The Veterinary Defence Society Limited

Solvency and Financial Condition Report

For the year ending 31 December 2023

Contents

Summary

The Board of The Veterinary Defence Society Limited ("The Society") has prepared this Solvency Financial Condition Report (SFCR) which is an assessment of the financial position, risks and solvency status of the Society bringing together the business performance, management controls, risk appetite and risk profile.

The Society is a mutual insurance company which serves the veterinary professionals in the United Kingdom and Ireland and which underwrites only one class of business – Professional Indemnity insurance. The business strategy is built upon our vision and purpose - "To be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them, enabling them to focus on animal health and welfare".

Gross written premiums in the year to 31 December 2023 amounted to £18.471m (2022: £16.769m), a rise of 10%, driven largely by the growth in membership. We committed to a £1.2m return of premium to our renewing members in 2024.

The Group financial result for 2023 was a surplus of £2.558m compared to a loss of £2.679m in 2022, the loss in the prior year was largely due to the volatility within the financial markets which impacted on our investment portfolio, which has not been repeated in 2023. The Society's total return on its investments after tax in 2023 was a surplus of £1.231m (2022: loss of £3.725m). In 2023, we experienced continued cost pressures with an increase in claims costs of 8% and a 7% growth in net operating costs which was driven by high and rapidly rising inflation.

During 2023 action was taken to further diversify the risk and improve the ESG focus of the investment portfolio with further changes to be implemented in the first quarter of 2024. Overall investment performance was within risk appetite and the solvency position remains strong.

In our reserving we have made allowance for the likelihood of large losses on both the C&D and Negligence book, at a ratio of 2:1 for the UK and 1:1 for ROI (2022: 2:1 for UK and 1:1 for ROI) which is above historic actual experience. This level of prudence enables the Society to cover additional large claims should they arise. This reserving approach, together with the changes in the underlying performance of the book resulted in total GAAP technical provisions amounting to £10.632m in 2023 (2022: £9.417m).

The Society's governance framework and management structure support the delivery of its strategic objectives, helping to identify the associated risks and manage them through agreed strategies. They are compliant with Solvency II requirements and the Association of Financial Mutuals Corporate Governance code ("the Code").

The Society takes a conservative approach to risk, prioritising financial security, adherence to regulatory requirements and protection and support of its members.

The Solvency Capital Requirement (SCR) for December 2023 is £13.378m (2022: £11.847m), an increase of £1.531m. The increase was due to a combination of factors. Market risk increased 34%, partly due to the increase in value of the investment portfolio and partly due to the mix of assets with equity investments carrying a higher risk weighting. Underwriting risk increased by 19% reflecting growth in the business and associated claims provisions. There was a 49% decrease in counterparty default risk due to the improved credit ratings of the assets on the balance sheet. Available Own Funds have increased £1.478m to £29.127m (2022: £27.649m). The Society's Solvency ratio is 218% for the year (2022: 233%).

The Society's Own Funds are from retained profits which have arisen on past underwriting and investment performance. All capital is therefore classified as Tier 1 and there are no restrictions on the availability of Own Funds to support the MCR or SCR.

This document fulfils the requirements of the relevant EIOPA Guidelines on Submission of Information to National Competent Authorities (EIOPA CP 13/010).

The basis of rounding in the SFCR and QRTs is 'Rounding in thousands' as required in the EIOPA supervisory statement.

The document follows the same structure as the Solvency & Financial Condition Report ("SFCR") reporting set out in the Delegated Acts as adopted by the European Commission in October 2014.

The content of this Solvency and Financial Condition Report has also been guided by the Prudential Regulation Authority's SS4/13.

For material changes that have occurred in the Society's business and performance, system of governance, risk profile and capital management, please refer to the financial statements for further information.

Business and Performance

1. Company Information

The Veterinary Defence Society Limited	4 Haig Court Parkgate Industrial Estate Knutsford Cheshire WA16 8XZ Registered in England and Wales No. 02159441
The Veterinary Defence Society Limited – Irish Branch	8th Floor, Block E Iveagh Court Harcourt Road Dublin 2 Registered in Ireland No. 909190
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Regulators - UK	Prudential Regulation Authority (PRA) Bank of England 20 Moorgate London EC2R 6DA Financial Conduct Authority (FCA) 12 Endeavour Square London E20 1JN
Regulators - ROI	Central Bank of Ireland (CBI) New Wapping Street North Wall Quay Dublin 1 D01 F7X3

2. Business and external environment

The Veterinary Defence Society Limited ("the Society") is a mutual insurance company and therefore has members rather than shareholders. The Society was incorporated in 1987 as a company limited by guarantee. The Society's principal purpose is to provide professional indemnity insurance against claims arising from allegations of professional negligence and the costs of disciplinary and criminal proceedings to its members who are Veterinary Surgeons and Registered Veterinary Nurses (RVNs) in the United Kingdom and the Republic of Ireland. The Society also provides access to associated risk management services such as an advice service. Non-clinical training is provided through a subsidiary company VDS Training Services Limited. A quality improvement digital proposition, VetSafe, is provided through VDS Support Limited.

The veterinary market is currently facing higher levels of uncertainty than in previous years. This increases the range of risks it faces and also the ways in which VDS can support it. Recruitment in the veterinary market has been extremely challenging with insufficient capacity to meet growing demand, which has led to significant stretch for professionals and teams, resulting in health, wellbeing and retention issues. There has also been a change in the type of activity undertaken by veterinary nurses and paraprofessionals and a continued increase in the provision of telemedicine to meet market demand.

The increase in pet ownership through the pandemic restrictions led to a price spike which seems to have normalised in the years since the end of restrictions. However, we are now seeing a trend of a reduction in demand for routine and preventative treatments for pets due to soaring inflation and the associated "cost of living" crisis. Recent recessions do not seem to have impacted the veterinary market materially, although these did not have the high inflation dynamic and consequent squeeze on real living standards, that we are currently seeing.

The increase in corporate acquisition is continuing alongside an increased focus from the Competitions and Markets Authority on associated competition issues.

VDS is a mutual organisation protecting and supporting veterinary professionals, practices and businesses through insurance, defence, advice, guidance, training and development services. The services are built around the provision of professional indemnity insurance (PI) that then extend to protect members from the increasing range of risks that they face. The strategic plan is built around the risks and opportunities of having a single market focus at a time of significant change both within the veterinary market and the broader economic, regulatory, political and employment environment.

Our Vision is to be the most trusted partner of veterinary professionals, practices and businesses.

Our Purpose is to protect and support veterinary professionals, practices and businesses, enabling them to focus on animal health and welfare.

Our strategic plans have been developed to support our goal of becoming the most trusted partner to our members in the provision of risk management, quality improvement and patient safety services. This builds on the current strong foundations and further integrates the range of services into a broader holistic proposition. This will result in a more comprehensive and targeted flow of data and insights from our core claims activities to provide better insight to veterinary professionals, practices and businesses of their areas of risks and opportunities for improvement. This will also enable the development of training solutions targeted around these areas of risk and improvement where we can add further value to our members.

This will be enabled by two strategic investment projects. The implementation of our core legacy operating platform VDSNet4 and the redevelopment of our quality improvement digital platform VetSafe, which will also open up the opportunity for extension into other international markets for our non-insured services.

Integral themes within our Business Plan are the continuing delivery of our environmental, social and governance plans, including the management of the financial risks to the business of climate change and the next steps on our equity, diversity and inclusion plans with our vision of being a fully inclusive and equitable organisation recognising the importance of a diverse workforce.

In terms of our regulatory environment, we actively keep pace with the requirements of our regulators; the PRA and FCA in the UK and the CBI in Ireland. Key issues we have addressed throughout the year being the increased regulatory focus on governance, managing the financial risks of climate change, Operational Resilience and Consumer Duty. We are also watching the development in Solvency UK as this could have very material implications.

As an insurance mutual, the Society has no shareholders and no individual controlling party. Surpluses, which are not required by the business are returned to members by way of a reduction in future premiums where this is deemed appropriate by the Board. The 2023 financial statements reflected a return of premium of £1.2m as a Mutual Bonus with £600k charged in 2023 and £600k carried forward from prior years.

Stress testing of our plans for a severe but plausible downside scenario suggests more than adequate capital and liquidity reserves are available.

The Society's core business model is unique, utilising experienced veterinary surgeons to provide wide ranging, comprehensive and expert risk management, advice, and training services to members supported by teams with specific functional expertise and supported by a robust framework of governance, processes and policies. This helps to mitigate both the frequency and severity of claims and provides a high-quality claims service at the point of need. It provides an in-depth knowledge of our market to members, not only from a clinical perspective but across the broader spectrum of risk management activity within the profession. Combining the mutual ethos and our in-depth veterinary market expertise, we provide a comprehensive, professional protection proposition. This model includes an approach of supporting members and the broader reputation of the professions and our assessment of claims is on that basis. The Board sees it as important to maintain this core business model that extends beyond a normal insurance proposition as this provides more value to members, the model itself being regularly reviewed to ensure it remains fit for purpose.

The Business Plan 2024 – 2026 is built around the changing needs and requirements of our members that are being impacted by an environment with more uncertainty than we have seen in recent years from an economic, market and business perspective.

A central theme of the strategic plan is to strengthen our capability and proposition to become the most trusted provider of risk management, quality improvement and patient safety services. This will be achieved through:

- The further development of member services including the PI policy cover
- The development of our core legacy operating and VetSafe digital platforms to strengthen our data and insights capability supporting our quality improvement and patient safety goals
- The ongoing development of our people and ways of working framework to strengthen our capability in the areas of identified strategic development and overall levels of engagement.

