA - reviewing the ORSA and, in conjunction with the Audit Committee, compliance with regulatory requirements, including the assessment of Standard Formula appropriateness.

Nomination and Remuneration Committee

The PIA Board has established a Nomination and Remuneration Committee (the "Committee") to assist the Board in monitoring, evaluating and reporting on the effectiveness and any weaknesses of the Company's systems of governance in respect to nominations and remuneration. The Committee helps ensure that the nomination and remuneration practices of the Company are compliant with various regulations and codes including the Central Bank of Ireland Corporate Governance Code for Credit Institutions and Insurance Undertakings 2015, or as amended, other relevant legislation, regulation and corporate governance codes published from time to time in Ireland. In relation to remuneration practices, the Committee ensures that the Company remuneration practices and framework are in line with best practice including the Solvency II Delegation Regulation remuneration requirements, as well as the risk strategies of the Company to ensure that they do not promote excessive risk taking. As part of the M&G plc group, the Committee is mindful of Group's policies in relation to nomination and remuneration matters.

The membership of the Committee consists of at least three members with the majority being independent non-executive directors.

The Nomination and Remuneration Committee is responsible for assisting the Board, including but not limited to:

- Board and Committee composition - regularly review the structure, size and composition of the Board (and its committees) taking account of the Company's strategic priorities and the matters affecting the Company, before making recommendations to the Board with regard to any changes. In particular this will include a review of the PIA target operating model.
- Appointments to the Board - responsible for identifying and nominating for the Board's approval, candidates to fill Board vacancies as and when they arise.
- Conflicts of Interest – consider and, if appropriate, authorise any actual or potential situational conflicts of interest arising from either new or existing appointments and, in the case of material conflicts, advise

the Board on whether the conflict should be authorized.

- Corporate Culture – consider the Group's approach corporate culture and how it is applicable to the Company.
- Director induction and training – ensure that Directors appointed to the Board are equipped with an appropriate induction and an ongoing continued professional development plan.
- Job Definitions and Succession planning - prepare comprehensive job descriptions, taking into account for Board appointments, the existing skills and expertise of the Board and the anticipated time commitment required. The Committee shall carry out succession planning for the PIA Board.
- Director reviews and evaluation – monitor on an ongoing basis the performance of directors, senior management, and those discharging a pre-approved controlled functions ("PCF").
- Board and Committee Effectiveness – review the results of the annual Board Effectiveness review in respect of leadership needs, particularly in relation to the executive, independent non-executive directors and non-executive directors, the composition of the Board, the performance of the Chairman and the individual directors relative to their own roles and Board objectives.

B.1.2 Adequacy of systems of governance

The PIA Governance Framework is in place to ensure:

- the governance structures are and continue to remain appropriate to the scale and nature of the Company's business;
- all policies and procedures are in place and adequately documented;
- the appropriate segregation of duties and responsibilities are clearly defined;
- that there is an effective operation of the M&G plc group's system of internal controls; and
- reporting and disclosure requirements to satisfy regulatory and corporate governance requirements are in place.

B.1.3 Changes to the system of governance

PIA performs an annual review and refresh of its Governance Framework and Risk Management Framework (RMF) in line with the policy framework, building on key enhancements made to the frameworks in 2020. The quality and embeddedness of many of these enhancements were subsequently validated by an independent consultant (Grant Thornton) between November 2020 and April 2021.

Other changes to the system of governance during 2021 included the appointment of a new Head of Actuarial Function (HoAF) in May 2021. The Chief Risk & Compliance Officer role was split into two separate roles during 2021: Chief Risk Officer (CRO) and Head of Compliance, with a new CRO appointed in September 2021. New Target Operating Models (TOMs) were approved for the Finance and Actuarial Functions which aim to strengthen both functions.

B.1.4 Remuneration policy & practices

PIA remuneration practices are set by the PIA Board with delegated authority to the PIA Nomination and Remuneration Committee. Due consideration is given to the M&G plc group remuneration practices and compliance with the M&G plc Remuneration Policy.

PIA adopts the M&G plc Remuneration Policy which:

- Promotes the long-term success of the Group;

- Attracts, motivates and retains the best talent to help ensure continued growth and success of the Group as a separated listed Group;
- Supports the Group's purpose and values to build a safe, respectful and inclusive culture through remuneration policies and schemes that promote and reward good conduct and behaviours for the benefit of our customers and colleagues;
- Aligns the interests of the Executive Directors, Senior Managers and employees with the interests of current and future Shareholders and other stakeholders;
- Strikes an appropriate balance between short-term and long-term performance with strong linkage to Group performance, effective risk management, management of conflicts of interest, customer outcomes, the culture and values of the Group and long-term shareholder value creation;
- Is simple and transparent, both externally and to colleagues; and
- Is compliant with relevant local remuneration regulation requirements e.g., Solvency II for PIA.

The remuneration structures are designed to support the achievement of the Group's short and long term business objectives, underpinned by the principles listed above. The remuneration policy is consistent with and promotes sound and effective risk management.

Governance processes across the M&G group apply to PIA and deliver robust oversight of reward, effective management of conflicts of interest and reflect the need to link remuneration decisions with risk culture. The PIA Nomination & Remuneration Committee is dedicated to implementing the policy and structures established by the Group Remuneration Committee and providing oversight of remuneration of PIA executives.

Remuneration structure

Both fixed and variable remuneration is assessed against market data and internal relativities on an annual basis and balanced so that the fixed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components and to mitigate unintended consequences and inappropriate behaviours to the detriment of customer outcome.

Variable remuneration available to employees includes short term incentives (i.e. annual bonus, quarterly sales incentives for sales staff) and long term incentive plan ("LTIP") awards.

Annual short-term incentive arrangements operate to support the alignment of colleagues to the Group's financial and strategic objectives, customer outcomes, culture, values, risk management policies and pay-for-performance principles. Currently, annual bonus awards are based on Business Unit and individual performance, and market practice. This allows PIA to operate a fully flexible bonus policy, including the possibility of not paying annual bonus based on financial and non-financial criteria.

M&G plc operate a LTIP over M&G plc's shares with performance conditions aligned with its long-term financial/strategic objectives and shareholder value creation. Participation in the LTIP is reserved for senior colleagues who have significant accountability and ability to influence the delivery of M&G plc's long term business objectives. Awards are granted annually and at the complete discretion of the M&G plc Remuneration Committee. PIA does not operate an LTIP except in circumstances where there is a compelling commercial/strategic rationale and both the PIA Nomination and Remuneration Committee and the M&G plc Remuneration Committee are satisfied that such an arrangement is appropriate.

B.1.5 Transactions with the shareholders

The sole direct shareholder for PIA is its parent company The Prudential Assurance Company Limited ("PAC"). A Capital Contribution Agreement between the Company and PAC was signed on the 25 June 2021 and a capital contribution of £40m was subsequently paid by PAC to the Company prior to 30 June 2021. To enhance solvency as a result of the capital intensive nature of the standard formula when applied to PIA's business, a capital contribution of £25m from PAC was approved by the PAC Board in February 2022 and the Company's Board in March 2022. An application to treat this capital contribution as Tier 1 Own Funds was made to the Central Bank in March 2022.

B.1.6 Three Lines of Defence Model

A 'three lines of defence' approach runs through PIA's Governance Framework and Risk Management Framework so that risks are clearly identified, assessed and owned. This model distinguishes between responsibility for taking risk, managing risk and ensuring there is appropriate oversight of risk. This structure aims to ensure that there is an integrated approach to risk management with appropriate segregation of duties, authorisation and avoidance of gaps or overlaps in activities.

The model of the Three Lines of Defence is positioned on the following:

- Primary responsibility for risk identification, assessment/measurement, monitoring and management lies with the business;
- Risk assessment includes categorisation, scoring, and quantification of risks where feasible;
- Identification of controls and cost effective mitigating actions are derived and implemented for each risk; and
- Risks across all classes are managed within appetite and risks that are above the risk appetite are reported to and challenged or approved by the Risk Committee and the Board as appropriate.

Figures 4: PIA's Three Lines of Defence Model

1st Line of Defence	**2nd Line of Defence**	**3rd Line of Defence**
Business Management	**Risk & Compliance**	**Internal Audit**
Business management takes risks and are responsible for day-to-day risk management.	*Risk Management oversees the Risk Management Framework and supports business management to manage risks. Compliance are specialists within the second line of defence and oversee the management of regulatory compliance risk.*	*Audit provide independent assurance regarding the Risk Management Framework and control effectiveness.*
▪ Establishes a control environment to govern the taking and management of all material risk exposures in accordance with the Risk Appetite, mandate and limits set by the Board; ▪ Identifies and reports the risks that PIA is exposed to; ▪ Escalates any actual or potential limit breaches or any violations of risk	▪ Assists the PIA Board to formulate, implement and monitor adherence to the Risk Appetite and Limit framework, risk management plans, risk policies, risk reporting and risk identification processes; ▪ Provides guidance, tools and technology and reviews and assesses the risk-taking activities of the first line of defence, where	▪ Independently monitors the effectiveness of the internal control and risk management systems.

management policies, mandates or instructions within 24 hours of identification in line with PIA's Risk Appetite Statement (RAS); ▪ Identifies and promptly escalates significant emerging risk issues; ▪ Develops processes and procedures to demonstrate the integration of risk management principles into day-to-day operations, and in doing so manages the business to facilitate full compliance with the RMF and supporting risk policies; and ▪ Manages the business to facilitate full compliance with relevant statutory and regulatory requirements.	appropriate challenging the actions being taken to manage and control risks; and ▪ Provides the PIA Board and Risk Committees with an aggregate view of their risk profiles and supports them in identifying and assessing key and emerging risks which threaten the achievement of PIA objectives.

Business operations (1st Line of Defence)

The Company's first line of defence is line management. The Managing Director and the PIA Senior Management Team, together with business line management and employees, are responsible for identifying and managing the risks inherent in PIA's products, activities, processes and systems. This includes responsibility for implementing sufficient and appropriate controls to manage risk across the Company.

The various PIA management committees, the Senior Management Team, the Poland Branch Oversight Committee ('OVCO') and the PIA Supplier & Outsourcing Oversight Committee ('PIA SOOC'), form part of the first line of defence. The PIA/SS&C Joint Management Committee (JMC) and the Poland Executive Committee are also key governance forums supporting PIA's first line committees. The PIA RCMC is responsible for second line oversight across PIA and its branches. PIA's Governance Framework is described in section B.1 above.

PIA line management are in charge of internal control policies, standards, procedures, governance and operating limits that manage core processes and risks across the business.

Management information and formal reporting lines are used to enforce, monitor and review the effectiveness of controls throughout the Company and its key outsourced service providers. Areas of deficiency and improvement are identified on an on-going basis to redesign the control activities, making them more effective and efficient in mitigating against identified risks.

Risk assessments and control assessments, including the Annual Statement of Compliance (systems and controls assertion) is performed by the business. The risk assessment and systems and controls review evaluates current risks and existing controls and determines whether additional controls are required. Risk and Control Self-Assessments (RCSAs) are undertaken quarterly and help monitor any change to the risk profile of the business.

First line risk and compliance support to the business is provided by the PIA Risk and Compliance functions.

Risk & Compliance (2nd Line of Defence)

The Company's second line of defence comprises the Chief Risk Officer (CRO), the Risk function, the Head of Compliance, MLRO and Data Protection Officer and the Compliance function, the Risk & Compliance Management Committee and the PIA Risk Committee. The Risk and Compliance functions incorporate the PIA Risk Management function based in Dublin and Poland, the PIA Compliance function based in Dublin and

Poland. The second line of defence has oversight over all the activities of the business, support and control units, including outsourced activities.

Internal audit arrangements (3rd Line of Defence)

PIA's third line of defence is Internal Audit, as provided by M&G Group Internal Audit, and provides independent assurance on the design, effectiveness and implementation of the overall system of internal control, including risk management and compliance. The third line of defence provides independent assurance of the first and second lines of defence to the Audit Committee and the Board.

The annual internal audit plan is approved and monitored by PIA's Audit Committee. Internal Audit reports are presented on a quarterly basis to PIA's Audit Committee.

B.2 Fit and proper requirements

The Company operates in line with the Central Bank's Fitness and Probity regime as laid out in the Fitness and Probity Standards (Code issued under Section 50 of the Central Bank Reform Act 2010) of the Central Bank of Ireland, ("F&P Standards"). F&P Standards apply to all employees and officers of PIA holding either a Controlled Function ("CF") or Pre-Approval Controlled Function ("PCF") role, as defined by the F&P Standards. PIA is committed to ensuring that all members of its Boards, the key function holders, and other senior individuals within PIA behave with integrity, honesty and skill.

B.2.1 Fit and Proper requirement

Each employee or officer of PIA in scope of the F&P Standards must demonstrate their fitness and probity to perform the CF or PCF role.

Fitness relates to the qualifications, experience, knowledge and other relevant factors that will make an individual fit for the performance of a CF or PCF role within PIA. In order to assess an individual's fitness to perform a CF or PCF role, PIA must assess an individual's competency and capability in the context of these factors.

Probity is a matter of character illuminated by an individual's past behaviour. In order for assess an individual's probity to perform a CF or PCF role, PIA must assess an individual's honesty, diligence, independence of mind, ethics and integrity, as well as their ability to act without conflict of interest and being financially sound.

B.2.2 Fit and Proper process

B.2.2.1 Procedures for New Control Function (CF) Appointments

The PIA process conducted by PIA Compliance includes executing appropriate due diligence in the context of the CF or PCF role, including evidence of:

- Compliance with the Minimum Competency Code (MCC), where relevant, including Continuous Professional Development (CPD) requirements;
- Professional qualification(s);
- CPD records;
- Record of interview and application (if applicable);
- References;

- Record of previous experience; and
- Concurrent responsibilities.

The Company has processes for assessing the fitness and probity of individuals in scope of the F&P Standards, including a number of direct questions and independent checks. These processes are summarised below:

- During the recruitment process and before any regulatory application is made, an assessment of the individual's fitness is conducted including:
  - The individual's professional and formal qualifications;
  - Relevant experience within the insurance sector, other financial sectors or other businesses; and
  - Where relevant, the insurance, financial, accounting, actuarial and management skills of the individual.
- During the recruitment process and before any regulatory application is made, an assessment of the individual's probity is conducted including integrity, honesty, and financial soundness, based on evidence regarding their character, personal behaviour and business conduct, including any financial and supervisory checks.

Independent verification checks which are also conducted include:

- The Individual is not a disqualified or restricted Director using the registers;
- No disciplinary action has been taken by any regulatory body;
- The Individual does not appear on an economic sanctions list or a watch list; and
- No judgments have been issued against the individual and that the individual has not been declared bankrupt.

There are also annual reviews to assess the on-going Fitness and Probity and any compliance infringements of the in-scope individuals, which includes annual attestations by the in-scope individuals to PIA, certifying that they are aware of the Fitness and Probity Standards, confirming there is no change in circumstances that would result in non-compliance with the Standards and agreeing to continue to abide by those Standards.

Annually, a return is submitted by PIA in respect of its PCFs and their on-going compliance with the F&P Standards.

B.2.2.2 Procedures for New Pre-Approval Controlled Function (PCF) Appointments

Central Bank Approval process for PCFs

Before a regulated financial service provider can appoint a person to a PCF, the Central Bank must have approved the appointment in writing. The Central Bank expects a regulated financial service provider to have conducted its own due diligence before proposing a person for appointment to a PCF.

The approval process requires the submission of an individual questionnaire ("IQ") to the Central Bank. The Central Bank expects that the approval process will be based on the IQ, reference checks, and in some cases requests for further information. Where the Central Bank considers it necessary, it may conduct an interview with proposed holders of PCFs before deciding on whether or not to approve an application.

Where a person wishes to apply for several PCFs they must submit an application for each PCF. Due diligence for the vacant role must still be conducted even if the individual is already a CF or PCF holder for another function within PIA. An assessment made for one CF or PCF role, cannot be relied on for the purposes of

concluding an individual is competent to perform another CF or PCF role in the context of the F&P Standards and PIA's F&P Policy.

In addition, the PIA process for PCFs also includes those tasks as outlined under B2.2.1 'Procedures for New Control Function (CF) Appointments'.

PIA has a succession plan in place which covers key PCF roles. The plan is approved annually by the PIA Nomination and Remuneration Committee.

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

B.3.1 Risk management strategy

PIA's risk strategy seeks to:

- Maintain sufficient solvency and liquidity levels to meet regulatory requirements with a high degree of confidence.
- Deliver sufficient stability of earnings in a sustainable fashion.
- Protect the PIA and M&G brand and reputation.

PIA recognises that the managed acceptance of risk lies at the heart of the business. PIA's control procedures and systems are therefore designed to manage risk, rather than eliminate the risks. However, at certain times, there may be other risks for which PIA has no tolerance and which are actively avoided. Where risks are formally accepted by the business, these will be reviewed periodically to ensure this remains appropriate.

The PIA Risk Management Framework (RMF) provides an overview of the risk management system at PIA and forms part of the overall system of governance. The framework describes the approach, arrangements and standards for risk management that support compliance with statutory and regulatory requirements. It outlines the principles for the taking and management of risk, and meets and supports requirements including:

- Solvency II and EIOPA requirements and guidelines;
- Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings; and
- M&G plc and PAC Group Governance Framework, Standards and Policies.

This is achieved through:

- describing the approach to risk management and the principles for taking and managing risk;
- outlining the governance structure and apportionment of accountability by which PIA operates;
- providing a common risk language through the risk taxonomy which ensures consistency and common understanding of enterprise wide risks;
- providing a reference point when considering risks, by defining PIA's risk management principles, risk appetite, risk categorisation, risk policies, risk culture and risk management cycle;
- outlining key processes for risk management and internal control that support compliance with relevant customer, statutory, regulatory and shareholder requirements; and
- promoting a responsible risk culture across the whole business, supported by the recruitment and training of individuals to ensure the capabilities and behaviours needed to develop and control the business are in place.

Together with PIA's suite of risk policies and standards, the RMF provides a disciplined and structured process for identifying, assessing, controlling and monitoring of risks. The risks to which PIA is exposed as a result of

its business strategy are understood and managed through the existing RMF, which is approved annually by the PIA Board.

The risk management principles defining the risk and control governance within PIA are as follows:

1. **Organisational structure** – PIA maintains an appropriate and transparent organisational structure with clear allocation of responsibilities and delegated authorities.
2. **Three Lines of Defence Model** – PIA's approach to risk management is consistent with the 'three lines of defence' model, ensuring appropriate segregation of duties, oversight and challenge occurs on decision making.
3. **Risk Appetite Statement and Limits** – The Board maintains and approves risk appetite statements and limits that inform decision making, reflect the business model and are compatible with our Group-wide risk limits, with materiality taken into consideration.
4. **Risk Management Cycle** – PIA operates an effective risk management cycle to identify, measure, manage, respond, monitor and report on risks on an on-going basis.
5. **Policies and Procedures** – PIA maintains policies and procedures to facilitate implementation and monitoring of implementation of the requirements in the RMF and meet internal, legal and regulatory requirements for risk management across the business.
6. **Risk Culture** – PIA has an effective risk culture, promotes appropriate conduct and deploys adequate and appropriate training, skills and resources in respect of risk management.

The PIA RMF applies to PIA and all its branches including the UK Branch and PIA Poland.

The Three Lines of Defence Model and how it interacts with the Risk Management Framework is described in section B.1.6. The PIA Risk and Compliance Functions form part of the second line of defence.

The Risk Management function, which is under the direct responsibility of the CRO, is charged with oversight, review and supervision of the identification, measurement, management, reporting and monitoring of risk to which PIA is exposed, including ensuring appropriate risk management processes exist so that all key risks are identified, assessed and appropriately managed by the PIA SMT.

The Risk and Compliance functions are established at senior management level, have adequate authority and responsibility to fulfil their functions, have a direct reporting line to the Risk Committee and are independent of the first line business.

Risk control and oversight:

- The Risk Management function assists the Board to formulate and then implement the risk appetite statement, risk management framework, risk mitigation plans, risk policies, risk reporting and risk identification processes.
- The Risk Management function reviews and assesses the risk-taking activities of the first line of defence, where appropriate.

The Risk Management function and the Compliance function both conduct risk and compliance assurance reviews in accordance with the approved annual risk and compliance assurance plan. This assurance plan is considered on an annual basis by the PIA Risk Committee and the PIA Audit Committee, as relevant, with updates provided on progress throughout the year.

B.3.2 Risk policies and standards

Risk policies set out the principles by which we conduct our business in the area covered by the policy, usually by the setting of specific requirements. Policy requirements are typically brief and principles based and seek to address fundamental concepts rather than operational procedures. This allows business users to determine how best to comply with requirements based on their expertise.

There are core risk policies for each of the key risk categories, with supporting policies to help define the internal control framework. PIA Risk Policies are supported by business standards to support the practical implementation of the policy requirements. PIA Risk Policies are reviewed and approved by the PIA Board annually.

PIA adopts and complies with Group-wide Operating Standards where relevant, which provide supporting detail to the higher level risk policies and provide more guidance on minimum standards for certain key practices and procedures. In many cases, they define the minimum requirements for compliance with Solvency II regulations which in some areas are highly prescriptive.

In addition to the normal management information produced and reviewed by line management and the functional business areas, monitoring of PIA's risk position against risk appetite is performed by the Risk Management function, with reporting to the Risk Committee quarterly. This monitoring is based on relevant management and risk information provided by the business functional areas.

Risk appetite and limits

PIA sets its risk appetite in order to assist the business in implementing the strategy and achieving business plan objectives, whilst operating within the realms of the tolerances and limits defined by Board and the risk strategy. Risk Appetite is the amount and type of risk an organisation is willing to accept in pursuit of its business objectives, having given due considerations to protect the interests of its policyholders, shareholders and employees. It is maintained by the PIA Risk function and subject to annual review by the PIA Board and updated in line with PIA's evolving risk profile as well as emerging experience and requirements. The high level components of the risk appetite statement for PIA are indicated below.

Figure 5: PIA Risk Appetite Overview:

Solvency & Liquidity	Earnings	Reputation
• **Risk strategy:** Maintain sufficient solvency and liquidity levels to meet regulatory requirements with a high degree of confidence. • **Risk Types:** ▫ Insurance ▫ Market ▫ Credit ▫ Operational	• **Risk strategy:** Seek to deliver sufficient stability of earnings in a sustainable fashion. • **Risk Types:** ▫ Earnings ▫ Strategic ▫ Group	• **Risk strategy:** Protect the Pru brand and reputation. • **Risk Types:** ▫ Compliance ▫ Internal Control ▫ Customer & Conduct ▫ People
▫ ESG Risk (Environmental, Social and Governance)		

Risk Culture

Risk culture is a subset of the broader organizational culture at PIA and is reflected in the values and behaviours the Company displays when managing risk.

A responsible risk culture across the Company is promoted in four main ways:

- by the leadership and behaviours demonstrated by management;
- by building skills and capabilities to support risk management;
- by including risk management objectives, through balance of risk with profitability and growth, in the performance evaluation of individuals and remuneration considerations; and
- by emphasising the importance of risk management in business decisions.

B.3.3 Risk management processes

Risk identification

PIA operates a risk management cycle which involves a process for evaluating risks (assessing), responding to risks (managing) and monitoring the impact of risks through reporting. The risk identification exercise is performed as an annual review with a semi-annual update to the top risks and emerging risks; however, as business initiatives or actions can occur over the year, it is continuously reviewed.

The three key steps to identifying risks are:

- a top-down risk review;
- a bottom-up risk process; and
- identify any emerging risks to the business.

These risks are assessed over the short to medium-term horizon consistent with the Own Risk and Solvency Assessment (ORSA) processes. The risk identification process is designed to identify and assess risk from a different perspective to form an overall understanding of the business' risk profile and its evolution.

Risk control and mitigation

Risk control is the process of selecting and implementing measures to modify the inherent risk once evaluated to an acceptable residual level. These include improving or adding to the internal controls in place, transferring the risk through risk transfer activities (e.g. reinsurance), avoiding risks which contravene company policy or the risk strategy (e.g. political risk), and accepting risks where the cost to control exceeds the potential impact of the risk and therefore is within risk appetite.

B.3.4 Risk monitoring

Own risk and Solvency Assessment

The Own Risk & Solvency Assessment (ORSA) is a continuous process of identifying, assessing, controlling and monitoring of the risks inherent within the business, including the corresponding solvency needs, assessed against PIA's Risk Appetite Statement. An ORSA report is produced at least annually. It pulls together the analysis performed by a number of risk and capital management processes and provides quantitative and qualitative assessments of PIA's risk profile, risk management and solvency needs on a forward-looking basis. The scope of the ORSA covers the full known risk universe of PIA including both modelled and non-modelled risks. The ORSA annual report documents the key risks for PIA, stress and scenario test results as well as the

risks arising from the current strategy. The ORSA projections cover a four year period to examine the business horizons and requirements for capital in the future.

The PIA ORSA Policy and annual report are produced by the PIA CRO, and the Head of Actuarial Function provides the Board with an opinion on it. The PIA Board plays a central role in steering, reviewing and challenging the ORSA process and results and ultimately approve the final ORSA for submission to the CBI.

B.4 Internal control system

PIA is required to maintain and demonstrate effective risk management and a system of internal control to comply with the Irish Corporate Governance Code and the Solvency II Directive and the M&G Plc listing requirements. A robust system of internal controls facilitates (i) the effectiveness and efficiency of operations, (ii) the accuracy and reliability of internal and external reporting, (iii) helps protect our customers and (iv) assists compliance with rules and regulations.

PIA adheres to policies approved at the Board level and to the six principles of internal control as detailed below:

- Management Delegated Authority – PIA is managed in accordance with the authority delegated by the PIA Board, with due consideration of the position of the M&G plc Group;
- Lines of responsibility – Each Business Unit has clearly defined lines of responsibility and delegated authority;
- Appropriate recording – Transactions are appropriately recorded to permit the preparation of reliable financial statements;
- Financial reporting control procedures and systems – The internal control system over financial reporting includes control procedures and systems which are regularly reviewed;
- Financial crime (fraud and money laundering) – Financial crime is detected and prevented where possible; and
- Risk Management – The risks to which PIA and the Group are exposed to are identified and managed.

PIA attests annually to the application of the policies that collectively represent the PIA Governance Framework, including the Internal Control Policy.

B.4.1 Compliance function

The PIA Compliance function is part of the “second line of defence” within the three lines of defence model applied by PIA, and is responsible for identifying, assessing, monitoring and reporting on PIA’s compliance risk. PIA Compliance promotes ethical conduct and compliance with rules, regulations and standard processes that govern how PIA must conduct its business.

PIA Compliance is under the responsibility of the Head of Compliance and Money Laundering Reporting Officer (HoC) who is a member of the PIA Senior Management Team and reports directly to the PIA Managing Director.

The key roles and responsibilities of PIA Compliance are summarised below.

- **Promote a compliance culture**
  A culture of Compliance is an integral part of PIA’s ethics and it is the role of PIA Compliance to promote behaviours that deliver a compliance culture within PIA. Examples of how this is executed include provision of training, Compliance policies and guidance.

- **Compliance risk assessment**
  PIA Compliance conducts a risk assessment to facilitate appropriate monitoring of PIA's compliance risks. PIA Compliance applies a risk-based Compliance Monitoring Programme (CMP) on the basis of its compliance risk assessment to determine its priorities and the focus of its monitoring, advisory and assistance activities. The PIA Board and Audit Committee approves the annual CMP and receives related reports and progress updates against the CMP, typically on a quarterly basis.
- **Monitoring**
  The Compliance function is authorised by PIA's Board to review all areas of PIA as necessary and to have full and unrestricted access to activities, documentation, employees and assets to assist in their work as well as the authority to investigate potential compliance breaches.

  PIA Compliance monitoring activities aim to evaluate whether PIA's business is conducted in compliance with the relevant rules, regulations and standard processes that govern how PIA must conduct its business.

  Monitoring activities performed by PIA Compliance take into account:
  a) the business area's obligation to comply with regulatory requirements;
  b) the first level of controls in PIA's business areas (i.e. controls by the operative units, as opposed to second level controls performed by compliance); and
  c) reviews by the risk management function, internal audit function or other control functions.

  The risk-based approach to compliance monitoring forms the basis for determining the appropriate tools and methodologies used by PIA Compliance in executing its CMP and the frequency of the monitoring activities performed.
- **Reporting**
  The PIA HoC has a direct reporting line into the PIA Board and Risk Committee. PIA Compliance are responsible for providing written reports to PIA's Board and Risk Committee, detailing compliance and financial crime matters that must be brought to their attention covering the breadth of PIA's business activities.