These have been central to the Board's deliberations of our risks and ongoing capital requirement for solvency purposes.
Risks to our business strategy and plans are set out later in this document, as is the detail of the stress and scenario testing applied. The risks have also considered the ongoing uncertainty from the socio-economic fallout from the war in Ukraine and the current and future forecast economic conditions including impacts of inflation together with the ongoing review of charging in the profession by the Competition and Markets authority.

The Board considers the business as a going concern with financial resources available considerably in excess of its solvency and liquidity requirements.

We believe that our business model provides a blend of components that provide a bespoke foundation from which to deliver to our members, understand them and their environment in a detailed, personal and unique way. Our mutual ethos means we are here solely for the value and benefit of members, taking decisions that are commercially sustainable and efficient but not driven by short term profit objectives.

3. Performance from underwriting activities

Gross written premiums in the year to 31 December 2023 amounted to £18.471m (2022: £16.769m), and £17.871m (2022: £16.169m) after a charge for return of premium of £0.6m (2022: £0.6m).

The Return of Premium was introduced during 2015 to enable the Society to distribute a share of any surplus to members in years when accumulated reserves are above a level required to operate and invest in the business. For further information please read the Annual Report and Financial Statements for the year ended 31 December 2023.

As a risk management tool, the Society procures reinsurance to mitigate the impact and exposure to high value claims. The cost of this reinsurance for 2023 was £1.159m (2022: £1.055m).

The costs of claims incurred net of reinsurance amounted to £8.722m in 2023 (2022: £8.040m). As a Society, we continue to assess and monitor claims trends to ensure appropriate prudent levels of reserves are set aside for liabilities which will need to be settled into the future.

Operating expenses incurred in 2023 totalled £6.561m (2022: £6.158m), a 7% increase. Further information on the Society's expenditure can be found in the Annual Report and Financial Statements for the year ended 31 December 2023.

The Society remains in a strong financial position at the end of 2023 with £29.542m (2022: £27.969m) held in our investment portfolio. These investments underpin both the technical insurance reserves and the retained reserves and provide the Society with an excellent foundation from which to deliver its forward-looking strategy and continued security to our members.

Key Performance Indicators (from Financial Statements)	2023	2022
	(£000's)	(£000's)
Gross written premiums before return of premium	18,471	16,769
Return of premium	600	600
Reinsurance paid	1,159	1,055
Claims incurred net of reinsurance	8,722	8,040
Net operating expenses	6,561	6,158
Balance on technical account	2,660	915
Surplus / (loss) for financial year	2,558	(2,679)
Combined ratio[1]	91%	94%
Employee retention[2]	90%	90%

Note:
1. The combined ratio is calculated as claims incurred net of reinsurance plus net operating expenses as a percentage of gross written premiums net of reinsurance.
2. Employee retention is the number of employees at the year end as a percentage of employees at the start of the year.

4. Performance from investment activities

The Society has £29.542m (2022: £27.969m) of investments and cash which it considers to be its long-term Investment portfolio assets. These assets support the Society's retained surplus and the technical reserves (on a UK GAAP basis). These investments are managed by Legal & General Investment Management (LGIM) and Redington are engaged as the Society's investment advisors. The external cost of managing the portfolio in 2023 decreased slightly to £51k (2022: £69k) as 2022 required additional investment management advice and support from Redington as a result of the heightened volatility in the financial markets due to the economic fallout from the war in Ukraine. A summary composition of the Society's investment portfolio is shown in the table below. Further information is provided in section C2.

Market value of investment portfolio	2023	2022
	(£000's)	(£000's)
Debt securities (fixed income)	16,715	16,110
Shares and variable yield securities and unit trusts	11,525	6,961
Deposits with credit institutions	1,100	4,648
Cash in Northern Trust dealing account	1	136
Income accruals	201	114
Total invested with LGIM	**29,542**	**27,969**

The Society is exposed to market value fluctuations due to the investments being traded on active markets.

In 2023, the Society saw a recovery in the value of its investment portfolio after the reductions experienced in 2022. The ESG slanted equity investments fund improved, with an unrealised gain of £0.394m, due to a general recovery in equity markets and particularly in the US. Inflationary pressure eased towards the end of 2023 which resulted in a stabilisation in the value of our fixed income investments driven by lower long term interest rate expectations. Approximately 57% of the Society's portfolio is in designated Bond and Gilt investment funds. The Society also has an investment in a property fund (2023: £6.922m). The property fund has experienced a net reduction in value of c.3% in the year due to uncertainty over rental yields in the commercial and retail property sectors.

The Society's total return on its investments after tax in 2023 was a surplus of £1.231m (2022: loss of £3.724m). A summary is set out in the table below.

Material sources of income for the Society arise from written premiums and income received from investments, whilst material sources of cost are borne from reinsurance contracts, claims incurred, and net operating expenses as noted in the table in Section 3 above.

Investment return	2023	2022
	(£000's)	(£000's)
Income from investments	980	490
Realised gain on investments	34	41
Unrealised gain / (loss) in investments	791	(4,846)
Investment management expenses and charges	(51)	(69)
Total investment return / (loss)	**1,754**	**(4,384)**
Tax on income from investments	(523)	660
Total investment return / (loss) after tax	**1,231**	**(3,724)**

5. Performance of other activities

The Society has two established active subsidiary companies, VDS Training Services Limited and VDS Support Limited. These are non-regulated entities and consequently, their financial results are not included in this document.

The training company was incorporated in 2017 to accommodate our increased focus in non-clinical training as part of our strategic plans. Although VDS Training operates outside of the UK and Irish regulatory regimes it is part of the VDS 'family' establishing the link between risk management training and the insurance product and risk management services.

VDS Support was incorporated in 2018 to facilitate the offering of third-party products and risk management services to VDS members. These services include VetSafe, our in house risk management and incident recording software, which is currently being developed and will be available to members as a benefit of holding a policy with the Society.

6. Any other information

The underlying economic outlook regarding rising inflation and interest rates have been considered as part of the Going Concern analysis. On the basis of a severe but plausible downside scenario over a 3-year planning cycle, the Society remained well within the regulatory and Board appetite for the SCR.

A. System of Governance

1. General governance arrangements

The Society's governance framework and management structure support its strategic objectives, help identify the risks that may affect the delivery of these strategic objectives and are transparent and compliant with Solvency II requirements and the principles of the Association of Financial Mutuals Annotated Combined Code on Corporate Governance for mutual insurers ("the Code").

The Code sets out a series of principles of good corporate governance that mutual members apply within their businesses. The Code sets expectations of directors from a range of sources, including relevant legislation, rules set by regulators in the financial services industry and internationally recognised standards.

The Board composition and committee structures and members are shown below as at 31 December 2023.

VETERINARY DEFENCE SOCIETY BOARD

Executive Directors
Mr Raman Sankaran - CEO
Mr Alan Kirkwood - Chief Financial Officer

In Attendance
Ms Carolyn Davidson - Head of Governance, Risk & Compliance
Mr David Rowley - Chief Information Officer
Ms Joanne Stonehewer - Director of Membership
Ms Catherine Oxtoby - Head of Underwriting & Pricing
Ms Nichola Saunders - Head of Claims
Ms Carolyne Crowe - Head of Training

Non-Executive Directors
Ms Mary Stewart - Chair of Board
Mr Richard Coates - Senior Independent Director
Mr Gavin Lawrie
Ms Gudrun Ravetz
Mr Andrew Davies
Mr David Brown
Ms Elizabeth Thorne

AUDIT COMMITTEE

Non-Executive Directors
Mr Richard Coates (Chair)
Ms Elizabeth Thorne
Mr Andrew Davies
Ms Gudrun Ravetz
Mr David Brown

In Attendance
Mr Raman Sankaran (CEO)
Mr Alan Kirkwood (CFO)
Ms Helen Taitt (Head of Finance, Planning & Analysis)
Ms Carolyn Davidson (Head of GRC)
PwC LLP - External Auditors
RSM LLP - Internal Auditors
Prakash Mistry (Internal Audit & Comp Manager)

RISK & COMPLIANCE COMMITTEE

Non-Executive Directors
Ms Elizabeth Thorne (Chair)
Mr Richard Coates
Mr Andrew Davies
Ms Gudrun Ravetz
Mr David Brown

Executive Directors
Mr Raman Sankaran (CEO)

In Attendance
Ms Carolyn Davidson (Head of GRC)
Mr Alan Kirkwood (CFO)
Ms Helen Taitt (Head of FPA)

NOMINATIONS COMMITTEE

Non-Executive Directors
Ms Gudrun Ravetz (Chair)
Mr Gavin Lawrie
Ms Mary Stewart

Executive Directors
Mr Raman Sankaran
Mr Alan Kirkwood

In Attendance
Ms Carolyn Davidson (Company Secretary)

EXECUTIVE COMMITTEE

Mr Raman Sankaran (CEO)
Mr Alan Kirkwood (CFO)
Mr David Rowley (Chief Information Officer)
Ms Joanne Stonehewer (Director of Membership)
Ms Carolyn Davidson (Head of GRC)
Ms Catherine Oxtoby (Head of Underwriting & Pricing)
Ms Nichola Saunders (Head of Claims)
Ms Carolyne Crowe (Head of Training)

REMUNERATION COMMITTEE

Non-Executive Directors
Mr Gavin Lawrie (Chair)
Ms Mary Stewart
Mr Andrew Davies
Ms Elizabeth Thorne

In Attendance
Mr Raman Sankaran (CEO)

The Society has considered the application and relevance of those principles to its corporate governance arrangements and is pleased to confirm that it has applied the principles of the Code as follows.