  PIA Compliance is also responsible for managing PIA's relationships with its regulators and providing them with timely and accurate notifications and reports on PIA's behalf, and as circumstances require. Similarly, communications received by PIA from its regulators are distributed internally by PIA Compliance to the relevant stakeholders, with management of any required follow up.
- **Advisory**
  PIA fulfils its advisory responsibilities by, amongst other activities, providing support for staff training, providing day-to-day assistance to staff and participating in the establishment of policies and procedures within PIA. In addition, it is PIA Compliance's responsibility to not only be up to date with all regulatory issues relevant to PIA, but to identify potential threats of non-compliance and take measures and make recommendations to alleviate them.

The Compliance function monitors PIA's internal control system and its compliance with the Group Governance Framework annually, which is reported to the Risk Committee and Board by the PIA CRO.

The Compliance function manages PIA's Compliance policies, which captures local regulatory requirements as well as those arising from Group in respect of all business conducted by PIA. The requirements arising from these Compliance policies are mandatory for all PIA employees and officers, where applicable.

PIA Compliance function is independent of other functions within PIA and this is reinforced by the HoC having a direct reporting line into the PIA Board and Risk Committee.

B.5 Internal Audit function

How the undertaking's internal audit function is implemented:

As a subsidiary of PAC, PIA source its internal audit activities through the M&G plc Internal Audit function. The Internal Audit function operates as a "third line of defence" within the three lines of defence model, providing independent assurance to the PIA Senior Management Team and Board Audit and Risk Committees on the adequacy of the design and effectiveness of the organisation's systems of internal control, including risk management, governance and operational processes, thereby helping them protect the assets, reputation and future sustainability of the organisation.

Audit work in respect of the PIA business is reported to the PIA Audit Committee ("PIAAC"), with the Head of Audit (PCF13) for PIA reporting directly to the M&G plc Group Head of Audit ("GHA"), and the PIAAC Chair, with an administrative reporting line to the PIA Managing Director for PIA related matters.

Internal Audit is not restricted in scope in any way and is empowered by the PIAAC to audit all parts of PIA, with full access to any of the organisation's records, physical properties and personnel. In executing its responsibilities Internal Audit adheres to:

- the Institute of Internal Auditors requirements as set out in the Institute of Internal Audit's 'Code of Ethics' and 'International Standards for the Professional Practice of Internal Auditing';
- the Chartered Institute of Internal Auditor's Financial Services Code of Practice: 'Guidance on effective internal audit in the Financial Services Sector' ('FS Code - 2021');
- the International Association of Insurance Supervisors ('IAIS') Core Principles and the European Confederation of Institutes of Internal Audit ('ECIIA'), effective in 2019, prescribing the principal requirements for Internal Audit functions in Insurance Companies under the Solvency II framework;
- the requirements for Internal Audit functions set out in the Solvency II Directive 2009/138/EC (Level 1 text) Article 47 and Delegated Regulation (EU) 2015/35 (Level 2 text) Article 271; and
- the requirements of the Central Bank's Fitness and Probity Standards and the Group's Fit and Proper Policy.

How the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews

By way of the structure explained above, Internal Audit maintains its independence and objectivity in the discharge of its responsibilities and has appropriate reporting lines in place to support this goal.

- The Head of Audit for PIA reports to the M&G plc GHA as functional head, reports all audit related matters to the PIAAC (with direct access to the Chair of the PIAAC) and communicates directly with the PIAAC through attendance at its meetings. The M&G plc GHA will consider the independence, objectivity and tenure of the Head of Audit for PIA when setting objectives and performing their appraisals;

- The Head of Audit for PIA is empowered to attend and observe all or part of the PIA Board meetings and any other key management decision making committees and activities as appropriate;
- The Head of Audit for PIA submits an annual audit plan of coverage to the PIAAC for review and approval; this forms part of the M&G plc audit plan approved by the M&G plc Board Audit Committee ("BAC"). The audit plan is based on prioritisation of Internal Audit's identified 'audit universe' using an 'audit needs' risk-based methodology, incorporating input from business stakeholders and consideration of external factors such as emerging industry themes. The plan is continuously reviewed and updated as required to reflect evolving assurance requirements and business priorities. Amendments to the plan are approved by the PIAAC;
- The assessment of the adequacy and effectiveness of the Risk, Compliance and Finance functions is within the scope of Internal Audit. As such, Internal Audit is independent of these functions and is neither responsible for, nor part of, them. In addition, Internal Audit have no direct operational responsibility or authority over any business activity or personnel outside of the function;
- The Internal Audit Chief Operations Officer ("COO"), who is independent of the audit delivery team reporting directly to the M&G plc GHA, monitors and evaluates the function's adherence with all relevant Internal Audit standards of practice and audit methodology. The results of these assessments are presented quarterly to the M&G plc BAC and PIAAC. An independent external assessment of the Internal Audit function is performed every 5 years in line with Internal Audit standards with the outcome presented to the PIAAC; and
- Internal Audit personnel are expected to exhibit the highest level of professional objectivity in carrying out their duties, make a balanced assessment of all relevant circumstances, remain impartial and seek to avoid any professional or personal conflict of interest. Potential conflicts are recorded in the Internal Audit conflict of interest register and monitored by the Internal Audit COO, including a quarterly review of reported conflicts to assess appropriate management oversight.

B.6 Actuarial function

Within PIA, the Actuarial Function is defined as the Head of Actuarial Function (HoAF) and individuals within the actuarial team who are responsible for carrying out the tasks of the Actuarial Function. The role of the HoAF is a Central Bank PCF role and has responsibility for all of the activities of the Actuarial Function.

Valuation of Technical Provisions

The Actuarial Function proposes the valuation methodology and assumptions and calculates the technical provisions. The HoAF reviews the valuation methodology and assumptions, the models and data used in the calculation of the technical provisions and advises the PIA Board accordingly. The reports to the Board constitute component reports of the overall Actuarial Function Report.

Underwriting policy

The HoAF reviews and advises on all aspects of the underwriting policy on an ongoing basis. In addition, the HoAF provides an annual report to the Board expressing an opinion on the underwriting policy, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Reinsurance arrangements

The HoAF reviews and advises on all aspects of the reinsurance arrangements on an ongoing basis. In addition, the HoAF provides an annual report to the Board expressing an opinion on the adequacy of the

reinsurance arrangements, identifying any deficiencies and providing recommendations. This constitutes a component report of the overall Actuarial Function Report.

Capital requirements
Within PIA the Actuarial Function is responsible for calculation of its Solvency Capital Requirements. . The HoAF works closely with the CRO and the Board to agree the ORSA scenarios and produce the projections and associated commentary for the ORSA. The HoAF provides an opinion to the Board in respect of the ORSA process.

Actuarial Function Report
The Actuarial Function provides a written report at least annually to the Board to document the tasks that have been undertaken by the Actuarial Function and their results, to identify any deficiencies and provide recommendations as to how such deficiencies should be remedied. This report summarises the tasks described above and highlights the key areas of focus following the Actuarial Function's activities each year.

B.7 Outsourcing

PIA uses outsourcing and third party solution providers to allow focus on its core business strengths, reduce costs and manage its delivery risks. PIA recognises that the use of outsourcing and third party solution providers can impact its risk profile, for example, the service may fail, resulting in significant business interruptions, liability for losses and costs, reputational damage and regulatory breaches. The Company retains ultimate responsibility for any activity that is supplied or outsourced.

PIA has material external and intra-group outsource providers. The external providers supply customer servicing, policy administration, new business processing, claims activity and related IT support services located in Ireland and the UK. The intra-group outsource providers delivers various support services including sales and marketing services, infrastructure services and associated security / operational monitoring services and portfolio management services located in the UK.

PIA has an Outsourcing and Third Party Supplier Risk Policy in place which forms part of the overall Risk Management Framework and is aligned with the three lines of defence governance model. The policy sets out the requirements for the management of all outsourcing and third party supply arrangements across the Company and is aligned to relevant policies, which address specific outsourcing topics, e.g. data security, information risk, and operational resilience. The policy is compliant with regulatory requirements for outsourcing, covering the full lifecycle of managing outsourcers and third parties, from procurement to management and oversight, relationship management and contract termination. The PIA Outsourcing and Third Party Supplier Risk Policy provides definitions of types of outsourcer (e.g. external, intra-group) and criticality of arrangements, along with minimum requirements to manage them. Attestation of compliance with the PIA Outsourcing and Third Party Supplier Risk Policy is completed on an annual basis by the Chief Commercial & Operations Officer and is overseen by the Risk Function.

As part of the continuous evolution of the PIA Risk Management Framework and in accordance with the requirements of the PIA Outsourcing and Third Party Supplier Risk Policy, PIA has developed Supplier & Outsourcing Risk Standards setting out the requirements pertaining to ongoing due-diligence, management, monitoring and testing of risks and controls of third-party arrangements relative to the nature and severity of third-party inherent risks. The PIA Supplier & Outsourcing Risk Standards embed the established risk

management principles into PIA's Risk Management Framework and the defined stages of the supplier lifecycle to devolve responsibility for each aspect of supplier risk management appropriately at each phase of the supplier lifecycle across the organisation.

From a governance standpoint, PIA has in place a robust framework that supports the effective oversight and governance of outsourcing service providers. In this regard, the PIA Operations function receives weekly updates on performance metrics which are tightly monitored against service level agreements (SLAs) and attend numerous committees where IT, Compliance and Internal Controls including Internal Audit activities are discussed. At a PIA level, the governance of outsourcing is executed via the Supplier & Outsourcing Oversight Committee (SOOC) that meets at least on a quarterly basis to undertake a comprehensive review of outsourcing service providers' performance and compliance with SLAs. Emerging risk matters are also discussed as they arise, and risk mitigation actions are proposed and discussed where required.

B.8 Any other information

The risk management framework and internal control system are critical components of the ORSA, and it is important that the system is working effectively to allow the Company to identify, understand and manage risks which could impact the capital and liquidity position.

The overall system of governance is an adequate structure to support the Company's business and is appropriately reported to the PIA Board.

The nature of the risks arising from writing business through the UK branch and Poland branch is the same as for the overall business.

Under the Solvency II regime, companies are required to manage their solvency position in line with the Solvency II regulations. Companies are also required to form their own internal assessment of the capital needed to ensure that they can meet liabilities as they fall due, allowing for the risks that they retain. PIA calculates it's regulatory Solvency Capital Requirement (SCR) on the basis of the Standard Formula.

The charts below show the SCR by risk category as at 31 December 2021 for PIA. Detailed information on the SCR allocation is set out in Section E.2.

Figure 6: SCR as at 31 December 2021 and 31 December 2020 under Standard Formula

Risk Category	2021 £m	2020 £m
Market Risk SCR	**133.3**	**114**
Default SCR	**20.8**	**20**
Life Underwriting Risk SCR	**162.2**	**143**
Diversification	(74.7)	(66)
Basic Solvency Capital Requirement	**241.6**	**211**
Operational Risk SCR	**16.1**	**16**
Loss absorbing capacity of deferred tax	(20.9)	(22)
Solvency Capital Requirement	**236.8**	**205**

The key risk exposures are discussed in the following sections:

- Underwriting risk, often described as insurance risk, which includes persistency, mortality, morbidity, longevity and expense risk (refer to Section C.1);
- Market risk, which includes equity, interest rate and currency risks (refer to Section C.2);
- Credit and counterparty risk (refer to Section C.3);
- Liquidity risk (refer to Section C.4);
- Operational risk (refer to Section C.5); and
- Other material risks (refer to Section C.6).

Section C.7 outlines risk sensitivities, PIA's compliance with the prudent person principle, future management actions and other financial mitigation techniques.

The Board sets the Company's risk appetite in order to assist the business in implementing the strategy and achieving business plan objectives, whilst operating within the tolerances and limits defined by Board and the risk strategy. PIA's Risk Appetite Statement (RAS) is subject to an annual review by the Board with ad-hoc reviews required upon a strategy change, and updated in line with PIA's evolving risk profile as well as emerging experience and requirements. The high-level components of the RAS for PIA are solvency, liquidity, earnings and reputational risk, including operational risk and environmental, social and governance (ESG) risk.

The PIA RAS was comprehensively reviewed and refreshed in Q2 2021, with a further RAS addendum in Q3 2021 to incorporate ESG Risk and continuous improvements across the organisation in relation to risk culture. The PIA RAS applies to PIA and all its branches including the UK Branch and the Poland Branch. Consideration

of PIA Poland specific appetites and key risk indicators formed part of the review. PIA Poland is fully integrated into the PIA Risk Management Framework and has formally adopted the 2021 PIA RAS.

C.1 Underwriting Risk

C.1.1 Context

PIA is exposed to underwriting risk (or insurance risk) as a result of its insurance business operations. Underwriting risk is currently PIA's largest risk exposure in terms of capital required. PIA defines this risk as: "the risk of loss or of adverse change in the financial situation of the business, or that of our policyholders, resulting from changes in the level, trend, or volatility of a number of insurance risk drivers. These include mortality, morbidity, persistency and expense experience."

Lapse risk, also known as persistency risk, is the risk that actual lapse rates differ from their expected level as allowed for when calculating the best estimate liabilities. Adverse lapse experience, including mass lapse, gives rise to a loss of future fee income for the Company from policy or fund management charges.

Expense risk is one of PIA's more significant risks and arises when actual expenses adversely differ to the assumed level of the expenses within pricing and valuation. As PIA sells mostly unit-linked products, one of its key challenges is to ensure that the cost of administering the business does not increase to such an extent that it affects the profitability and solvency of the Company. Expense risk also covers the risk of expenses increasing with inflation.

The other insurance risks faced by PIA are mortality and morbidity. PIA does not have a large exposure to these risks due to the use of reinsurance.

C.1.2 Risk strategy and objectives

PIA has appetite for accepting and underwriting insurance risks in areas where it believes it has strong expertise and operational controls. PIA has appetite for retaining these risks where it judges it to be more value-creating to do so than transferring the risk. The magnitude of exposures that PIA holds with regard to insurance risks is limited to the extent that they remain part of a balanced portfolio of sources of income for the shareholders and are compatible with a robust solvency position.

PIA aims to minimise lapse risk by setting an appropriate basis for pricing and reserving, and putting strong controls in place covering policyholder servicing, experience and behaviour monitoring, stress testing and validation of its lapse assumptions.

PIA aims to minimise expense risk by setting an appropriate basis for pricing and reserving, and putting strong controls in place covering product design, pricing and experience monitoring, stress testing and validation of its expense assumptions. The expense strategy is to set budgets which are consistent with the Company's target levels of solvency and profitability, while ensuring that the company has sufficient resources to run its business and achieve its business objectives. Expense budgets are approved by the PIA Board as part of the Company's Business Plan. Expenses are managed to ensure that actual expenses incurred are in line with approved budgets.

PIA accepts limited morbidity and mortality risks by setting an appropriate basis for pricing and reserving based upon strong expertise in these risks (including reinsurer's expertise), and by putting strong controls in place covering claims management, experience monitoring, stress testing, and validation of assumptions.

C.1.3 Risk management

PIA measures and assesses its exposure to insurance risks using metrics agreed by the Board which are compatible with the Company's risk appetite, for example actual lapse rates compared to plan assumptions. The Company considers various items to determine its insurance risk mitigation and management strategy; these include correlation with other risks, cost effectiveness, and credit standing of relevant counterparties (if applicable).

PIA sets assumptions for insurance risk based on its own experience and its understanding of each risk. The Company regularly performs experience studies which are reported to the Board, where actual experience is analysed and compared with expected experience. Appropriate actions are taken in the event of deviations in experience from pricing or reserving assumptions.

PIA monitors lapse experience on an ongoing basis and, when necessary, makes changes to product design and/or undertakes policy retention initiatives. Lapse experience studies are conducted regularly and are split by homogeneous risk groups for analysis.

PIA monitors its expenses on an ongoing basis and takes appropriate and timely action where incurred expenses are higher than the approved budget. Expense assumptions are set based on historical and projected future expenses.

PIA also monitors its expense inflation risk and its policy count. Expense inflation is set relative to expected Eurozone inflation.

Additionally, as part of its business planning (which includes the ORSA), the Company stress tests items such as the expected level of expenses to ensure that it has sufficient capital to meet costs, even under stressed scenarios.

Reinsurance is used to manage insurance risks when it is desirable or cost effective to reduce exposure to a particular risk. PIA has a reinsurance limit framework to limit the exposure to a single external reinsurer.

C.2 Market Risk

C.2.1 Context

Market risk is defined as the risk of loss or adverse change in the financial situation of PIA's business or that of PIA's policyholders resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities. Market risk drivers include equity, property, interest rates, inflation and currency.

Market risk manifests in a number of different ways, dependent on the nature of the business and whether risk is being managed on behalf of PIA policyholders or for PIA itself. Market risk arises in the following ways within PIA:

- **Market risk managed on behalf of shareholders:** PIA may be exposed to market risk through assets held; the application of seed capital in setting up funds; sharing in profits to with-profit business; receipt of charges on unit-linked contracts and fee income on third party customer and client funds; and the impact of interest rates on liability calculations.
- **Market risk managed on behalf of insurance business policyholders:** PIA may actively expose its policyholders to market risk through the investment of policyholder premiums in risky assets where it is justified by securing a suitable return to policyholders in line with product specifications. The policyholders' exposure to market risk is managed in line with policyholder documents, such as the Principles and Practices of Financial Management (PPFM) or Unit Linked Principles and Practices (ULPP), and in line with the reasonable expectation of policyholders and providing good customer outcomes. PIA is exposed to second order risk on reputation and loss of sales from new business when doing so.

The key market risk faced by PIA is equity risk, which relates to adverse movements in the management fees earned on its business. PIA reinsures the direct market and credit risk arising from its with-profit business to its parent. Property risk arises in a similar way but is much less significant for PIA than equity risk given the smaller holdings in property.

Currency risk is the risk of loss resulting from changes in exchange rates. PIA's currency exposure arises through the impact of exchange rate movements on the policyholder funds affecting fee income, due to a currency mismatch between mainly euro denominated expenses and mainly sterling denominated charges taken as a percentage of funds and currency translation risks with regard to its Polish Branch. Currency translation risk arises because PIA's financial reporting currency is sterling and hence a shift in exchange rates (sterling: zloty) could have a negative impact on our solvency position, all else being equal.

Interest rate risk relates to the risk that changes in market interest rates will adversely impact asset values and values of future cashflows.

C.2.2. Risk strategy and objectives

PIA's appetite for market risk is to retain market risk only to the extent that it remains part of a balanced portfolio of sources of income for shareholders and is compatible with a robust solvency position. Where PIA manages market risk on behalf of its policyholders, it will take on and manage this in line with relevant specified policyholder literature and Investment Management Agreements.

PIA accepts the equity exposure that arises through management fees subject to maintaining a strong solvency position.

PIA accepts the currency risk that arises from invested overseas assets through the impacts on valuations and from the translation risks with regard to its branches. PIA seeks to minimise the currency risk that arises from the mismatch between euro denominated expenses and mainly sterling denominated charges through hedging and natural offsets.

PIA seeks to minimise Interest rate risk by tightly matching assets and liability where liquid assets or derivatives exist that can cover these exposures. PIA will only accept a limited amount of risk from writing liability products where liquid assets, derivatives, or other offsets in the business are unable to cover interest rate exposures.

C.2.3 Risk management

Market risk policies, risk appetite statements, risk limits and triggers, processes and controls are in place to support effective market risk management, and PIA closely monitors and manages its exposures to key market risks. These Board approved market risk indicators are reported regularly within PIA to the Risk & Compliance Management Committee and Risk Committee. Appropriate actions are taken if market risk exposure sits outside PIA's risk appetite. PIA also performs market risk stress tests as part of its annual ORSA to ensure future solvency needs are met even in extreme market crash situation.

PIA accepts the risk of reduced management fee income on policyholder assets as a result of adverse movements in policyholder funds under management subject to maintaining a strong solvency position. PIA's view is that it is more value-creating to retain this risk than to mitigate the risk through financial techniques such as hedging.

PIA does not intend to take any undue market risk in the investment of its shareholder assets. Shareholder assets are held in short dated cash, near cash instruments or government bonds. Shareholder assets are invested with a view to minimising the volatility of the overall solvency position. Where a manager is appointed to run any cash portfolios, the PIA Investment Management Committee (IMC) will ensure there is a clear mandate for the handling of such monies, which ensures that cash is placed with good quality counterparties and that there is a suitable spread of such counterparties. The IMC will investigate any deviations from the approved mandate.

Whilst PIA accept that currency risk arises as part of its usual business activities, PIA does not actively seek exposure to currency risk; where management deem necessary PIA will consider mitigation actions for its various currency risk exposures.

Linked liabilities are suitably matched for PIA's existing business and hence PIA's exposure to market risk on this business is second order; market movements in these funds will indirectly impact PIA's fee income.

C.3 Credit risk

C.3.1 Context

PIA defines credit risk as the risk of loss or adverse change in the financial situation of the business, or that of our policyholders, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (for example downgrade or spread widening).

Credit risk in PIA is further split into the following two categories:

- **Investment credit risk** – The risk of loss resulting from investing in credit risky assets (such as corporate bonds) on behalf of shareholders and policyholders.
- **Counterparty risk** – The risk of loss resulting from undertaking investment, reinsurance or derivative activity used to meet mandate requirements or to mitigate risk exposure on behalf of shareholders and policyholders.

PIA has exposure to investment credit risk within shareholder asset's investment accounts. For policyholder asset investment accounts in respect of PIA's internal unit linked and Open Architecture funds, the investment credit risk is borne by the policyholder. PIA is indirectly exposed to investment credit risk arising from policyholder assets as the value of future fee income received by PIA is dependent on the investment performance of these funds.

PIA has counterparty risk exposure on deposits and due to the reliance placed on a number of internal and external reinsurance contracts. PIA's most material reinsurance contracts include intra-group reinsurance with its parent company PAC (A+, Aa3 and AA- ratings for financial strength from S&P, Moodys and Fitch respectively[1]) to access PruFund and external reinsurance with institutions with very strong credit ratings to cover mortality and morbidity risk.

PIA has an indirect exposure to credit risk in that, for example, changes in credit spreads on fixed interest assets will adversely impact asset values and values of future cashflows and thus impact on the value of future fees earned.

C.3.2 Risk strategy and objectives

Overall, PIA has appetite to take credit risk to the extent that it remains part of a balanced portfolio of sources of income for shareholders, and that it is compatible with a robust solvency position. PIA will take on and manage credit risk on behalf of its policyholders in order to generate suitable customer returns in line with relevant Investment Management Agreements or policyholder literature.

In addition, PIA accepts investment credit risk on behalf of shareholders, and where it is relevant, policyholders where it is believed that there is an appropriate level of compensation for the risk and in line with the relevant policyholder literature. PIA will only accept limited credit risk to any single institution, particularly those of a lower credit quality rating.

PIA will accept counterparty risk where this arises as a by-product of investment activity, reinsurance or derivative transactions where such exposures are created to meet mandate objectives or mitigate risk, and in the management of cash. Where PIA or M&G plc manage counterparty risk on behalf of its policyholders, they will take on and manage this risk in line with relevant mandates and/or relevant policyholder documentation.

C.3.3.Risk management

PIA's risk appetite statement sets out a number of Key Risk Indicators (KRIs) for credit risk which are monitored regularly. Credit risk is managed by applying these Board approved exposure limits and triggers to individual counterparties and applying minimum credit quality and asset concentration limits. There are no limits for internal group counterparties, but there are for external ones. Within PIA, management information on credit risk exposures is reported to the PIA Investment Management Committee and the Risk & Compliance Management Committee.

[1] Correct as of March 2022.

The sections below outline specific management and mitigation techniques used by PIA on the key areas of credit risk it is currently exposed to.

- Investment credit risk

  PIA employs various risk management techniques for investment of shareholder funds and policyholder funds where PIA manages the assets directly.

  Credit risk on shareholder funds arises from bank failure or government insolvency and/or default. It is managed through appropriate diversification and monitoring of credit rating updates and other market information. Investments are made according to the PIA Investment Policy, which is set in line with the risk appetite set out for credit risk exposure and is reviewed annually. Deposits are placed in various banks with higher proportions permitted in higher rated banks. PIA monitors it's relevant exposures and their ratings on an ongoing basis, and produces reports outlining changes required if necessary.

  PIA has limited appetite for credit risk for direct management of policyholder assets in the offerings of PIA deposit funds. PIA monitors credit risk exposure on these funds, for example ratings of bank counterparties and their financial conditions, and also produces quarterly reports on the exposures.

- Counterparty risk

  The Company sets minimum approved credit ratings for reinsurers from whom it can purchase reinsurance; these ratings are assessed when reinsurance contracts are signed or renewed and are monitored on an ongoing basis. The company also sets maximum counterparty exposure to any third party external reinsurer it is involved with.

  PIA monitors and reports on its relevant exposures and their ratings on a monthly basis. If a reinsurer's rating falls below the approved credit rating limit, a report is prepared for the PIA Propositions & Product Oversight Committee and the Risk Committee. This report will outline the reason behind the fall, the steps to manage any required change in the strategic role of the reinsurer and the credit rating outlook. The senior management team and relevant committees (PPOC and Risk Committee) will then decide on a course of action (if required).

C.4 Liquidity risk

C.4.1 Context

Liquidity risk for PIA is split into two specific liquidity risk types; shareholder asset liquidity risk and fund liquidity risk.

1. Shareholder asset liquidity risk is the risk of loss to the Company, or of adverse changes in the financial situation, resulting from an inability to generate sufficient cash resources to meet its financial obligations (for example, claims, creditors and planned dividends) as they fall due.
2. Fund liquidity risk is the risk of being unable to meet liabilities arising from a mismatch in liquidity of the underlying assets and the frequency of liability requirements of the fund.

PIA is exposed to shareholder asset liquidity risk as a part of normal business activities, in particular the risk arising from any mismatch in liquidity of assets held compared to the frequency of liability cash flow payments.

PIA is also exposed to fund liquidity risk by virtue of the type of business that it writes. PIA offers a number of investment funds through its product offering including PAC With-Profits funds, PIA internal unit-linked funds and external unit-linked funds (via open architecture products). Fund liquidity risk arises for policyholders from a mismatch in the liquidity of the underlying assets of a fund, and the frequency of liability requirements of the fund. Where possible, PIA manages this risk on behalf of its policyholders. PIA is not directly exposed to this fund liquidity risk except for the impact on policyholder retention (and resulting impact on fee income) and reputation.

Overall, PIA's liquidity risk is considered to be relatively low because of the nature of the operating model.

C.4.2 Risk strategy and objectives

PIA has no appetite for insufficient resources to cover its outgoing cash flows. These outflows include payment of policyholder liabilities as they fall due, expenses, tax liabilities and any committed dividend remittance to its parent, in both a business as usual base case or under any plausible scenario.

PIA has no appetite for any fund to have liquidity profiles which are significantly inconsistent with normal liquidity expectations or other sources of liability risk such as collateral calls on derivatives in the portfolio or at a share class level.[2]

When formulating its liquidity risk appetite, PIA also considers the following items:

- Scope of business activities;
- Intra-group arrangements;
- Correlation between liquidity risk and other risk classes;
- Financial management and control procedures between liquidity and cash flows; and
- Monitoring of liquidity risk.

C.4.3 Risk management

Liquidity risk is not quantified in the Solvency II Standard Formula as this risk is not best managed through holding additional capital. Instead, liquidity is monitored against the liquidity metrics set out in the Risk Appetite Statement. These quantitative metrics enable the effective management of liquidity risk across the business and have been defined as:

1. $$\text{Liquidity Coverage Ratio (LCR)} = \frac{\text{Opening liquidity sources post stress} + \text{Cumulative cash inflows post stress}}{\text{Cumulative cash outflows post stress}}$$

2. Minimum cash reserves is defined as the number of months of future business expenses covered by cash and/or money market instruments held in PIA shareholder assets

M&G plc Risk calculates the LCRs for the PAC with-profits funds and the PIA internal unit-linked funds on a quarterly basis. PIA Finance calculate the PIA shareholder asset LCR and the Minimum Cash Reserve on a quarterly basis. This forms part of the quarterly Risk MI produced by PIA Risk.

[2] The fund liquidity risk appetite applies to all investable funds in the PIA investment universe. However, for externally managed funds, PIA do not monitor liquidity on an ongoing basis as any dealing on these funds is on an execution basis only. Instead, liquidity risk is considered at the fund approval stage in line with the PIA Open Architecture Funds Approval Policy, as PIA has no appetite to expose its policyholders to undue risk.

To ensure timely and appropriate decision making, including when reviewing business plans and forecasts, the PIA IMC, RCMC and where appropriate, the PIA Risk Committee and Board are provided with accurate and timely risk reports and management information (MI). This MI informs the management of liquidity risks and in some cases may prompt management actions or the invocation of the Liquidity Incident Plan, which defines management actions and escalation routes in the event of liquidity risk appetite limits being breached.

As part of the business planning process, PIA produces liquidity projections and reviews these against the risk appetite under the base and stressed scenarios as part of the ORSA.