Principle One – Purpose and Leadership

An effective board promotes the purpose of an organisation, and ensures that its values, strategy, and culture align with that purpose.

The principal functions of the Society's Board are the determination of the Society's strategic direction (including its key financial objectives), the review of business and financial performance and ensuring effective systems and controls are in place for risk management.

The Board meets every two months, with a two-day Board meeting at least twice a year to allow time for detailed strategic planning, a review of policies and Board training. There is a formal Schedule of Matters reserved for the Board and the Board has full and timely access to all relevant information to enable it to discharge its duties effectively.

The Non-Executive Directors meet without the Executive Directors present at least once a year. The Board normally conducts an annual self-assessment exercise to review its effectiveness and highlight any areas which should be improved.

There are four Board committees; Audit, Risk & Compliance, Nominations and Remuneration, each with clear terms of reference, which are published on the Society's website. The composition of each committee is reviewed in July each year by the Chair and any changes are approved by the Board.

Audit Committee ('AC') - The committee is chaired by Non-Executive Director, Richard Coates. Richard is a chartered accountant with the required financial experience to carry out this role. He is supported on the committee by Non-Executive Directors, Gudrun Ravetz, Andrew Davies, Elizabeth Thorne, and David Brown.

This committee monitors internal controls, financial reporting, risk management and regulatory compliance matters. It reviews the work of the Internal Audit, Risk & Compliance functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditors, and reviews and monitors the external auditors' independence, objectivity and the effectiveness of the audit process. The committee also has responsibility for ensuring that effective whistle-blowing arrangements are in place, which enable any concerns to be raised by employees in confidence. A separate report on the work of the Audit Committee during 2023 is provided below.

The Chief Executive Officer, Raman Sankaran, Chief Financial Officer, Alan Kirkwood, Head of Governance, Risk, and Compliance (CRO), Carolyn Davidson, and representatives from the internal and external auditors also attend committee meetings. Other members of the management team attend as required.

Remuneration Committee ('RC') - The committee is chaired by Non-Executive Director, Gavin Lawrie. Non-Executive Directors Mary Stewart, Andrew Davies and Elizabeth Thorne are the other members of the committee. The committee's main role is to determine and agree with the Board the Society's Remuneration Policy which sets out the criteria for the remuneration of the Chair of the Board, Executive Directors and senior management falling within the remit of the Remuneration Committee.

The Chief Executive Officer also attends committee meetings.

Nominations Committee ('NC') - The committee is chaired by Gudrun Ravetz. The other members of committee are Gavin Lawrie, Mary Stewart, the Society's Chief Executive Officer, and Chief Financial Officer. The committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive succession planning, the appointment of new directors and the election and re-election of directors. The committee is guided by the ongoing work of Executive to strengthen the Society's approach to matters of Equality, Diversity and Inclusion.

Risk & Compliance Committee ('RCC') - The committee is chaired by Non-Executive Director, Elizabeth Thorne, Non-Executive Directors, Richard Coates, Andrew Davies, Gudrun Ravetz, David Brown and the Society's Chief Executive Officer form the rest of the RCC. The Society's Chief Risk Officer attends every meeting of the RCC.

The RCC oversees the risk management and compliance functions to ensure the effective operation of risk management policies, systems and documented procedures and other internal controls. The committee has special responsibility for overseeing the Society's Investment Policy, including the Society's relationship with its investment managers.

The Society's Chief Financial Officer and Head of Finance, Planning and Analysis, Helen Taitt, also attends committee meetings.

Principle Two – Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience, and knowledge, with individual directors having enough capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.

The composition of the board

As at 31 December 2023, the Board comprised two Executive Directors and seven Non-Executive Directors.

All the current Non-Executive Directors have served on the Board for less than nine years.

In the view of the Board, all the Non-Executive Directors are independent in character and judgement and can bring wide and varied commercial experience to Board deliberations.

Richard Coates is the Senior Independent Director. He is available to members if they have concerns which they either have been unable to resolve or feel cannot be resolved by contact through the normal channels of the Chair of the Board or the Executive Directors.

Appointment to the board

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. Candidates are identified either by targeted recruitment campaigns in the veterinary press or using external search consultants. All appointments to the Board however are made on merit against objective criteria and in line with the requirements of the succession plan. All directors must meet and maintain the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority, and where relevant, the Central Bank of Ireland.

All Board and senior management appointments are subject to the regulatory requirements of the Senior Managers' & Certification regime and Solvency II governance requirements.

Commitment

The Nominations Committee evaluates the ability of directors to commit the time required for their role prior to appointment. The formal appraisal process carried out by the Chair of the Board each year also assesses whether Non-Executive Directors have demonstrated this ability during the year.

When appointing the new Non-Executive directors during 2023, the Board pursued a vigorous and thorough process to ensure that the most appropriately qualified candidates were identified. The process considered the current skills set of the Board and the future business and leadership needs of the Society. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business need and our stakeholders.

The Nominations Committee keeps under review the size and structure of the Board and makes any recommendations for change if it believes it appropriate to do so.

Principle Three – Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

Development

On appointment, directors are provided with a structured induction programme tailored to their individual needs. To ensure their skills remain current, directors attend conferences and seminars. Training and development needs are identified as part of the annual appraisal of directors and in-house training is provided to the Board throughout the year by the Society's external advisers and by other parties, as appropriate.

Information and support

The Chair of the Board ensures the Board receives sufficient, accurate, timely, and clear information to enable it to fulfil its responsibilities. The directors have access to the advice and services of the Company Secretary and, if necessary, they may take appropriate, independent professional advice at the Society's expense.

Performance evaluation

The Society normally undertakes an internal Board evaluation process every year. In addition, the performance of the Non-Executive Directors is evaluated annually by the Chair of the Board. In turn, the Chair of the Board is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other Non-Executive and Executive directors. The Chief Executive Officer is also evaluated by the Chair of the Board. The Chief Executive conducts annual appraisals of the Executive team. Non-Executive Directors who have served more than six years on the Board are subject to a particularly rigorous performance evaluation in line with the Code's requirements. The membership and terms of reference of the Board committees are reviewed and agreed by the Board at the first Board meeting held after the AGM.

Re-election

The Board seeks to ensure planned and progressive refreshing of its membership. All directors are subject to election by members at the Annual General Meeting following their appointment.

Non-Executive Directors are subject to re-election at regular intervals according to their terms of appointment. Executive Directors appointed after the AGM 2017 are now also required to offer themselves for re-election by the members every three years. Non-Executive Directors serving over nine years will be subject to re-election annually.

During 2023, Mary Stewart, BVM&S MRCVS was subject to election to the Board by the members at the AGM 2023, having been elected to the Board in 2022. Elizabeth Thorne and David Brown were elected to the Board in 2023, also subject to election to the Board by members at the AGM 2023. All three resolutions were passed at the AGM 2023.

Also during 2023, Gavin Lawrie, Andrew Davies, and Raman Sankaran retired by rotation from the Board and were re-elected to office as Directors at the AGM. The structure of the Board and Board committees and the activities and decision making of the Board and its committees are clearly defined. The Chair and Company Secretary have reviewed current processes and the annual Board timetable of activities has been updated to provide continued clarity in 2024.

Principle Four – Opportunity and Risk

A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Financial and business reporting

The Schedule of Matters reserved for the Board sets out the Board's responsibilities in relation to the preparation of the Annual Report and Financial Statements. Business performance is reviewed in the Chair's Statement.

The Strategic Report provides a review of the Society's business during the year together with an explanation of its principal risks and how they are managed, including a review of financial risk management. The report also includes further information on the Society's business model.

Risk management and internal control

The Board has delegated responsibility for oversight of risk management to the RCC. The Internal Audit function provides independent assurance to the Board on the effectiveness of the systems of internal control through their reporting to and attendance at the RCC.

The information received and considered by the Committee provided assurance that during the financial year there were no material breaches of control or regulatory standards. The RCC continuously works to improve the control environment and management of risk. Further information on the Society's approach to risk management is included in the Strategic Report.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, considering pay and conditions elsewhere in the organisation.

Remuneration

The Society's Remuneration Committee is responsible for recommending the Remuneration Policy to the Board and then providing oversight of its implementation, including making decisions where appropriate on remuneration issues. The committee adopts a rigorous approach to determining appropriate levels of remuneration and is guided by appropriate external benchmarking in the veterinary and financial services sectors before recommending remuneration which it considers necessary to attract, retain, and motivate employees of the right calibre.

Executive remuneration is not currently linked to corporate or individual performance. No Executive Director or Senior Manager has an employment contract with a notice period exceeding 26 weeks.

The Society's Remuneration Policy has to date secured and retained senior employees of the right calibre, sharing a common purpose aligned to the Society's strategy.

Principle Six – Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Dialogue with members

As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a variety of ways, including feedback provided directly to Executive Team members and other employees throughout the year at conferences and seminars. A wide range of member measures and feedback are reported to the Board, including summaries of our ongoing focus group programme as well as reporting on our support for vulnerable customers. We also have Non Executive Directors who are themselves members in order to gain direct insights and perspectives of the market and current trends.