C.5 Operational risk

C.5.1 Context

PIA defines operational risk as the risk of financial or non-financial impact (for example, regulatory and reputational) resulting from inadequate or failed internal processes, or from personnel and systems, or from external events. PIA's operational resilience requires, at a minimum, a robust control environment, tight oversight of material outsourcing and supplier dependencies, and strong management of technology risks to which it is exposed (including cyber and information security). In addition, conduct risk and regulatory risk remain key components of the operational risks for PIA.

As discussed in Section B.7, PIA has material external and intra-group outsource providers to support its business operations. As such, material outsourcing and supplier dependency risk is a key component of PIA's operational risk. This risk could lead to an outsourcer or supplier materially failing to meet the required service requirements, poor service delivery or delays in management information, reporting or untimely delivery of customer service.

Another subset of operational risk relates to technology risk including cyber risk and information security. PIA defines technology risk as the risk of financial or non-financial impact resulting from inadequate IT strategy, infrastructure, IT operations, IT delivery, IT capability and/or inadequate IT and information controls. Technology risk is closely interrelated to a number of other risk types, including but not limited to security risk, business continuity risk and third party risk.

PIA defines cyber security risk as the risk of financial and non-financial impact resulting from inadequate identification, prevention, detection and/or response and recovery from a risk event driven by a malicious adversary in cyber space. The performance of core activities places reliance on the IT infrastructure that supports day-to-day transaction processing. The IT environment must also be secure and PIA must address an increasing cyber risk threat as the Company's digital footprint increases.

C.5.2 Risk strategy and objectives

Overall, PIA does not accept to take operational risk to generate returns. PIA will act to avoid material impacts (direct or indirect, unintended gains or profits), including non-financial impacts, suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational risk. However, PIA tolerates a level of risk that means the controls in place should prevent material impacts, but should also not excessively restrict business activities. Direct and/or indirect impacts may arise as a result of:

- Inadequate design of internal controls;

- Internal controls not operating effectively;
- Failure to determine where controls are required; and/or,
- Factors outside of PIA's control.

However, there are a number of risks for which PIA has no tolerance for. Such risks include but are not limited to:

- Deliberate or negligent failure to comply with applicable regulatory and legal requirements within the jurisdictions we operate in, regardless of whether operations, services and products are directly provided or serviced by third parties on PIA's behalf.
- Inappropriate or illegal employee behaviours, including wilful breaches of in-force policy requirements and the PIA's Code of Business Conduct.

PIA does not accept and will act to prevent any material impacts, including customer and subsequent reputational impacts, arising from significant interruption to, or degradation in the performance or capacity of, its technology applications and operational infrastructure (including service delivery) caused by a failure to develop, implement and monitor appropriate technology processes, controls and services. Similarly, PIA does not accept and will act to prevent any material impacts arising from non-adherence to the Irish Data Protection Act 2018 "principles" over how personal data is treated throughout any stage of its lifecycle (i.e. capture, use, distribution, availability, at rest, in storage and disposal).

PIA's approach to Operational Risk Management is outlined in the PIA Operational Risk Policy, a document reviewed annually by the Risk Committee and the Board. PIA also maintains an Outsourcing Risk Policy, Operational Resilience Policy, Technology Risk Policy and a Security Risk Policy which are subject to annual review by the Risk Committee and the Board.

C.5.3 Risk management

PIA recognizes that operational risk is inherently embedded in almost all business activities it performs and, in this regard, PIA has developed a Risk Management Framework (RMF) to ensure appropriate identification, assessment, measurement, monitoring and reporting of operational risk and its constituents is in place. This operational RMF is based on the "Three Lines of Defence" framework where each line of defence has specific roles and responsibilities in its effective operation and governance. The main components of the PIA Operational RMF are illustrated below.

Figure 8: PIA Operational Risk Management Framework

The PIA Operational RMF facilitates the effective management of individual operational risks, issues and notifiable events as well as the operational risk profile in aggregate across PIA. This framework is underpinned by the development and implementation of targeted risk management activity to manage exposure across each of the level 2 operational risk categories, several of which are subject to their own risk policies. Overall, PIA believes that the above Operational RMF provides an adequate framework for the management of its current operational risk profile and, where areas of improvement are identified, these are addressed as required.

Further operational risk management and mitigating actions include:

- Quarterly Risk and Control Self-Assessments completed by the first line risk owners with oversight and challenge from Risk;
- Operational risk policies including Outsourcing Risk Management Policy, and supporting standards;
- Service level agreements for any outsourcing arrangements with a third party, and regular governance meetings;
- Regular testing of elements of the business continuity and disaster recovery plans;
- Succession plans for key roles;
- Monitoring of KRIs on a quarterly basis through Risk MI report presented to the Risk Committee;
- Monitoring of legislative, regulatory and fiscal rule changes on an ongoing basis; and

The performance of core activities places reliance on the IT infrastructure that supports day-to-day transaction processing. The IT environment must also be secure and PIA must address an increasing cyber risk threat as the Company's digital footprint increases. The risk that the IT infrastructure does not meet these requirements is a key area of focus. The Company's current threat assessment is that, while PIA is not individually viewed as a compelling target for a direct cyber-attack, it may be at risk of suffering attacks as a member of the M&G Group and financial services industry, with potentially significant impact on business continuity, customer relationships and the brand reputation. Protecting its customers remains core to PIA's business. In this context, Technology risk (including cyber and information security risks) is a top risk for PIA given the potential impact a related risk event could have on the business. While the risk has been heightened in terms of the move to remote working, it is mitigated by a number of initiatives across the group including but not limited to Data Protection, Phishing, Operational Resilience (Business Continuity), and Disaster

Recovery Testing. In addition, the cyber security risks are managed through oversight of material outsourced arrangements and regular Penetration Testing.

The PIA Security Risk Policy and the PIA Technology Risk Policy cover all risk management aspects and responsibilities related to technology, information security risk and cyber security risk. As per this policy, the M&G plc Director of Technology Risk is responsible for technology and information security matters related to PIA Wealth while the IT Director in the Poland Branch is responsible for technology and information security matters pertaining to the PIA Poland Branch, while overarching responsibility across PIA sits with the PCF-49 Chief Information Officer for PIA.

C.6 Other material risks

PIA faces other risks that are described below. These other non-quantitative risks are assessed as part of the ORSA process.

Environment, Social and Governance (ESG) risk is the risk that PIA as part of M&G plc, through its strategy, execution of business objectives, communication approach and/or response to internal or external ESG events, fails to meet its key stakeholders' ESG expectations, impacting on the group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver and create value for our customers. These are considered under three subcategories explained below:

Figure 9: Risks associated with climate change

Risk Factor
Environmental – risk of failure to identify material environmental or environmentally-driven business impacts (including climate change) that result in impacting on the group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver/create value for our customers.
Social – risk of failure to identify material socially driven business impacts (including diversity and inclusion) that result in impacting on the group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver/create value for our customers.
Governance – risk of failure to ethically and robustly manage PIA's governance operations impacting on the group's reputation and stakeholder trust, undermining our financial, non-financial performance and ability to deliver/create value for our customers.

A related risk is the risk of failing to meet the expectations of stakeholders (customers, distributors, investors, employees, regulators) in relation to ESG. PIA's long-term sustainability is dependent on appropriately considering and responding to ESG factors, underpinning its ability to deliver its strategy, to generate resilient earnings and to maintain its reputation. Given the long-term nature of its horizons, it is exposed to the long-term implications of climate change risks. In the short term, stakeholders increasingly expect reasonable investment principles to be adopted with consideration of material ESG factors (including climate change) effectively integrated into investment decision, fiduciary and stewardship duties, and corporate values.

In that respect, PIA launched PruFund Planet in November 2021. The PruFund Planet product offering consists of a series of funds, which aim to deliver positive environmental and societal outcomes by mitigating ESG risks and minimising negative outcomes, pursuing ESG opportunities and investing in positive outcomes for disadvantaged groups or stakeholders. PIA has also updated its operating standards for screening ESG funds to ensure compliance with SFDR. Regulation and legislation of ESG, including the governance expected

by the Board and senior management, have all increased to manage systemic risks and maintain stability of financial systems.

Capital is not specifically held to account for ESG risk. This risk is assessed as part of the operational risk and business planning process and allowed for in the Own Risk and Solvency Assessment (ORSA). ESG Risk is also included in the Company's Risk Appetite Statement. PIA has no appetite for failing to consider and appropriately respond to ESG risks in designing and executing strategic decisions, and for not meeting our external ESG commitments or targets.

Conduct risk is the risk that acts or omissions of the Company, or individuals within the Company, deliver poor or unfair outcomes for policyholders, employees, other stakeholders or affect market integrity. PIA is also exposed to conduct risks arising from the activities and advice practices of distribution channels through which PIA's products are sold, for example intermediaries and appointed representatives. Conduct risk is managed by PIA through a variety of measures covering qualitative and quantitative aspects that holistically provide the Board and Senior Management Team with visibility on PIA's conduct risk and how it is being appropriately managed within PIA's risk appetite, thereby supporting i) the delivery of fair customer outcomes; ii) PIA's employees and iii) market integrity.

In terms of risk appetite, PIA seeks to avoid the risk of delivering poor or unfair outcomes for policyholders by operating robust internal controls and a comprehensive conduct risk framework to allow PIA to identify, analyse and manage conduct risks from within the business and strategy.

Conduct risk for PIA is managed through PIA's adherence to the cross-border requirements applicable in each jurisdiction in which PIA actively sells its products; application of and compliance with relevant CBI rules and regulations; in addition to monitoring Conduct Risk obligations as they may arise in relation to its business activities. PIA's approach to conduct risk is set out in the Conduct Risk Policy which is reviewed and refreshed annually.

Additional examples of PIA's measures include, but are not limited to:

- HR initiatives that monitor and reward good conduct;
- Training to raise awareness and understanding of the importance of good conduct;
- Putting customer needs at the heart of product delivery and thereafter steering the product lifecycle;
- Setting clear responsibilities for the Board and Senior Management to champion and promote good conduct and ultimately be held accountable for poor conduct;
- Protectively identifying and managing conflicts of interest;
- Second and third line assurance reviews that incorporate assessing conduct measures and their outcomes;
- Incorporation of conduct metrics within management information that is reported to management and governance committees and the Board;
- Positive promotion of speaking out against poor conduct.

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationship, financial or non-financial, with other firms in the same group or by risks which may affect the financial position of the whole group. PIA has a number of intra-group dependencies which give rise to group risk exposures. In particular, PIA carries counterparty exposure to its parent, PAC, through various reinsurance arrangements. The counterparty risk is shared between PIA and its policyholders. Additionally, PIA has a number of intra group outsourcing and other arrangements including its use of Investment Services provided by Treasury & Investment Office governed by an Investment Service Management Agreement, and

a range of other services provided through Prudential Distribution Limited (PDL) including a range of IT, Procurement and Payment services.

PIA is exposed to reputational risk related to the Pru Brand and the utilisation of PruFund within product offerings. We monitor Group risk through M&G's liquidity ratio and PAC solvency ratio. Group risk is minimised somewhat while the parent company remains financially strong. The governance arrangements, risk management policies and processes, and internal control mechanisms across PIA, PAC and M&G plc also ensure group risk is appropriately managed, including any potential conflicts of interest.

Strategic risk is the risk of loss or failure to maximise opportunity resulting from ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy. The risk focus here is on internal drivers including:

- Strategic decisions
- Allocation of capital resources
- Talent strategy
- Investment performance

In terms of Risk Appetite, PIA has no appetite for losses or material damage (including to corporate reputation) resulting from the failure to appropriately follow the agreed processes for designing and executing strategic decisions or for implementing effectively its business strategy. Strategic risk is mainly identified through the business planning process which includes an annual risk opinion on the business plan presented to the Board.

Political environment risk is the risk that PIA's business could suffer due to instability, political change or conflict in one or more countries. Increased geopolitical risks, conflicts and policy uncertainty can impact the Company's products, investments and operating model. Although the Company has no material direct exposure to the conflict in Ukraine, the conflict and resulting humanitarian crisis has the potential to impact the Company's risk profile, in particular in relation to the Company's Polish branch. With this in mind, the Company has responded by mobilising resources and standing up incident response protocols. This includes bringing together colleagues from across the business to provide an enhanced monitoring and decision-making capability.

Also, recent tensions in Poland on the border with Belarus and the Russian invasion of Ukraine creates a challenging environment for colleagues and customers of the Polish Branch. For example, markets in Poland plummeted by c. 8% on 24 February, with the news of the Russian attack on Ukraine. The prolonged and increasing conflict is leading to heightened risks of contagion to other regions, global market instability and a humanitarian crisis with impacts across Europe.

Reputational risk is defined as the risk that PIA's activities, behaviours, and/or communications do not align to its purpose or meet stakeholders' expectations in ways which adversely impact trust and its reputation – potentially leading to adverse impacts to customer relationships, the loss of key personnel, adverse regulatory reaction and/or financial impacts.

The following risk categories have an operational risk element, however, have been classified under the reputational risk category due to the significance of a crystallisation of the risk from a reputational perspective and the implications for PIA's stakeholders.

- Compliance (Regulatory, Legislative, and Tax)

- Internal Controls
- Brand Management
- Customer & Conduct
- People & Culture

In terms of risk appetite, PIA has no appetite for failing to consider and appropriately respond to reputational risk within its activities, behaviours and/or communication approaches. In particular PIA will strive to protect the PIA and M&G plc brand and reputation by:

- avoiding non-compliance with regulatory and tax requirements,
- maintaining robust control frameworks,
- treating our policyholders and people fairly, and
- promoting a healthy organisational culture with stakeholder consideration.

PIA's approach to Reputational Risk Management is outlined in the PIA Reputational Risk Policy, a document reviewed annually by the Risk Committee and the Board.

C.7 Other information

Risk sensitivities

Stress and scenario testing are embedded in the risk management framework and is an effective tool in forward-looking risk analysis. It is performed in order to:

- Assess the Company's ability to withstand significant deterioration in financial and non-financial conditions;
- Provide feedback on the decision making process by identifying areas of potential business failure;
- Demonstrate to external stakeholders that the Company has adequate capital and liquidity levels;
- Demonstrate that the Company has appropriate and plausible management actions available to cover potential losses incurred during extreme, but plausible events; and
- Assist in the monitoring of adherence to the Company's and the Group's risk appetite.

To evaluate the Company's resilience to significant deteriorations in market and credit conditions and other shock events, the risks facing the Company as described in the sections above are grouped together into severe but plausible scenarios. In addition, the Company carries out reverse stress testing as part of the ORSA which gives the Board an understanding of the maximum resilience to extremely severe adverse scenarios. The Company also maintains a risk appetite framework which assesses the Company's ability to withstand a specified level of shock and still cover its solvency capital requirements.

PIA has carried out a number of sensitivity tests to understand the volatility of our capital position under PIA key risk exposure. For each sensitivity test, we have shown the impact of the change in our Solvency Capital Requirements (SCR) coverage ratio that would result from these sensitivities. The test considers the impact on the value of our Own funds and Capital requirements.

Figure 10: 31 December 2021 Sensitivities

Scenario	Description	Impact on SCR Coverage Ratio
Expense	The impact of a permanent 15% increase in both maintenance and Investment expense.	-13%
Portfolio	The impact of a 40% fall in the market value.	-11%
Lapse	The impact of a permanent 25% decrease in policyholder lapse rates.	-18%

Prudent person principle

The 'prudent person principle' sets standards for prudent investment. These include standards in relation to portfolio diversification, the use of financial derivatives, exposure to non-regulated markets and risk concentration, asset-liability matching and the security, quality and profitability of the whole investment portfolio. In particular, it emphasises the need for firms to exercise prudence in relation to the acquisition and holding of assets and to ensure that assets are appropriate to the nature and duration of the liability.

PIA's risk appetite is set in relation to overall solvency, liquidity and other business needs, with risk limits and targets used to make sure that the business in managed within Risk Appetite and be compliant with the Prudent Person Principle.

The Company's product offering includes internally and externally managed unit-linked funds. The Company uses services from Group's Treasury & Investment Office to manage internal unit-linked investments.

The Investment Policy sets out the system for management and oversight of investment performance and investment related risk including externally managed funds. The Company mitigates material risk by matching policyholder liabilities with the relevant assets.

Management Actions and other Financial Mitigation Techniques Included in the SCR

PIA has a Board approved future management action relating to a planned reduction in future management expenses that would be triggered should the in-force business materially reduce (for example following a mass-lapse event impacting on PIA). This impacts on the calculation of the SCR.

The SCR calculation also reflects the risk mitigating impact of reinsurance contracts and certain currency hedges that exist within policyholder investments.

PIA does not assume or model any other management actions or other financial mitigation techniques in the SCR.

D. Valuation for Solvency Purposes

D.1 Valuation of assets

D.1.1 Introduction

The 2021 balance sheet under both statutory accounts value (FRS 101) and Solvency II value bases is summarised in the table below:

	Statutory accounts £m	Presentation differences (note a) £m	Other (note b) £m	Solvency II £m
Assets				
Deferred acquisition costs	66		(66)	0
Intangible assets	3		(3)	0
Investments-other than participations	201			201
Assets held for index-linked and unit- linked contracts	2,176	(10)		2,166
Reinsurance recoverable	6,688		194	6,882
Cash and cash equivalents	96			96
Other[1]	21	7		28
Total assets	**9,251**	**(3)**	**125**	**9,373**
Liabilities				
Technical provisions				
Best estimate liability	8,884	(7)	(105)	8,772
Risk margin	-		86	86
Other liabilities				
Deferred tax liabilities	8		20	28
Other[2]	185	4		189
Total liabilities	**9,077**	**(3)**	**1**	**9,075**
Excess of assets over liabilities	**174**	**-**	**124**	**298**

[1] Other assets includes Insurance and intermediary receivables, Reinsurance receivables, Receivables (trade, not insurance), Tangible assets and Other assets.

[2] Other liabilities includes Provisions other than technical provisions, Insurance and intermediaries payable, Reinsurance payables and Payables (trade, not insurance).

Notes:

(a) Presentation differences represent movements between line items with no overall impact on excess of assets over liabilities. The main item relates to assets held by the unit-linked funds which are presented together in a single line on the statutory accounts balance sheet rather than within each individual asset/liability category.

(b) Other valuation differences represent the key changes to excess of assets over liabilities between statutory reporting (IFRS) and Solvency II. These are analysed within the reconciliation set out within Section E.1.4.

D.1.2 Valuation of assets

D.1.2.1 Determination of fair value

Within the Solvency II balance sheet, assets are valued using valuation methods that are consistent with the valuation approach set out in the Solvency II directive. The overall principle when valuing assets and liabilities under Solvency II is to use a fair value, as set out in Article 75 of the Directive. There have been no changes to the recognition and/or valuation basis of assets and other non-insurance liabilities in the Solvency II balance sheet during the year.

When valuing assets and liabilities in accordance with Solvency II, the fair valuation hierarchy set out below is followed, which is consistent with the fair value measurement hierarchy as applied by the Company for statutory reporting (IFRS) purposes:

(a) Quoted market prices in active markets for the same assets or liabilities

As the default valuation method, assets and liabilities are valued using quoted market prices in active markets for the same assets or liabilities, where available.

The investments of the Company which are valued using this method include collective investment undertakings with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active.

(b) Quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences

A significant proportion of the Company's assets in this category are Collective Investment Schemes where most recent market data is unavailable at the reporting date. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations and are subject to a number of monitoring controls, such as stale price reviews and variance analysis on prices. Pricing services, where available, are used to obtain the

third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced directly from fund managers.

Generally, no adjustment is made to the prices obtained from independent third parties. Adjustment is made in only limited circumstances, where it is determined that the third-party valuations obtained do not reflect fair value (e.g. either because the value is stale and/or the values are extremely diverse in range). These are usually where reliable market prices are no longer available due to an inactive market or market dislocation. In these instances, prices are derived using internal valuation techniques including those as described below with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

(c) Alternative valuation techniques

Assets valued using this method typically include suspended funds and certain investments deemed to be exposed to potential bespoke risks taking into account current market data.

Investments valued using alternative valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions (e.g. market illiquidity). The valuation techniques used may include comparison to recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources when available, but overall the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date. The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments.

D.1.2.2 Valuation bases under Solvency II compared with Irish GAAP (FRS101)

Goodwill

The value of goodwill is nil for IFRS and Solvency II purposes.

Deferred acquisition costs and intangibles

The value of deferred acquisition costs and other intangible assets, such as distribution rights and software are nil for the solvency II purposes. For IFRS purposes, deferred acquisition costs and other intangible assets are recognised at cost less amortisation.

Deferred tax assets

Deferred tax assets, other than the carry forward of unused tax credits and losses, are calculated based upon the differences between the values given to assets and liabilities for tax purposes and their values in the Solvency II balance sheet. The principles of IFRS are applied to calculate the extent of deferred tax applicable to those value differences. Changes in the valuation of underlying assets or liabilities will give rise to a change in deferred tax balances. Recoverability is assessed on the basis of the balances held and consideration is

given to the probability of taxable profit being available against which the underlying recoverable can be offset.

There is no deferred tax asset on the Solvency II balance sheet as at 31 December 2021. The value of deferred tax liability as at 31 December 2021 under Solvency II was £28 million (2020: £24 million).

Investments

Investments (other than assets held for index-linked and unit-linked contracts) comprise the following asset types as included in the Solvency II balance sheet.

Investments for the year-ended 31 December 2021

	£m
Bonds	122
Collective investment undertakings	1
Deposits other than cash equivalents	78
Total	**201**

All of these investments are valued at fair value within both the Solvency II balance sheet and the Company's financial statements.

Assets held for index-linked and unit-linked contracts

These assets relate to insurance products where the policyholder bears the investment risk, namely unit-linked products, and are presented as a single line 'Assets held for index-linked and unit-linked funds' within the Solvency II balance sheet. The individual assets are valued using the same approaches as if held outside such funds, and as described above.

Reinsurance Recoverable

Technical provisions are calculated on a gross-of-reinsurance basis, and a corresponding Reinsurance Asset ("Reinsurance Recoverable") exists on the balance sheet, as described in Section D.2.8 and D.2.9.4.

Cash and Cash Equivalents

Cash and cash equivalent are valued at fair value, an amount not less than the amount payable on demand.

Other assets

Other assets comprise the following asset classes as included in the Solvency II balance sheet:

Other assets for the year-ended 31 December 2021

	£m
Insurance and intermediaries receivables	2
Reinsurance receivables	12
Receivables (trade, not insurance)	13
Tangible assets (Property, plant and equipment)	1
Total	**28**

Other assets in the Solvency II balance sheet are measured at fair value determined using alternate valuation methods that are market consistent and represents the realisable value of individual assets on transfer to a third party. If the IFRS value is a good proxy for fair value no adjustment is made.

Assets are derecognised when it is deemed that substantially all the risks and rewards of ownership have been transferred.

D.2 Technical provisions

D.2.1 Introduction

As a general principle, technical provisions are valued at the amount for which they could theoretically be transferred to a third party in an arm's length transaction. The technical provisions are the sum of two elements: the best estimate liabilities (BEL) and the risk margin.

This section gives an overview of PIA's technical provisions. It outlines the methods and main assumptions used in calculating the technical provisions for each of PIA's material lines of business*: unit-linked insurance*, *insurance with profit participation* ("with profit" business) and *other life insurance.*

PIA does not apply any of the following measures, which are permitted under the Solvency II requirements (subject to approval):

- Matching adjustment, as referred to in Article 77b of the Directive;
- Volatility adjustment, as referred to in Article 77d of the Directive;
- Transitional risk-free interest rate-term structure, as referred to in Article 308c of the Directive;
- Transitional deduction, as referred to in Article 308d of the Directive.

D.2.2 General principles

D.2.2.1 Methods

Solvency II requires that the "liabilities shall be valued at the amount for which they can be settled between knowledgeable and willing parties in an arm's length transaction".

The BEL corresponds to the probability-weighted average of future cash flows, taking account of the time value of money (i.e. the expected present value of future cash flows), using the risk-free interest rate term structure published by EIOPA. The calculation of the BEL is based upon up-to-date and credible information and realistic assumptions (derived from data analysis and expert judgement) and is performed using appropriate actuarial and statistical methods. The cash-flow projection used in the calculation of the BEL takes account of all the cash in-flows and out-flows required to settle the insurance obligations over their lifetime. The BEL is calculated before deduction of the amounts recoverable from reinsurance contracts. Those amounts are calculated separately (see sections D.2.8 & D.2.9).

The risk margin is calculated in line with Solvency II requirements, and aims to ensure that the total technical provisions are equivalent to the cost of transferring the insurance obligations to a third party. The calculation assumes a 6 per cent per annum cost of capital and applies to non-hedgeable risks only. This calculation applies simplified methods in line with Article 58 of the Delegated Regulation rather than a full projection of the Solvency Capital Requirement (SCR). The SCR for each non-hedgeable risk is assumed to run-off in-line with suitable profiles which differ depending on the types of non-hedgeable risks. The SCR each year is aggregated using a correlation matrix. For less material lines of business other simplifications apply (e.g. assumed to run-off in line with the BEL).

D.2.2.2 Assumptions

The key assumptions required in the valuation of technical provisions are:

(i) economic assumptions, most of which are published by EIOPA and set by reference to market data at the valuation date;

(ii) non-economic assumptions, used to derive non-market related best estimate liability cash flows (for example future claims and expenses);

The principal economic assumption is the risk-free interest rate term structure. The risk-free curves at which best estimate liability cash flows are discounted are specified by EIOPA. These curves are based on market swap rates, with a 'credit risk adjustment'. The resulting 10-year risk-free spot rates for the material currencies are given below, after the credit risk adjustment.

10 year risk-free rates at 31 December 2021 (with comparison to 31 December 2020):

Currency	31 December 2021	31 December 2020	Change
British Pound	1.11%	0.29%	+0.82%
Euro	0.21%	-0.37%	+0.57%
Polish Zloty	3.57%	1.19%	+2.38%
United States Dollar	1.50%	0.77%	+0.73%

Non-market assumptions (e.g. persistency, mortality, morbidity and expense assumptions) are derived from analysis of recent historic experience data, and also reflect expected future experience. These assumptions are based on PIA's own experience where there is sufficient reliable data to be analysed. If not, then industry data may be used. Expert judgement is applied where necessary and justification for it is documented.

D.2.3 Quantitative results

The values of the technical provisions for PIA as at 31 December 2021 are set out in the table below.

Gross of reinsurance	2021 £m
Insurance with profit participation	6,768
Unit-Linked Insurance	2,059
Other life insurance	(55)
Total Best Estimate Liabilities ("BEL")	**8,772**
Risk Margin	86
Total technical provisions	**8,858**

Technical provisions are gross of reinsurance.

The with-profits benefits attached to the insurance with profit participation line of business are reinsured to the PAC. Section D.2.8 and D.2.9 provide further information on Reinsurance Recoverables.

D.2.4 Details on methodology and assumptions by lines of business

This section explains how the BEL is calculated for each material line of business.

The BEL has two components, the unit-liability component and the non-unit-liability component. The calculation is slightly different for each of PIA's three lines of business (*insurance with profit participation* business, u*nit-linked insurance* business and other life insurance business). The methods chosen for each line of business are proportionate to the nature, scale and complexity of the underlying risks.

The non-unit BEL is generally calculated by discounting projected future cash flows from the contracts. This calculation incorporates PIA's best estimate assumptions for the factors that determine the future projected cash flows.

Further details are contained in sections D.2.4.1 and D.2.4.2 below

D.2.4.1 Insurance with profit participation business

D.2.4.1.1 Background

This category comprises all single premium unit-linked investment products and regular premium savings products that provide with profits benefits to policyholders. With profits benefits are provided by PAC With-Profits Fund via a reinsurance treaty between PIA and PAC. The With-Profits Fund contains asset funds that are denominated in EUR, GBP, USD and PLN.

PIA's existing with-profit products (i.e. excluding business transferred to PIA on 1 January 2019) offer a death benefit of either 101% or 100.1% of the cash-in value of the bond, depending on the age of the life assured when the investment was taken out. No benefit is paid on disability and there is no maturity benefit as the product is written on a whole-of-life basis. Surrender is permitted; however, a surrender charge may apply in the early years of the policy.

Of the business transferred to PIA on 1 January 2019 only the Polish business is open to new business. This business is a fixed term conventional with-profits endowment which receives discretionary increases in benefits by way of regular renewal bonuses and a terminal bonus at the point of payout. Certain plans offer guarantees on surrender and maturity. Regular premium and limited pay (i.e. premium payment terms of 2-5 years) apply. Non-profit protection rider benefits are also offered with the endowment; however, only the with-profits benefits are reinsured with PAC.

During 2021, PIA launched a new single premium, unit-linked product on the Polish market. This product offers investment in PAC's With-Profits Fund through a reinsurance agreement. It provides a low level of protection cover with the possibility of top-ups and partial and regular withdrawals.