Members are invited to attend the AGM, where they can ask questions and voice their opinions.

Constructive use of the Annual General Meeting

Each year the Society sends details of the AGM and proxy voting forms to all members who are eligible to vote. The Society makes a small donation to veterinary charities for each proxy vote returned.

All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer questions.

It is a constant theme of the Board to continually assess whether the Society continues to meet the ever-changing needs of the veterinary profession, and this underpins all strategic and operational discussions at Board and Executive level. In meeting members' requirements, the Society is alert to every opportunity to obtain feedback from its members and fully utilises its links into the profession provided by our member facing teams.

Audit Committee Report

The committee met five times during 2023.

The role and membership of the AC is set out earlier in this report.

During 2023, the committee assisted the Board in discharging its responsibilities for financial reporting, corporate governance, internal controls, internal and external audit, and risk management. In carrying out its role, the committee took steps to ensure that it could, where necessary, make recommendations to the Board following the output of the internal and external audit functions and the committee reported to the Board throughout the year in their respective reports. In doing so, the committee was able to assure the Board of the effectiveness of the Society's audit programme and of the independence and objectivity of the internal and external auditors. The Society's internal audit function is outsourced to RSM LLP ('RSM'). The risk-based audit programme ensures that the committee is provided with internal audit reports aligned to the Society's strategy. During 2023 the following internal audits were completed:

- Financial Crime
- Operational Resilience
- Underwriting and Pricing Process
- Regulatory Reporting
- Product Governance
- Consumer Duty

Where recommendations were identified, and agreed with management, the committee oversaw the completion and embedding of those activities. The committee continues to monitor the implementation of internal audit recommendations as part of its ongoing role.

PricewaterhouseCoopers LLP (PwC) are the Society's external auditors and the committee worked with them in agreeing an appropriate audit plan for the year ending 31 December 2023. The plan set out PwC's approach to the audit of the Society's Annual Report and Financial Statements 2023. The plan also highlighted key areas of audit risk. The committee took account of a number of audit risks and other key areas of focus identified by PwC which informed their audit activities.

During 2023, the Audit Committee discharged its responsibilities by:

- Reviewing the Society's Annual Report and Financial Statements prior to Board approval and reviewing the external auditors' detailed reports thereon, in respect of the year ended 31 December 2022.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2023 audit fee in conjunction with an assessment of external auditors' performance.
- Reviewing the plan for the audit of the Society's financial statements, including an assessment of key risks, the committee requested from the external auditors their assessment of any threats to independence, which the committee reviewed and determined.
- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.
- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Society's policies relating to fraud, whistleblowing, and conflicts of interest.
- Reviewing and overseeing the Society's Own Risk and Solvency Assessment in accordance with the requirements of Solvency II.
- Reviewing the provision of internal audit services and updating the three-year internal audit programme.
- Oversight of a tender for external audit services.

The Board Responsibilities

The Board maintains ultimate responsibility for overseeing the running of the Society. Its responsibilities include:

- Providing leadership in the setting of the Society's culture, vision, mission, and strategic direction.
- Approval of the Strategic Plan (which includes Business Strategy, Underwriting, Claims and Reinsurance Strategy, Investment Strategy, Financial and Capital Management and Risk Management), risk appetite, operational objectives and plans, policies, procedures and budgets or any changes to any of these.
- Reviewing progress against the Strategic Plan, operational objectives and plans, budgets and financial performance and the Society's risk appetite, noting exceptions and approving mitigating actions.
- Participating in identifying the principal risks of the business, to achieve a proper balance between risk and returns and to oversee the implementation of appropriate systems to monitor, manage and mitigate the risks.
- Ensuring compliance with statutory and regulatory obligations by overseeing the implementation of appropriate systems and procedures.
- Approving the decision to start activity and/or expenditures outside of strategy, plans, budgets and/or agreed limits, or to cease to operate all or any material part of the Society's business.
- Having oversight of the Society's framework for the management of claims and taking decisions on any claims matter referred to the Board including by virtue of the Exercise of Discretion Policy and any amendment thereof.
- Ensuring adequate succession planning, selection, and appointments to the Board so that membership, size, and structure of the Board is appropriate. This includes selection of the Chair, Chief Executive Officer (CEO), Senior Independent Director, Chairs and Members of Board Committees and the Company Secretary; and
- Determining the remuneration for Directors, Company Secretary, and other senior executives as defined in the Remuneration Policy.

The Executive Committee is led by the CEO and reports to the Board. It is responsible for:

- Ongoing review, development and implementation of strategy, risk appetite, business and operational plans and objectives, policies, procedures, and budgets for Board approval as required.
- Leading a consistent culture and demonstrating the Society's values and ensuring these are widely understood and adhered to.
- Ensuring that members with characteristics of vulnerability are receiving outcomes that are as good as outcomes received by other members.
- Ensuring that the Society and its employees act with integrity aligned to the Society's vision, purpose, and values.
- Driving an agenda of colleague engagement, inclusion, and diversity in the composition of the Society's workforce.
- Implementing agreed strategy, business and operational plans, policies, procedures, and budgets.
- Monitoring and reporting progress to the Board against strategic and operational plans, budgets and financial performance, risk appetite and highlighting exceptions and mitigating actions.
- Providing the Board and Board Committees with clear, timely and appropriate management information.
- Developing and implementing the Society's Investment Strategy as approved by the Board.
- Implementing and engendering a costs savings culture and driving for efficiencies wherever possible.
- Identifying business opportunities outside the business plan and implementing them if and when appropriate as agreed.
- Ensuring compliance with financial services, data protection and other relevant legislation, regulation and policies including managing the statutory and regulatory reporting processes.

- Implementing appropriate senior management arrangements, systems, and controls in compliance with the PRA, FCA and Irish Branch equivalent requirements.
- Implementing the governance and other requirements for UK Solvency II firms in accordance with the PRA rulebook, Solvency II regulation or EIOPA guidelines as may be amended from time to time.
- Implementing appropriate systems for the monitoring, management, and mitigation of risk, including setting the risk management culture.
- Prioritising and allocating resources whilst ensuring appropriate delegation of authority.
- Reviewing the organisational structure of the Society and ensuring the provision of adequate personal development and remuneration structures.
- Giving due regard to any relevant legal or regulatory requirements and associated best practice guidance, as well as to the risk and reputation implications of its decisions (liaising where relevant with the Board and Board Committees).
- Having oversight of the Society's framework for the management of claims and taking decisions on any claims matter referred to the Executive including by virtue of the Exercise of Discretion Policy and any amendment thereof.
- Monitoring the Society's Irish Branch activity and to receive a report each month from the Irish Branch manager.
- Identifying, managing, and mitigating risks associated with the Society's overall approach to Environmental, Social and Governance matters, including the management of financial risks associated with climate change (and all relevant and related initiatives and requirements of the regulators) and to review at monthly Executive meetings.
- Ensuring the implementation of plans and activities that cover all responsibilities to VDS employees.

The Board has delegated responsibility for overseeing the Society's risk management to the RCC. The information received and considered by the RCC provided assurance that during the financial year the risks were managed within the parameters of the Risk Framework.

The externally provided, Internal Audit function is outsourced to RSM LLP ('RSM') who provide independent assurance to the Board on the effectiveness of the systems of internal control through their reporting to, and attendance at, the Audit Committee. For further information see section B5. The information received and considered by the Audit Committee provided assurance that during the financial year there were no material breaches of control or regulatory standards.

Senior Managers' Responsibilities

The table on the next page shows the allocation of the Prescribed Responsibilities to the Senior Management Function holders as appropriate under the PRA's Senior Managers' Regime.

Ref	PRA, FCA OR DUAL	Allocation of 19 Prescribed Responsibilities to SMF (for UK)	Allocation - VDS Role	Names
A	Dual	Responsibility for the performance by the firm of its obligations under the Senior Manager's Regime, including implementation and oversight.	CEO Head of Governance, Risk & Compliance	R. Sankaran (Lead) C. Davidson (Support)
B	Dual	Responsibility for the firm's performance of its obligations under the employee certification regime.	CEO Head of Governance, Risk & Compliance	R. Sankaran (Lead) C. Davidson (Support)
C	Dual	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map.	Head of Governance, Risk & Compliance	C. Davidson (Lead)
F	Dual	Responsibility for: (a) leading the development of; and (b) monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body.	Chair of Governing Body CEO Head of Governance, Risk & Compliance	M. Stewart (Lead) R. Sankaran (Support) C. Davidson (Support)
G	Dual	Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all of the firm's senior managers/ key function holders (other than members of the firm's governing body).	Head of Governance, Risk & Compliance CEO	C. Davidson (Lead) R. Sankaran (Support)
M	Dual	Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices.	Chair of Remuneration Committee	G. Lawrie (Lead)
J-2	Dual	Responsibility for providing for and oversight of the internal audit function, where this function is outsourced to an external third-party provided by a non-significant firm.	Chair of Audit Committee	R. Coates (Lead)
N	Dual	Responsibility for oversight of the independence, autonomy and effectiveness of the whistleblowing polices and procedures, including those for the protection of staff raising concerns. Responsibility for Whistleblowing (The whistleblowers' champion's allocated responsibilities are set out in SYSC 18.4.4R).	Senior Independent Director	R. Coates (Lead)
B-1	FCA	Responsibility for the firm's obligations in relation to individual conduct rules for training and reporting (under Code of Conduct) (COCON).	Head of Governance, Risk & Compliance	C. Davidson (Lead)
D	FCA	Overall responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime.	Chief Financial Officer	A. Kirkwood (Lead)
Z	FCA	Overall responsibility for the firm's compliance with CASS.	N/A	N/A
H	PRA	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm.	CEO Chair of Governing Body	R. Sankaran (Lead) M. Stewart (Support)
I	PRA	Responsibility for leading the development of the firm's culture by the governing body as a whole.	Chair of Governing Body CEO	M. Stewart (Lead) R. Sankaran (Support)
O	PRA	Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity.	Chief Financial Officer	A. Kirkwood (Lead)
Q	PRA	Responsibility for the production and integrity of the firm's financial information and its regulatory reporting.	Chief Financial Officer	A. Kirkwood (Lead)
T	PRA	Responsibility for the development and maintenance of the firm's business model by the governing body.	CEO	R. Sankaran (Lead)
T-2	PRA	Responsibility for the performance of the firm's Own Risk and Solvency Assessment (ORSA).	Chief Financial Officer Head of Governance, Risk & Compliance	A. Kirkwood (Lead) C. Davidson (Support)
U	PRA	Responsibility for the firm's performance of its obligations under Fitness and Propriety (in the PRA Rulebook) in respect of notified non-executive directors and those who perform a key function (where applicable for insurers).	Chair of Governing Body CEO Head of Governance, Risk & Compliance	M. Stewart (Lead) R. Sankaran (Support) C. Davidson (Support)
X	PRA	Responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook (for CRR and non CRR firms), Conditions Governing Business 7 (for SII firms and third country branches).	N/A	N/A

**Lead indicates overall responsibility for the Prescribed Responsibility*

The following tables summarise the division of responsibilities between the individuals for the Senior Management functions.

	PRA & FCA - SENIOR MANAGEMENT FUNCTIONS												
	Chief Executive Function	Chief Finance Function	Chief Risk Function	Chair of the Governing Body	Chair of the Risk & Compliance Committee	Chair of the Audit Committee	Chair of the Remuneration Committee	Chair of the Nominations Committee	Senior Independent Director	Compliance Oversight	Chief Actuary Function	Chief Underwriting Officer Function	Chief Operations Function
APPROVED PERSONS	SMF1	SMF2	SMF4	SMF9	SMF10	SMF11	SMF12	SMF13	SMF14	SMF16	SMF20	SMF23	SMF24
PRA or FCAS SMF	PRA	PRA	PRA	PRA	PRA	PRA	PRA	FCA	PRA	FCA	PRA	PRA	PRA
M. Stewart				✓									
R. Sankaran	✓												
R. Coates						✓			✓				
G. Lawrie							✓						
E. Thorne					✓								
G. Ravetz								✓					
C. Oxtoby												✓	
C. Davidson			✓							✓			
A. Kirkwood		✓									✓		
J. Stonehewer													✓
D. Rowley													✓

	CENTRAL BANK OF IRELAND				
	Head of Compliance	Head of Internal Audit	Chief Risk Officer	Branch Manager	Head of Actuarial Function
PRE-APPROVED CONTROLLED FUNCTION (PCF)	PCF 12	PCF 13	PCF 14	PCF 41	PCF 48
C. Davidson	✓		✓		
R. Coates		✓			
A. Cummins				✓	
J. Kelleher (KPMG)					✓

The individuals possess the qualities required to discharge their respective duties; collectively they are able to provide for the sound and prudent management of the Society.

The Society has a governance and risk management framework which is appropriate to its business so that it can evaluate its strategy and measure this against its risk profile. The Board is responsible for approval of key policies regarding the governance of the Society.

In the ordinary course of business, a number of the Executive team, Non-Executive Directors, and Senior Managers hold policies, and these are handled consistently both in terms of premium payments, and where claims arise. These are not considered to be material to either the Society or the related parties.

2. Fit and proper

The Board is responsible for the appointment of roles requiring regulatory approval (Approved Persons), as well as other key roles and the Society's policy on this is set out in the Senior Managers and Approved Persons Policy.

Solvency II, the regulatory framework for insurance companies, outlines specific requirements regarding the board of directors and systems of governance. The key points are:

- **Fit and Proper Requirements**: Solvency II requires that members of the board of directors, as well as key function holders and other individuals in key positions within the organisation, are fit and proper to fulfil their roles. This includes having the necessary skills, experience, and integrity to effectively contribute to the governance and management of the Society.

- **Roles and Responsibilities**: The directive stipulates that the board of directors is ultimately responsible for the governance of the Society. This includes setting the strategic direction, overseeing the management of risks, ensuring compliance with regulatory requirements, and safeguarding the interests of policyholders and other stakeholders.

- **Risk Management Oversight**: Solvency II mandates that the board of directors has oversight responsibility for the Society's risk management framework. This includes approving risk management policies, monitoring the effectiveness of risk management processes, and regularly reviewing and assessing the Society's framework.

- **Internal Control and Compliance Oversight**: The board of directors is also responsible for overseeing the establishment and maintenance of effective internal control systems and compliance frameworks within the Society. This includes ensuring the accuracy and reliability of financial reporting, as well as compliance with applicable laws, regulations, and internal policies.

- **Appointment and Composition**: Solvency II requires that the board of directors is composed of individuals with diverse skills, experience, and backgrounds relevant to the insurance business. There should be a balance of executive and non-executive directors, and the board should include independent directors who can provide objective oversight and challenge management decisions when necessary.

- **Ongoing Training and Development**: The directive encourages organisations to provide ongoing training and development opportunities for board members to enhance their knowledge and understanding of the insurance business, regulatory requirements, and emerging risks.

Overall, Solvency II places significant importance on the role of the board of directors in ensuring effective governance and risk management within the Society. The directive establishes clear expectations for the composition, responsibilities, and conduct of the board to promote the financial stability and soundness of the Society.

The qualifications, experience, and knowledge of the VDS Board members are scrutinised by the Nominations Committee during the recruitment process. References are obtained, criminal records checks are completed, and the Company Secretary and HR function retain files recording this information. Members of the Board attend professional development events both externally and provided internally by the Society.

In addition to the annual Board effectiveness evaluation, the Chair of the Board carries out individual annual appraisals with each Non-Executive Director. Consistent with the Code, these reviews consider the balance of skills, experience, independence and knowledge of the Society on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness. The Chair of the Board is appraised by the Senior Independent Director each year, taking into account the views of the other Non-Executive and Executive Directors.

The Society's processes ensure that all Senior Management Function holders, Key Function holders, individuals who perform Key Functions and Notified NEDs are at all times fit and proper persons. Currently, the Society does not outsource any Senior Management Function.

Any breaches of the Fit and Proper requirements are internally reported to the RCC. The Company Secretary is responsible for notifying the FCA and PRA of the change in circumstances and what remedial action is being undertaken by the Society.

The members of the Board (shown in section A1) are all PRA/FCA or CBI approved persons or Notified Non-Executive Directors.

Assessing “Fit and “proper”

The Society has established processes for ensuring all employees maintain the qualities needed for the effective and prudent operation of the Society. Qualities considered include both professional and technical competence, as well as an assessment of the person against the regulatory and internal ‘fit and proper’ requirements. Professional competence is based on the individual's experience, knowledge, and professional qualifications, and whether the individual has demonstrated due skill, care, diligence, and compliance with relevant standards in their subject matter area. The assessment includes taking account of whether the individual is of good repute, and the obtaining of relevant references. Before an application for the approval of a Senior Manager is submitted to the regulators, regulatory references are also obtained.

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

The Society operates a compliance and risk management framework, supported by documented principles and standards, comprising of a three lines model for the identification, management, monitoring and reporting of risk as follows:

- **1st Line** – Executive, Senior Management and Operations Teams.
- **2nd Line** - Risk, Governance and Compliance, Actuarial and Data Protection.
- **3rd Line** - Internal and External Audit

Section 4 provides further detail on this.

Overall, the Board has a conservative approach to risk and is satisfied with keeping the Society as a relatively low risk/stable return operation that does not require an excessive amount of Board intervention. The Society's Risk Management Policy is a fundamental means by which the Society can maintain effective internal systems of control and governance. The Board, which regularly reviews the Risk Management Policy, has delegated responsibility for day to-day management and reporting of risk to the Executive Committee and RCC in accordance with the Policy.

Executive reviews the Risk Register on a regular basis and updates the register where appropriate throughout the year, including an assessment of emerging risks. A report from the Chief Risk Officer is provided to every meeting of the RCC.

The Society's risk strategy is focused on mitigating the risks of not meeting strategic objectives, which are captured and monitored through the Society's Risk Register. Risk appetite statements are defined by the Board to set limits on the amount of risk it should accept or tolerate. The risk appetite is directly linked to business strategy and the principal risks to which the Society is exposed. Any changes to business strategy as a result of strategic review will be reflected in the risk appetite statements as necessary over the planning period.

These are a mixture of quantitative and qualitative measures. Monitoring of the Society's risk profile against these appetite statements is carried out by the Executive Committee.

The Board has agreed that the tolerance value be defined as the limits that would trigger management review and action as appropriate. These triggers would be significant changes to the business strategy or circumstances that impacted on the Technical Provisions or the investment valuations. The tolerance values are defined for a 12-month period. The Board reviews the risk appetite statements and confirms the tolerance range.