The with-profits benefits for the other business transferred (also reinsured with PAC) to PIA on 1 January 2019 are:

- The business transferred from PAC France comprises single premium bonds invested in a mix of unitised with profit and unit linked funds; only the with-profits benefits are reinsured with PAC. No additional benefits are offered on death or maturity. While it is closed to new business it remains open to top-ups on existing business.
- The Equitable Life Assurance Society (ELAS) business transferred comprises with-profit annuity contracts written in Germany and Ireland.
- The business transferred from PAC Malta business comprises conventional with-profits whole of life policies.

A general explanation of how Prudential manages its with-profits business can be found in the With-Profits Operating Principles ("WPOP") documents. These are publicly available documents which set out the principles that PIA and PAC, our parent company, use to manage policies which are invested in the Defined Charge Participating Sub-Fund ('DCPSF') and With-Profits Sub-Fund ('WPSF') and are available at the following links: www.prudential-international.com/financial-report and www.prudential.pl/mam-polise-konsultant-owu.The DCPSF and WPSF are owned and managed by PAC and the way these funds are managed is described in more detail in the PAC Principles and Practices of Financial Management ("PPFM") document. This is also a publicly available document published on Prudential's website, www.pru.co.uk.

D.2.4.1.2 Options and guarantees

The financial guarantees which are provided for within the with-profits fund include:

1. With profits fund guarantees, which include future discretionary benefits and profit sharing; in particular, regular (reversionary) bonuses may be declared and, if declared, are added to policies; the declaration of a regular bonus is not guaranteed, but when added, it acts to increase the guaranteed minimum pay-out.
2. Return of premium guarantees on the Polish business and also on a small closed block of Austrian business; and
3. Surrender guarantees.

These financial guarantees are 100% reinsured to PAC.

D.2.4.1.3 Reinsurance

PIA reinsures 100% of the with-profits benefits to PAC. PIA's reinsurance asset is equal to the value of these with profits benefits, as described in section D2.4.1.4 below. PIA calculates an adjustment to default on the reinsurance asset as per Article 42 of the Solvency II Delegated Acts.

D.2.4.1.4 Valuation Methodology

The BEL is calculated as the sum of the unit BEL and the non-unit BEL.

The Unit BEL reflects the value of the with profit benefits reinsured to PAC, and includes both:

- the in-force asset share at the valuation date; and
- the value of future differences (*Net Cost of Options, Guarantees and Smoothing)* between expected future payments to policyholders and asset shares, arising from options, guarantees and smoothing.

The Asset Share represents the retrospective accumulation of premiums, investment return, claims payments for regular withdrawals and part surrenders, and the charges payable by the policyholder as specified by the policy terms and conditions.

The Net Cost of Options and Guarantees on both the unitised and conventional with profit business is calculated using outputs from the stochastic model used and maintained by PAC. This valuation allows for

realistic management actions that are consistent with the operation of the with profits funds. The PAC management actions include the following:

- *Dynamic adjustments to reversionary and terminal bonus rates.* This includes adjusting reversionary bonuses to target a specified range of terminal bonus cushion at maturity, or to maintain the solvency ratio of the participating fund in stressed conditions. For terminal bonuses, smoothing rules apply limiting the year on year change for the same bonus series. Terminal bonuses may be subject to a surrender penalty in certain market conditions.
- *Market Value Reductions.* For some accumulating with profits policies, market value reductions may apply, subject to certain limits.
- *Suspension of smoothing.* The usual smoothing rules can be suspended to maintain the solvency ratio of the participating fund in stressed conditions.
- *Dynamic investment strategy.* This can include switching into lower-risk assets to maintain the solvency of the fund in stressed conditions.

The Net Cost of Options, Guarantees and Smoothing has no impact on the liabilities on a net of reinsurance basis, as it is 100% reinsured to PAC.

PIA holds a non-unit BEL for unitised with profit business that is calculated using a deterministic approach by discounting projected future cash flows from the contracts. The non-unit BEL also includes an amount in respect of expected development spend. A non-unit BEL for the Polish with profit business is also calculated but is 100% reinsured to PAC.

D.2.4.1.5 Assumptions

The most significant assumptions used in the calculation of the non-unit BEL for this business are lapse assumptions and expense assumptions. These are best estimate assumptions.

The lapse assumptions used vary by product and by the duration of the policies, based on the results of annual experience studies. Expense assumptions reflect current and expected future expense levels and business volumes. Expert judgment is also used where deemed necessary. Further detail is set out in Section D.2.6.

D.2.4.2 Unit-Linked insurance

D.2.4.2.1 Background

PIA sells a number of unit-linked products. These products include proprietary and open architecture products. Proprietary products are products where the policyholder can only invest in funds offered by PIA, whereas open architecture products allow policyholders to invest in funds offered by a wide variety of providers. Some products include significant mortality and morbidity benefits, however these products are not open to new business although top-ups are accepted. This business also includes unit-linked funds relating to PAC France business transferred to PIA on 1 January 2019.

D.2.4.2.2 Options and Guarantees

PIA's unit-linked business does not contain any material financial guarantees or options. A small number of products included in this line of business offer a capital redemption option that offers a maturity benefit. As this guarantee is insignificant in size it does not require stochastic modelling.

D.2.4.2.3 Reinsurance

PIA reinsures the risk benefits (e.g. mortality, critical illness and long-term-care) on these products to external reinsurers. Reinsurance is on a quota-share and surplus basis. PIA reinsures at least 75% of these risks.

D.2.4.2.4 Valuation Methodology

The BEL is calculated as the sum of unit liability plus non-unit liability. The unit liability is calculated as the fair value of units deemed allocated at the valuation date discounted as appropriate for future management charges due to the Company. The non-unit liabilities comprise:

- the present value of all non-unit cash flows allowing for persistency, mortality, morbidity, the rate at which the unit reserves are expected to grow, expenses, expense inflation, charges for benefits, charges for expenses. This can be negative, and reflects the discounted value of fee income from the unit funds less allowances for expenses.
- any additional reserves required – including long term care, unapplied single premium, Incurred but Not Reported (IBNR) on life and critical illness business, and expected development spend.

The non-unit liability is modelled on a deterministic basis.

D.2.4.2.5 Assumptions

The most significant assumptions for this business are lapse rates and mortality and morbidity rates. The assumptions used vary by product and reflect recent experience where available. Where there is insufficient experience to perform a credible analysis of experience, reinsurers' rates are used.

Expense assumptions are also significant. Expense assumptions reflect current and expected future expense levels and business volumes. Expert judgment is applied where necessary.

Market-related assumptions are discussed in section D.2.2.2.

D.2.4.3 Other life insurance

D.2.4.3.1 Background

Non-profit business written through the PIA Poland branch includes a standalone non-profit protection product and rider benefits associated with the with-profits endowment assurance product. An immaterial amount of non-profit whole of life policies in respect of PAC Malta were also transferred to PIA on 1 January 2019.

D.2.4.3.2 Options and Guarantees

Financial guarantees do not apply on these lines of business.

D.2.4.3.3 Reinsurance

In relation to the PIA Poland non-profit business including the rider products, 75% of all mortality and morbidity risks are reinsured with an external reinsurer.

D.2.4.3.4 Valuation Methodology

The BEL comprises the present value of future benefits and expenses less the present value of future premiums allowing for persistency, mortality, morbidity, commissions, expenses and expense inflation.

The BEL is modelled on a deterministic basis.

D.2.4.3.5 Assumptions

The most significant assumptions for this business are lapse rates and mortality and morbidity rates. The assumptions used vary by product and reflect recent experience where available. Where there is insufficient experience to perform a credible analysis of experience, reinsurers' rates are used.
Expense assumptions are also significant. Expense assumptions reflect current and expected future expense levels and business volumes. Expert judgment is also used where deemed necessary.

D.2.5 Simplifications

There are a number of simplified methods used to calculate less material technical provisions. These include the following areas:

- The Net Cost of Options and Guarantees on both the unitised and conventional with profit business is calculated at Q3 using outputs from a stochastic model; scaling is used to calculate the value at Q4.
- For the less material lines of business transferred to PIA on 1 January 2019 (i.e. other than PIA Poland branch business) the technical provisions use simplified approaches.
- For other less material business (e.g. long term care products which have claims in payment) the technical provisions are set to be those calculated for statutory reporting purposes.
- Some product features with minimal financial significance are not modelled on the grounds of materiality.

D.2.6 Changes in assumptions

In 2021, the significant changes to the assumptions underlying the Company's calculation of technical provisions were as follows:

- Market-driven changes to economic parameters, including changes to risk-free rates as shown in section D.2.2.2.

- Expense assumptions reflect the long-term best estimate level of expenses based on the current operating model for the business and are updated annually to reflect the most recent expense forecast for the business.
- Persistency and mortality assumptions are derived from analysis of recent historic experience data.

As noted earlier, an allowance is made for the expected development spend.

D.2.7 Sensitivities & uncertainty

The valuation of technical provisions relies upon the Company's best estimate of future liability cash flows, including the projection of the future level of the SCR in the calculation of the risk margin. These cash flows are derived using best estimate assumptions, which are set using a combination of experience data, market data and expert judgement.

Uncertainty exists in the technical provisions as to whether the actual future cash flows will match those expected under the Company's best estimate assumptions. Over time, experience may differ from the best estimate assumptions or forward-looking expectations may evolve, such that assumptions will be updated with a consequent change in the value of future technical provisions.

D.2.8 Reinsurance recoverables

In the Solvency II balance sheet, the Company includes the full expected cost of claims within the technical provisions, and treats the expected corresponding reinsurance recoverables as an asset. The valuation methods and assumptions for reinsurance recoverables are consistent with the methods and assumptions for the corresponding technical provisions (see sections D.2.2 & D2.4). The value of the recoverable asset is the best estimate of future reinsurance cash flows, allowing for the probability of default by the reinsurer.

PIA's primary reinsurance is in respect of its insurance with profit participation business where it reinsures 100% of the unit BEL (and non-unit BEL in the case of the PIA Poland with-profits business) and the net cost of options and guarantees on such business to its parent company, PAC. The reinsurance arrangement transfers all financial risk to PAC. For with-profits business transferred to PIA from PAC on 1 January 2019, non-financial risks are also reinsured to PAC. As a result, PIA has a policyholder liability for insurance with profit participation which is backed by the PAC reinsurance asset.

With respect to its unit-linked insurance and other life insurance lines of business, where such business has significant death and/or disability benefits, PIA has reinsurance arrangements in place with an external reinsurer where at least 75% of the mortality and morbidity risk on such products are reinsured. This reinsurance asset is currently negative as the expected value of future premiums payable to the reinsurer exceeds the expected value of future claims. Similarly, the remaining 25% exposure gives rise to a negative liability on PIA's balance sheet. For the majority of the book the retained sum at risk is less £50k.

PIA calculates an adjustment to default on the reinsurance asset (covering both unit-linked and with profit business) as per Article 42 of the Solvency II Delegated Acts.

D.2.9 Comparing Solvency II with the financial statements

D.2.9.1 Overview

A number of different approaches and methodologies are used to calculate the technical provisions for financial statement reporting purposes and for Solvency II reporting purposes. As a result, there are differences in the technical provisions reported under each basis.

The following table shows the reconciliation in respect of the technical provisions reported in the financial statements and those reported under Solvency II. The sections beneath explain the key differences in methodology and assumptions.

Reconciliation of technical provisions	Solvency II £m	Financial Statements £m	Difference £m
Technical Provisions	8,858	8,884	(26)
Best Estimate	8,772	8,884	(112)
Insurance with profit participation business	6,768	6,704	64
Unit-linked business	2,059	2,172	(113)
Other life insurance	(55)	8	(63)
Risk Margin	86	-	86
Insurance with profit participation business	58	-	58
Unit-linked business	16	-	16
Other life insurance	12	-	12

D.2.9.2 Main Methodology Differences

The main methodology differences between the two bases are:

- The financial statements are based on a prudent assessment of non-unit liabilities that does not recognise the value of future fee income in excess of that required to meet the projected cash outflows on the business. The Solvency II liabilities recognise these fully on a best estimate basis.
- Different approaches are used to calculate the best estimate liabilities on *insurance with profit participation* business; the Solvency II value reflects the full asset share, net cost of options and guarantees, and the present value of future profits associated with the business. The financial statements value can be lower because it is based on the minimum of the surrender value and the asset share for certain products, and currently the asset share exceeds the surrender value.
- The financial statements include a “Deferred Income Reserve” on *unit-linked insurance* business. This is removed under Solvency II.
- Inclusion of a risk margin for Solvency II reporting requirements.

D.2.9.3 Main Assumption Differences

The assumptions used within the calculation of the technical provisions for the financial statements include a margin for prudence. However, for Solvency II reporting purposes, these margins have been removed and the technical provisions are calculated using best estimate assumptions. The impact of these assumption changes is captured in the non-unit liability.

The technical provisions for Solvency II purposes also include additional expenses above those included in the financial statements. These expenses are short term in nature and relate to commitments that have been made and are not allocated to maintenance or acquisition expenses.

D.2.9.4 Reinsurance Recoverable

A reconciliation of the reinsurance asset reported in the financial statements and under Solvency II is set out in the table below.

Reconciliation of Reinsurance Recoverable	Solvency II £m	Financial statements £m	Difference £m
Total Reinsurance Recoverable	6,882	6,688	194
Internal Reinsurance	6,935	6,675	258
Insurance with profit participation business	6,935	6,675	258
External Reinsurance	(53)	13	(64)

The main differences are:

- Similar to technical provisions, different approaches are used to calculate the reinsurance asset on insurance with profit participation business.
- The reinsurance asset corresponds with the reinsurers share of the liability on mortality and morbidity business. Under Solvency II the asset is negative as the full future cost of the reinsurance on a best estimate basis is reflected on the balance sheet.

D.3 Valuation of other liabilities

D.3.1 Introduction

Other liabilities for Solvency II purposes are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II Directive. Unless otherwise stated, valuation of other liabilities are carried out in conformity with IFRS, where this is consistent with the objectives of Solvency II.

D.3.2 Valuation bases under Solvency II compared to IFRS

The valuation basis of each material class of other liabilities are described below:

Deferred tax liabilities

Deferred taxes are calculated based upon the differences ("temporary differences") between the values given to assets and liabilities in the Solvency II balance sheet and their values for tax and statutory reporting purposes. The principles of IAS 12 "Income Taxes" are applied to calculate the extent of deferred taxes applicable on those value differences. The deferred tax on the Solvency II balance sheet is mainly driven by differences in the value of Technical Provisions (Net of Reinsurance) between an IFRS and Solvency II basis. The capitalised value of the future profits is one of these adjustments, and this results in a corresponding increase in the deferred tax liability.