Own Risk and Solvency Assessment (ORSA)

The Society continues to develop and embed a risk management framework which is appropriate to its business so that it can evaluate its strategy and measure this against its risk profile to determine the Society's overall solvency needs. The ORSA is integral to the business strategy and is carried out through the processes and procedures employed to identify, assess, monitor, manage and report the short and long-term risks. This includes current and future risks, which help to determine the Own Funds necessary to ensure that our overall solvency requirements are met.

The Society's Board and senior management use the ORSA as a key tool in informing and evidencing strategic decision-making. The ORSA process is used to evaluate the business planning process.

The following processes form the basis for the completion of the ORSA report and reflect the nature, scale, and complexity of the Society.

1. The Executive Committee reviews and updates the Risk Register throughout the year, to evaluate whether the Society's risk profile will change as a result of the implementation of the business strategy or other external factors impacting the business during the planning period. The RCC reports on the risk profile to the Board.

2. The business strategy and risk appetite are annually agreed by the Board and monitored by Executive throughout the year. The position of the risk profile against the defined risk appetite metrics is evaluated and any deviations outside the agreed risk appetite are highlighted for review and action.

3. The Executive Committee performs stress testing and scenario analysis based on the business strategy and outline budget, and any emerging risks identified which are associated with these. This exercise evaluates the occurrence of unexpected plausible extreme events (stress testing) and the impact of two or more extreme events occurring in a short period of time (scenario testing) on the available capital, as well as scenarios that could lead to the insolvency of the Society.

4. The Standard Formula is used for the calculation of solvency requirements for the quantifiable risks in the ORSA and is carried out by the Chief Financial Officer with the support of external actuarial consultants. The Executive Committee reviews the Solvency Capital Ratio (SCR) and solvency projection against the conclusions of the stress testing and scenario analysis to identify whether any capital adjustments are required for non-quantifiable risks, risks that have been overstated by the Standard Formula, and risks that have not been included in the Standard Formula.

5. The Board concludes whether there should be any changes to the capital held over the planning period and whether additional capital needs to be retained or risk exposures reduced by the utilisation of risk transfer strategies. All these conclusions are documented in the ORSA report.

The ORSA process below identifies the key activities that support the ORSA for the Society.

Role of the Board

The ORSA is the responsibility of the Board and is regularly (at least annually) reviewed and approved by the Board.

The Board has taken an active part in the ORSA including steering how the assessment is performed and challenging the results. The Board has reviewed, challenged and used the ORSA Report to reaffirm the risk tolerances adopted by Executive and management.

The Executive Committee provides oversight of the process and ensures that technical expertise is available to provide input and challenge the ORSA process. The ORSA is reviewed and challenged by the Executive Committee, Chief Actuary Function and RCC; the resulting ORSA is then discussed and challenged by the Board before any approval is given.

Risk Register

The Society maintains a risk register where all material risks, causes and consequences, together with appropriate mitigating controls and risk assessments are captured. The analysis of inherent and residual risk is subject to ongoing review and approval reported to the Executive Committee and the RCC. Particular consideration and discussion are focussed on the Society's top risks and any changes to their risk profile.

The risk register documents all material risks, causes and consequences, together with relevant mitigating controls and risk assessments. Each risk identified is assessed and, so far as is possible, quantified, in terms of frequency and severity, and scored using a standard matrix on an inherent and residual basis (i.e., before and after the effect of controls). The Society continues to develop and embed its risk management policies and procedures with a view to continuously improve its controls. Based on the impact and the likelihood of the risk occurring, risks are classified as High, Medium, and Low for both inherent and residual risks. Throughout 2023, the Society had a stable risk profile with the key risks remaining relatively unchanged. Risk appetite has been set regarding key risk exposures and emerging risks. (Further information is provided in section C.)

Risk ownership and accountability

To ensure risk is managed responsibly, the Society assigns key risk categories and risks to 'owners' based on their functional areas and level of seniority. Risk owners are accountable for the risk areas they oversee, and they are expected to raise and escalate issues promptly to the Governance, Risk, and Compliance Function.

Risk policies

As part of the Society's risk management framework, the Governance, Risk, and Compliance Function, in conjunction with the Executive Committee, has developed appropriate risk policies. The policies are aligned with the commonly used risk category definitions within the sector and incorporate the key risks which are identified and assessed, together with the controls and ways of mitigation. Each risk is assigned a risk owner, who is responsible for the ongoing review of their risks, monitoring adherence to policy requirements, and reporting in accordance with the documented risk appetite.

4. Internal Control

The Society adopts the 'Three lines' model as its risk governance operating model. This framework is well established in the (re) insurance and broader financial services industry. The Society has an established system of internal controls to mitigate the risks it faces. The system comprises detailed policies and procedures to ensure an adequate degree of risk oversight across the business. The RCC provides an oversight mechanism and is an integral part of the internal control framework. The internal control system is embedded in the three lines model and particularly the work of the second- and third-line functions, which support the control assurance processes and ensure that the system of internal controls operates effectively.

Three Lines Model (Appendix 2 includes a diagram of the VDS Three Lines Model)

The principle of the Model is that there are three layers of protection, as follows:

First Line: Operational Management and Governance

The Society's Executive Committee and senior management are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis. Operational management identifies, assesses, controls, and mitigates against risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with the Society's goals and objectives. Key components of the Society's first line are provided through the following:

- Executive Committee
- Reserving Reviews
- Policies and Procedures
- Annual Budgeting process
- Underwriting performance reviews
- Underwriting Function
- Claims Department

Second Line: Key Business Oversight functions

The second line is responsible for providing assurance that business units are adhering to policies and procedures, for identifying emerging patterns and risks, and bringing these to the attention of the Executive Committee and, where appropriate, to the Board.

The second line is provided by the following functions:

A. The Governance, Risk, and Compliance function

The Governance, Risk, and Compliance function is headed by the Head of Governance, Risk, and Compliance (GRC) who holds the Senior Management Function of Chief Risk Chair of Officer ("CRO") (SMF4) and FCA Compliance Oversight Function (SMF16) and who has a direct reporting line to the CEO and Chair of the RCC. As Chief Risk Officer, the Head of GRC provides an independent report of the Society's risks to each meeting of the RCC and is responsible for the overall management and day-to-day leadership of the risk management framework and compliance oversight of the Society.

The purpose of the Risk element of the Governance, Risk, and Compliance function is to provide the Society with a framework that supports the identification, measurement, monitoring, management and reporting on a continuous basis of the risks to which the Society is or may be exposed. The function works with Executive, RCC, and the Board in developing policies and procedures with the aim of providing an appropriate level of assurance that the Society achieves its financial, operational, and strategic objectives in a manner consistent with its risk tolerances and appetites agreed with the Board.

The purpose of the Compliance element of the Governance, Risk, and Compliance function is to promote an organisational culture committed to integrity and ethical conduct, and compliance with regulations, the law, and to set or oversee standards, policies and procedures that provide an appropriate level of assurance that the Society acts in a manner consistent with its compliance and regulatory obligations.

The Governance, Risk, and Compliance function works with the Executive Committee to ensure escalation procedures are effective and they are formally linked to the overall risk appetite. The Governance, Risk, and Compliance function reports to the Governance, Risk, and Compliance Committee, being independent of the Executive Committee.

B. Actuarial function

The purpose of the actuarial function is to provide actuarial support to the Executive Committee and its business and finance functions. Actuarial support includes underwriting pricing support, Incurred but Not Reported (IBNR) reserving, capital modelling, planning, and budgeting, business analysis, including rate monitoring, statements of actuarial opinion and regulatory filings. KPMG Ireland provides actuarial support to the Society on reserving, capital modelling, regulatory filings, and reporting. The work of KPMG is overseen by the Chief Financial Officer, who holds (SMF20) responsibility as the Chief Actuary Function, and RCC.

C. Data Protection
The Society has appointed a Data Protection Officer who aligns data protection, data security and data management with the Society's risk appetite; co-ordinating with Risk and Compliance and other colleagues to assist in the overall risk management of the Society.

Third Line: Internal and External Audit

The third line is provided by external auditors and the outsourced internal audit function who are responsible for providing independent assurance that the first and second lines are fulfilling their responsibilities.

5. Internal Audit function

RSM Risk Assurance services LLP (RSM) are appointed as internal auditors to the Society. They operate a rolling 3-year strategic audit plan, the terms of which are reviewed and approved annually by the Audit Committee (AC). Throughout the year, the work of RSM is co-ordinated by the Internal Audit and Compliance Manager who reports to the Head of GRC and Chief Financial Officer, and who reports directly to the Chair of the AC in respect of internal audit matters.

The current annual plan covers reviews in the following areas: Cyber Risk Management, Conduct Risk management, Model Governance and Financial processing, Data Governance, and IT programme implementation.

RSM provide their audit reports to the AC and attend each meeting of the AC. Where opportunities for improving the Society's systems and operations are identified by RSM, they are collated, monitored, and tracked by the Internal Audit and Compliance Manager, who reports progress to the AC. Once approved by AC, the internal audit reports are distributed to the VDS Board and Executive Committee.

By outsourcing the internal audit function to a third party, the Society benefits from a wide pool of independent experts who challenge the different business units and provide benchmarking of processes and controls against other similar insurance market participants. Internal audit supports the Society in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Specifically, internal audit's main objectives are:

- Provide an independent and objective opinion to the Society's AC, the CEO, and the Executive Committee on the Society's risk management, control, and governance framework
- Provide independent assurance of the effectiveness of the Society's governance and risk framework, its supporting policies, procedures and controls and the effectiveness of the first and second lines
- Assist the Society's line management in its role as a first line by providing assurance over the adequacy of procedures and controls and reporting findings and recommendations where appropriate
- Monitor and report on progress against Internal Audit recommendations.

In addition to reporting into the AC, the outsourced internal audit provider holds regular meetings with the Society's Chief Financial Officer and the Internal Audit Compliance Manager to evaluate the effectiveness and adequacy of the internal control system and other areas of governance and to discuss progress against the annual internal audit plan.

6. Actuarial function

The major responsibilities of the actuarial function include:

- Analysing submissions and providing pricing support to underwriting
- Monitoring results and performing profitability analyses
- Assessing the adequacy of the gross and net held reserves
- Assisting in the preparation of various financial statements

- Developing, maintaining, and implementing regulatory capital requirements
- Providing an opinion on underwriting decisions and pricing
- Review of reinsurance arrangements
- Producing an Actuarial Function Holders Report to the Board.

Reserve risk is one of the key risk drivers of the Society, and it is the responsibility of the Chief Financial Officer supported by external actuarial expertise to establish reserves and thereby manage reserve risk. The Society's process of assessing the gross and net held reserves is divided into the following three parts:

- An annual reserve study performed using data through the end of the second quarter, including a specific review of loss reserves. This analysis sets forth a point estimate for the net reserve need as of the close of the second quarter, which is compared to the net reserves at the same point in the year previous.
- A roll-forward of the net results of the reserve study which contemplates additional data through year-end, including a specific review of emerged losses during the second half of the year. This analysis sets forth the actuarial net point estimate for the held reserves as of year-end and is used as input in the determination of the 4th quarter change in IBNR. An analysis of the reserves is performed at the close of the 4th quarter on a contract-by-contract basis which is used to check the development patterns in the rolled forward analysis above; and
- KPMG Ireland provides support to the Society with the preparation of Solvency II technical provisions and Solvency Capital Requirements (SCR).

7. Outsourcing

The Society aims to adopt best practice in its approach to dealing with third parties and suppliers both in respect of any outsourcing arrangements and any material and major contracts for any business area within the Society. Currently the Society outsources its Internal Audit function (as detailed in Section B5) and its investment management arrangements (as mentioned in Sections A4 and C2).

The Board reviews and approves any changes to the Society's Outsourcing Policy and Material and Key Contracts Policy which are applied as necessary by each member of the Executive Committee and their direct reports. In doing so, the Board has adopted the definition of "outsourcing" included in the Solvency II Directive, being:

> *"An arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself."*

The aim of the Outsourcing Policy is therefore to ensure that all outsourcing arrangements involving any material business activities entered into under contract by the Society are subject to appropriate due diligence, formal approval and on-going monitoring and oversight.

In addition, the Society has adopted the following definition of "material outsourcing", defined by the PRA as:

> *"…outsourcing services of such importance that weakness or failure, would cast serious doubt upon the firm's continuing satisfaction of the threshold conditions or compliance with the Fundamental Rules and similarly defined by the FCA with regard to satisfaction of the threshold conditions and compliance with the Principles for Businesses."*

Regarding the Society's operations in particular, "material outsourcing" would be defined as the delegation of underwriting, the claims handling function, information technology and the outsourcing of the performance of any control functions or other key functions.

A function is regarded as critical or important if *"a defect or a failure in its performance would materially impair the continuing compliance of a … firm with the conditions and obligations of its authorisation, its obligations under the regulatory system, its financial performance, or the soundness or continuity of its relevant services and activities."*

The Society does not consider that "material outsourcing" includes the use of professional services in the normal course of business, such as legal and accountancy services, external auditors, staff training, recruitment agencies or office security services. Neither does it include the provision of standardised market services, for example market information services.

The Society will not enter into any material outsourcing arrangement which could:

- Materially impair the quality of the Society's system of governance.
- Unduly increase the Society's operational risk.
- Impair the ability of the PRA, FCA or CBI to monitor the compliance of the Society with their respective obligations; or.
- Undermine continuous and satisfactory service to the Society's members.

Although outsourcing may result in day-to-day responsibility for a business activity resting with the service provider, the Society accepts that it is fully responsible for discharging its respective regulatory and legal requirements and having effective processes to identity, manage, monitor, and report risks and maintain robust internal control mechanisms.

Where key functions are outsourced, the Society has named individuals responsible for that outsourced function.

- The Chief Financial Officer is the Key Function holder for Investments, and he manages the outsourced Investment Management function provided by Legal & General Investment Management.
- The Chief Financial Officer holds Senior Manager Responsibility (SMF20) for managing the provision of actuarial services by KPMG Ireland.

The Society is satisfied that this person has sufficient knowledge and experience regarding the outsourced function to be able to challenge the performance and results of the service provider. All the outsourced functions are in the United Kingdom jurisdiction.

8. Any Other Information

Assessment of the adequacy of the system of governance

The Board consider that the system of governance is appropriate for the nature, scale and complexity of the inherent risks facing the Society.

B. Risk Profile

The Society's risk management system is driven by the Executive, led by the Head of GRC, who carries the Chief Risk Officer Function (SMF4). The Governance, Risk, and Compliance function is responsible for the preparation of the Society's detailed Risk Register in conjunction with Executive and the various Risk Owners across the business. The Risk Register is also reviewed by the RCC who will report to the Board.

Overall, the Board has a conservative approach to risk and is satisfied with keeping the Society as a relatively low risk and stable return operation that does not require an excessive amount of Board intervention. The Society's Risk Management Policy is a fundamental means by which the Society can maintain effective internal systems of control and governance. The Society's risk strategy is focused on mitigating the risks of not meeting strategic objectives which are captured and monitored through the Society's Risk Register.

Executive review the Risk Register on a regular basis and via Risk Owners' monthly reporting to Governance, Risk, and Compliance, the register is kept up to date throughout the year, including an assessment of emerging risks.

The Risk Register examines each of the Society's risk areas in turn compared to the risk appetite for each and assesses the material exposures in each category, the severity and impact of each and the mitigation factors in place. A scoring notation (Fully Effective, Strong, Needs Improvement, Poor or Ineffective) is used to easily identify which areas need further attention.

Risk appetite is proposed to the Board by the Executive Committee for approval. Risk appetite statements are defined by the Board to set limits on the amount of risk the Society should accept or tolerate. The risk appetite is directly linked to business strategy and the principal risks to which the Society is exposed. Any changes to business strategy as a result of the strategic review will be reflected in the risk appetite statements as necessary over the planning period.

The Board has agreed that the tolerance value be defined as the limits that would trigger management review and action as appropriate. The tolerance values are defined for a 12-month period.

These are a mixture of quantitative and qualitative measures. Monitoring of the Society's risk profile against these appetite statements is carried out by the Executive Committee as part of its forward-looking risk assessment process.

1. Underwriting Risk

Principal areas of risk considered in this category are:

- Inaccurate claims reserves
- Large or high frequency of claims
- Inappropriate reinsurance strategy
- Under-pricing of the risk premium

The Society takes a conservative approach to underwriting risk, it puts priority on the financial security of the Society, adherence to regulatory requirements and protection of its members. It is open to investigating and developing innovative insurance products within these bounds, and always with a carefully planned risk assessment, (including revised ORSA if appropriate), if any new product is to be considered. During the period in reference, however, the Society only wrote one class of business, Professional Indemnity.

Underwriting risk is identified and assessed using management information including Gross Written Premiums ("GWP"), claims incurred and reserves, loss ratios and large loss claim details. There has been no change to this methodology over the reporting period.

GWP has shown steady increases over the past 5 years due to Member growth and retention rates being high. This provides a high level of assurance about the risks being underwritten.

Gross written premiums by region (£000's)	UK	ROI	Total
2023	16,478	1,993	18,471
2022	15,012	1,757	16,769
2021	14,162	1,658	15,820
2020	13,272	1,475	14,747
2019	12,922	1,457	14,379

As the Society principally writes homogenous risks for a specific market sector (that is, Professional Indemnity insurance for veterinary surgeons and registered veterinary nurses), it uses a detailed Underwriting Guide which sets down rating and underwriting terms for all the risks the Society is likely to consider. The Underwriting Group meets regularly and uses this guide to inform decision making.

The Society provides one line of business (professional indemnity) and insures most veterinary professionals, practices and businesses in the UK and Ireland and therefore industry concentration risk is inherent. However, by maintaining this large base the Society can remain relevant to the whole industry, and consequently continues to evolve with subtle industry developments (e.g. corporate groups, specialist referral practices, large practices, charities, traditional partnerships and locums) therefore naturally mitigating this risk.

The Society operates a reinsurance strategy to assist with its approach to risk mitigation to protect the funds from both high claim frequencies and large losses.

Underwriting risk sensitivities - stress and scenario tests

The Society models certain stresses and scenarios for its Underwriting risk through its SCR financial model. In the most recent ORSA, the Society modelled the impact of a reduction in GWP as a result of a prolonged recession / loss of some large customers through to a 35% reduction in premium income as a result of the potential risks. The Society also performs a reverse stress test through an increase in gross loss ratio such that the excess above the SCR reduced to nil (that is, a Solvency Ratio of 100%), in 2023 this was a rise in the loss ratio of 109% (2022: 92%). This exercise illustrates the robustness of the Society's capital position since the risk of such growth in the gross loss ratio is very remote.