Other liabilities

Other liabilities for the year-ended 31 December 2021	£m
Provisions other than technical provisions	1
Insurance & intermediaries payables	116
Reinsurance payables	10
Payables (trade, not insurance)	62
Lease liability	-
Total	**189**

Other liabilities in the Solvency II balance sheet are measured at fair value determined using alternative valuation methods that are market consistent and represent the value to settle the liabilities with a third party. Where the IFRS valuation is a good proxy for fair value no adjustment is made.

Provisions other than Technical Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of such an obligation. Provisions are discounted when the effect of the time value of money is considered material. There is one provision which relates to PIA's estimated liability in respect of payments due to policyholders as a result of fees which have been applied incorrectly in the past. The provision is based on the best estimate of the potential amount payable.

There are no changes made to the recognition and valuation bases used or on estimations during the reporting period.

D.4 Alternative methods for valuation

The use of alternative methods for valuation by the Company are discussed in section D.1.2.1. £15m (2020: £28m) of assets are valued using alternative valuation methods (as per section D1.2.1). These relate to assets

held in index-linked and unit-linked funds, which are materially offset by unit-linked liabilities. Therefore, any valuation changes in this category would not have a material effect on the valuation Solvency II own funds.

The M&G Group has Group-wide Independent Price Verification procedures in place which cover all investment asset classes owned by the business units of the Group, including the Company, and set minimum requirements for the governance surrounding valuation process. These standards require that processes are established to verify the accuracy and independence of model inputs and market prices provided by third parties. Where mark to mark valuations are not available from independent price sources, the Independent Price Verification standards set minimum requirements for mark to model valuations. The Independent Price Verification standards require the documentation and monitoring of all assumptions, inputs and any mathematical modelling, using market observable standards and inputs where possible.

Valuation uncertainty refers to the variability of the fair value measurement that exists at any given reporting date/time for a financial instrument or portfolio of positions. The Independent Price Verification standards require documentation of the process for assessing valuation uncertainty, including the controls surrounding valuation models and an understanding of the model assumptions and limitation.

D.5 Any Other Information

There is no other material information regarding the valuation of assets and liabilities for solvency purposes which has not been disclosed above.

E. Capital Management

E.1 Own funds

E.1.1 Overview

The Own Funds have been prepared using the controls set out in the PIA's Own Funds Policy.

E.1.2 Objectives, policies and processes for managing own funds

The Company manages its Solvency II own funds as its measure of assets available to cover the Solvency Capital Requirement. The Company manages its Solvency II capital to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements.

The Company prepares a projected capital position as part of its business planning process. The business plan is prepared annually on a rolling basis and covers a three-year period. There were no material changes to the objectives, policies or processes for managing the Company's own funds during the year.

The assets and liabilities underpinning the Solvency II basic own funds are valued separately using valuation methods that are consistent with the valuation approach set out in the Solvency II directives. These methods are described in Section D of this document.

E.1.3 Analysis of the components of own funds

The following components make up the PIA's own funds amount:

	Total £m	Tier 1 - unrestricted £m	Tier 1 - restricted £m	Tier 2 £m	Tier 3 £m
Ordinary share capital (note b)	65	65	-	-	-
Reconciliation reserve (note c)	170	170	-	-	-
Other items approved by supervisory authority as basic own funds (note d)	63	63	-	-	-
Total own funds (note a)	**298**	**298**	-	-	-

Other items approved by the supervisory authority as basic own funds have increased by £40m during the year following a capital contribution from our parent PAC. There has been no changes to tier structure or ordinary share capital during the year.

Notes:

(a) PIA's basic own funds principally comprise equity share capital, retained earnings attributable to equity shareholders calculated in the reconciliation reserve, and a capital contribution approved by CBI. PIA has no ancillary own funds.

(b) Equity Share Capital
PIA's ordinary share capital represents 137,083,243 ordinary shares of €1.27 each. This comprises 101,381,272 ordinary shares where the partly paid amount equals 25% of each nominal share value, being €0.3175, and an additional 35,701,971 ordinary shares of €1.27 each, which were issued in 2019 as a result of the business transferred from PAC. There is only one class of share capital. The ordinary shares have call rights to dividends, are entitled to a surplus on a winding up and have full voting rights.

(c) Reconciliation reserve
The reconciliation reserve represents the residual of excess of assets over liabilities after deducting (i) equity share capital comprising ordinary share capital and share premium and (ii) capital contribution. The key elements of this are IFRS retained earnings and the non-unit-liability element of technical provisions, net of the corresponding Deferred Tax Liability.

(d) Other items approved by supervisory authority as basic own funds
This represents the £23 million of historic capital contributions from PAC which were approved by the Central Bank in December 2015 and the £40 million capital contribution from PAC which was approved by the Central Bank in June 2021.

E.1.4 Comparison with financial statements

This section explains the differences between equity in the financial statements and the Solvency II own funds, i.e. the excess of assets over liabilities for solvency purposes.

Reconciliation of equity and Solvency II surplus	£m
Shareholder's equity in Financial Statements at 31 December 2021	174
Removal of deferred acquisition costs and intangibles [(1)]	(69)
Change in valuation of technical provisions, net of reinsurance [(2)]	299
Change in Risk Margin [(3)]	(86)
Change in value of deferred tax principally as a result of valuation changes [(4)]	(20)
Excess of assets over liabilities as recorded in the Solvency II Balance Sheet	**298**

Notes to Table

The movement between equity in the financial statements and excess of assets over liabilities under Solvency II is discussed below. The numbering corresponds to the superscripts in the table above.

1. Deferred acquisition costs and other intangibles such as computer software and deferred income reserve contributing to equity in the financial statements are revalued to nil for Solvency II purposes.

2. Under Solvency II, technical provisions are calculated on a best estimate basis. This best estimate includes recognition of expected future premiums (net of related costs/claims) for contracts already written by PIA at the balance sheet date, subject to regulatory restrictions. This adjustment therefore accounts for any differences in the valuation assumptions for solvency compared with those for the financial statements.
3. The technical provisions for Solvency II reporting include the Risk Margin. The Risk Margin does not exist in the financial statements.
4. The material differences that impact deferred tax are set out in section D.3.2.

E.2 Solvency Capital Requirements and Minimum Capital Requirement

E.2.1 Overview

From 31st December 2020, the SCRs and Minimum Capital Requirements ("MCRs") for the Company have been determined using the 'standard formula' approach set out in the Solvency II Directive. No material simplified methods or undertaking specific parameters have been used in this assessment. There are currently no capital add-ons applied by the Central Bank.

During 2021 Q2 an error in the methodology of the market risk SCR calculation was identified. The error was identified as part of a review carried out by the Risk Function. As a result, a full review of PIA's standard formula methodology was carried out. The 31 December 2020 SFCR was restated with the amended position.

The standard formula is highly capital intensive when applied to a business such as PIAs with low lapse rates, a significant investment in alternative assets and a complex operating model. As a result, a number of management actions were enacted to improve the solvency position, including receipt of a £40m capital contribution from our parent PAC in June 2021, with a further capital contribution of £25m approved by the Company's board in March 2022. Management is considering a number of actions to increase the capital efficiency of PIA's business on a standard formula basis.

E.2.2 Results

E.2.2.1 Summary

The following table shows the company's diversified SCR and MCR at 31 December 2021.

	2021 £m	2020 £m
SCR – Standard Formula	**237**	**205**
MCR	**59**	**51**

E.2.2.2 SCR by Risk Module

The split of the SCR by risk module are outlined in the table below:

Risk Module	2021 £m	2020 £m
Market Risk	133.3	114
Default Risk	20.8	20
Life Underwriting Risk	162.2	143
Diversification	(74.7)	(66)
Basic Solvency Capital Requirement	241.6	211
Operational risk	16.1	16
Loss Absorbing Capacity of Deferred Tax	(20.9)	(22)
Solvency Capital Requirement	**236.8**	**205**

Note: Any apparent inconsistencies in the summation of items in the table above is due to rounding

E.2.2.3 MCR

Minimum capital requirement at 31 December 2021 in the table below:

MCR	2021 £m
Linear formula component for non-life insurance and reinsurance obligations	0
Linear formula component for life insurance and reinsurance obligations	16
Linear MCR	16
SCR	237
MCR cap	107
MCR floor	59
Combined MCR	59
Absolute floor of the MCR	3
MCR	**59**

The inputs used to calculate the MCR are detailed in Quantitative Reporting Template S.28.01.01.
The MCR is currently 25% of the SCR.

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

The company does not use the duration-based equity risk approach in the calculation of the Solvency Capital Requirement.

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

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

E.5 Non-compliance with Minimum Capital Requirement and Solvency Capital Requirement

PIA currently complies with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

There is no other information to note.

Appendix

QRTs Reference	QRTs Name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums Claims and Expenses by LOB
S.05.02.01	Premiums Claims Expenses by country
S.12.01.02	Technical Provisions
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - for undertakings using the standard formula
S.28.01.01	MCR - Non Composite

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S.02.01.02 Balance Sheet (Balances in '000 units)

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	554
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	201,156
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	122,196
R0140	*Government Bonds*	122,196
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	1,060
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	77,900
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	2,166,227
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	6,881,132
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	6,932,826
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	6,932,826
R0340	*Life index-linked and unit-linked*	-51,694
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,407
R0370	Reinsurance receivables	12,314
R0380	Receivables (trade, not insurance)	12,948
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	96,073
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	9,372,812

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S.02.01.02 Balance Sheet Continued (Balances in '000 units)

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	6,783,976
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	6,783,976
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	6,713,626
R0680	*Risk margin*	70,351
R0690	Technical provisions - index-linked and unit-linked	2,074,842
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	2,058,846
R0720	*Risk margin*	15,996
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	888
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	27,178
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	401
R0820	Insurance & intermediaries payables	115,898
R0830	Reinsurance payables	9,547
R0840	Payables (trade, not insurance)	62,338
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	9,075,068
R1000	**Excess of assets over liabilities**	297,744

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S.05.01.02 Premiums Claims and Expenses by LOB (Balances in '000 units)

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		523,450	146,457	15,713					685,621
R1420	Reinsurers' share		513,642	19,927	3,188					536,757
R1500	Net		9,808	126,530	12,525					148,864
	Premiums earned									
R1510	Gross		523,450	146,457	15,713					685,621
R1520	Reinsurers' share		513,642	19,927	3,188					536,757
R1600	Net		9,808	126,530	12,525					148,864
	Claims incurred									
R1610	Gross		508,877	131,021	2,213					642,111
R1620	Reinsurers' share		508,720	13,934	1,622					524,277
R1700	Net		157	117,087	590					117,834
	Changes in other technical provisions									
R1710	Gross		441,666	159,626	85					601,377
R1720	Reinsurers' share		442,295	210	0					442,505
R1800	Net		-629	159,416	85					158,872
R1900	**Expenses incurred**		62,886	11,714	9,870					84,470
R2500	**Other expenses**									
R2600	**Total expenses**									84,470

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S.05.02.01 Premiums claims expenses by country (Balances in '000 units)

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			GB	JE	PL	IM	GG	
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross		374,894	78,364	66,779	35,158	34,953	590,147
R1420	Reinsurers' share		250,296	76,368	54,254	32,603	32,178	445,699
R1500	Net	0	124,597	1,996	12,525	2,555	2,776	144,449
	Premiums earned							
R1510	Gross		374,894	78,364	66,779	35,158	34,953	590,147
R1520	Reinsurers' share		250,296	76,368	54,254	32,603	32,178	445,699
R1600	Net	0	124,597	1,996	12,525	2,555	2,776	144,449
	Claims incurred							
R1610	Gross	1,237	406,861	89,753	4,643	29,581	16,536	548,611
R1620	Reinsurers' share	1,237	300,077	88,168	4,053	28,024	15,697	437,258
R1700	Net	0	106,784	1,584	590	1,556	839	111,354
	Changes in other technical provisions							
R1710	Gross	-123	357,111	65,805	19,788	39,223	43,791	525,596
R1720	Reinsurers' share	-123	230,954	65,966	19,704	36,896	40,411	393,808
R1800	Net	0	126,157	-161	85	2,327	3,380	131,788
R1900	**Expenses incurred**		38,525	7,299	13,373	3,573	3,480	66,250
R2500	**Other expenses**							
R2600	**Total expenses**							66,250

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S.12.01.02 Life and Health SLT Technical provisions (Balances in '000 units)

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**	0	0			0					0						
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0			0					0						
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	6,767,840		2,058,846	0		-54,214	0			8,772,472						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	6,934,477		-51,694	0		-1,651	0			6,881,132						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	-166,637		2,110,539	0		-52,564	0			1,891,339						
R0100	**Risk margin**	57,531	15,996			12,819					86,347						
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole	0	0			0					0						
R0120	Best estimate	0		0	0		0	0			0						
R0130	Risk margin	0	0			0					0						
R0200	**Technical provisions - total**	6,825,372	2,074,842			-41,395					8,858,818						

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S.23.01.01 Own Funds (Balances in '000 units)

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	64,738	64,738		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	170,395	170,395			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	62,612	62,612	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	297,744	297,744	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	297,744	297,744	0	0	0
R0510	Total available own funds to meet the MCR	297,744	297,744	0	0	
R0540	Total eligible own funds to meet the SCR	297,744	297,744	0	0	0
R0550	Total eligible own funds to meet the MCR	297,744	297,744	0	0	

S.23.01.01 Own Funds Continued (Balances in '000 units)

R0580	**SCR**	236,848
R0600	**MCR**	59,212
R0620	**Ratio of Eligible own funds to SCR**	125.71%
R0640	**Ratio of Eligible own funds to MCR**	502.85%
	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	297,744
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	127,350
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	170,395
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	127,134
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	127,134

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S.25.01.21 Solvency Capital Requirement – for undertakings on standard formula (Balances in '000 units)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	133,315		
R0020	Counterparty default risk	20,820		
R0030	Life underwriting risk	162,210		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-74,669		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	241,676		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	16,067
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-20,895
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	236,848
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	236,848
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
	Approach to tax rate	C0109
R0590	Approach based on average tax rate	No

	Calculation of loss absorbing capacity of deferred taxes	**LAC DT**
		C0130
R0640	LAC DT	-20,895
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	-20,895
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

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S.28.01.01 Minimum Capital Requirement (Balances in '000 units)

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	15,727

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	2,110,539	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		1,362,308

	Overall MCR calculation	C0070
R0300	Linear MCR	15,727
R0310	SCR	236,848
R0320	MCR cap	106,581
R0330	MCR floor	59,212
R0340	Combined MCR	59,212
R0350	Absolute floor of the MCR	3,106
R0400	**Minimum Capital Requirement**	59,212