2. Strategic / Investment performance risk

The Society is principally exposed to investment performance risk through its investment portfolio which includes debt securities and other fixed income securities as well as shares and other variable yield securities and units in unit trusts which are traded on active markets. The Society holds significant reserves against market risk, the strong capital position allows for short term fluctuations in value whilst looking to maximise returns over the longer term. In acknowledgment of these risks, the Society also looks to hold significant levels of bank deposits which are not exposed to the same level of market risk as the investment portfolio assets and are accessible for working capital as required.

The Society has set up an investment portfolio with LGIM based on the target asset allocation in the summary of the investment portfolio below:

Investment portfolio asset allocation

Asset class	Investment product	Valuation @ December 2023	Allocation @ December 2023	Benchmark	Allowed movement
		(£'000's)	%	%	%
PAIF (property authorised investment funds)	UK property fund	6,922	23%	25%	5%
Unit trusts	Sterling corporate bond index	14,273	48%	48%	5%
	All stocks index linked gilt index	2,442	8%	8%	5%
	Future world climate change equity index fund	4,603	16%	15%	5%
OEIC (open ended investment company)	Sterling liquidity fund	1,100	4%	4%	5%
Northern Trust cash accounts / income accruals		202	1%		
Total		**29,542**	**100%**	**100%**	

Based on the current asset portfolio, investment performance risk arises due to fluctuations in interest rates, credit spread risk, equity risk and currency risk. The investment risk exposure will vary with the changes in asset allocation, which consequently will impact the SCR. Overall the Society operates a risk-averse investment strategy which is closely monitored and evaluated by the Board and RCC with external professional advice from Redington, our investment advisor.

Strategic / investment performance - stress and scenario tests

The Society models stress & scenario tests for other material risks including the impact of a market shock on its investment portfolio through its SCR model. The shock models the following extreme but plausible asset value reductions: 25% of corporate bonds; 25% government bonds; and 40% for equities and property. As expected, this stress has a material impact on the Solvency Ratio. However, even under this stress the Solvency Ratio remains above the minimum risk appetite as set by the Board of 150%.

3. Credit risk

The Society's principal credit risks are with institutions that hold our financial assets (investments, deposits with credit institutions and bank balances). The Society has a policy of spreading its exposure over several counterparties in order to avoid any significant concentration of credit risk.

There is also potential exposure to reinsurance credit risk. The Society has a policy of using reinsurance companies with a minimum credit rating of A.

The Society is also exposed to foreign exchange risk. The principal method of mitigating this is predominantly by matching currency assets and liabilities rather than using any derivative instruments.

Credit risk for the Society can arise in the following ways:

- Counterparty risk arising from the financial institution holding the Society's investments and cash.
- Illiquidity risk resulting from delayed payments from members, reinsurers or third parties affecting cash flow.

Due to the size of its assets the Society is exposed to default risk and has a policy for spreading its exposure over several counterparties to avoid any significant concentration of credit risk. Bank deposits are only placed with banks that have high credit ratings and exposure is limited to £7m with each bank, this minimises exposure and sensitivity to default risk.

Credit risk by class of financial instrument at December 2023 (£000's)					
	AAA	**AA**	**A**	**Other**	**Total**
Debt securities	4,653	5,511	6,551		**16,715**
Shares and variable yield securities and units in unit trusts				11,525	**11,525**
Deposits with credit institutions	31	294	775		**1,100**
Cash at bank and on hand			14,194		**14,194**
Other debtors				1,702	**1,702**
Debtors arising out of reinsurance operations		37	22		**59**
Total	**4,684**	**5,842**	**21,542**	**13,227**	**45,295**

Financial instruments included in Other above relate to equities (shares and variable yield securities and units in unit trusts), cash in the Northern Trust dealing account (cash at bank and on hand) and balances with payment processors / deposit with the Irish courts (other debtors). These assets do not have a credit risk rating and do not therefore carry a credit risk classification.

4. Liquidity risk

Liquidity risk would arise where the Society fails to hold sufficient liquid assets to cover expected and unexpected liabilities, projected operating expenses and technical provisions.

The Capital Policy, working in conjunction with the Cash and Deposit Policy, Reserving Policy and Reinsurance Policy, provides for cash at bank or cash deposits to equal the Society's forecast annual expenditure to minimise liquidity risk. As well as cash assets, the Group holds a significant portion of highly liquid assets within the investment portfolio such as the LGIM Sterling Liquidity Fund which can be converted into cash within days. This approach minimises the sensitivity of the Society to liquidity risk.

5. Operational risk

Operational risk for the Society covers the material risks arising from the failure of internal processes, people or systems or from external events, for example, a disruption to the business as a result of a catastrophe, no material changes were noted in the year. Due to their potential impact, these risks and sensitivity to them are monitored daily by the Executive and particular focus is placed on such risks by the Board and mechanisms are in place within the Society to identify, analyse and mitigate their effects. Details of how such mechanisms operate are provided in Section B "System of Governance".

6. Other material risks

Other material strategic risks identified by the Society, which are not included in the previous categories, include:

- Risk of a new competitor entering the market, resulting in loss of market share and members through competitor activity. This is mitigated by keeping abreast of market changes and ensuring the Society's products are appropriate, competitive and relevant.
- Failure of corporate strategy, where the business model is not sustainable. This is mitigated by regular review of strategy by the Board and Executive.
- Inadequate risk management strategies, including those associated with managing IT / Cyber risks, which are mitigated by the risk management system in place described above, including monthly monitoring of the Risk Register by the Executive and appropriate risk mitigation strategies.
- The potential long-term effects of Covid-19 on the Society's business, members, and staff.
- The financial risks from the impact of climate change on the environment we operate in and society at large.
- The risk of high inflation and its potential impact on claims costs.

7. Any other information

Risk concentration

Given the limited nature of risks underwritten by the Society (professional indemnity of veterinary practices or practitioners), we have a concentration exposure to that industry. However, we do not believe there is a significant risk, of a systemic failure within the industry, of sufficient size, after taking account of our reinsurance protection, to make the Society insolvent. The Investment Policy ensures assets are well diversified between different asset classes thus avoiding asset concentration risk.

Other risk mitigation practices

The Society has reinsurance arrangements in place via its appointed reinsurance brokers, Gallagher Re to reduce the impact on the Society's financial performance and capital reserves of a poor underwriting year with a significant deterioration of the loss ratio or one or more large single losses. The Reinsurance Policy is set by the Board and is reviewed in conjunction with the Society's Capital Policy, Investment Policy, Cash and Deposit Policy and Reserving Policy to ensure a poor underwriting outcome is mitigated.

Prudent person principal

Compliance towards the prudent person principal as set out in Article 132 of Directive 2009/138/EC is inherent in the Society's activities towards insurance, investments and reinsurance arrangements. Please see earlier sections under B: Risk Profile to observe the Society's approach to managing these risks.

C. Valuation for Solvency Purposes

The Society's Solvency II assets and liabilities are presented on an economic basis consistent with the "fair value" accounting concept. The Society prepares its statutory financial statements in accordance with UK GAAP standards (FRS 102). Full details of the basis for the preparation of the Society's financial statements, critical accounting estimates and judgements and key accounting policies are set out in those financial statements.

The Society's UK GAAP valuation is used where consistent with Solvency II's economic basis. Assets and liabilities are measured at cost or amortised cost in the Society's financial statements have been revalued to economic value. Solvency II also requires specific valuation approaches for certain assets and liabilities, which have been followed with the support of our Actuarial advisors, KPMG.

The Society exercises judgement in selecting each of its accounting policies and has followed a consistent approach in selecting its valuation approaches for Solvency II.

The following sections describe the valuation approaches used by the Society for valuing its assets and liabilities.

The Solvency II balance sheet categories shown in this section are based on the format used for reporting on the Quantitative Reporting Template ("QRT") S.02.01 (Balance Sheet), and account items in the Society's trial balance are mapped to the various line items of this template. Technical Provisions (Best Estimate Liabilities ("BEL") and Risk Margin) are shown as reported in S.17.01 according to the rules specified in the Log for that template.

1. Assets

The material classes of assets shown on the Solvency II Balance Sheet, their Solvency II values and corresponding GAAP values shown in the financial statements are shown in the table below:

Assets as at December 2023 (£000's)		
Description	**Solvency ll**	**UK GAAP**
Intangible assets[1]	-	1,083
Property, plant & equipment held for own use	1,411	1,411
Total investments[2]	28,404	29,340
Reinsurance recoverables	719	250
Insurance and intermediaries' receivables	7	35
Cash and cash equivalents[2]	15,211	14,058
Deferred tax asset[3]	-	198
Any other assets not shown elsewhere[4]	2,138	2,349
Total assets	**47,890**	**48,724**

[1] Intangible assets are not recognised under Solvency ll because the assets can't be readily realised for solvency purposes

[2] Investments under Solvency ll have cash in the investment funds reclassified as cash equivalents for solvency purposes

[3] Deferred tax assets under Solvency ll are disallowed to the extent that the balance is receivable in cash within a known time scale

[4] Any other assets not shown elsewhere relate to a deposit with the Irish courts (requisite for the Irish branch), remittances from payment processors, prepayments, intercompany balances and for GAAP accrued income on the portfolio (this accrued income is within total investments for Solvency II)

Property, plant & equipment held for own use

Property, plant and equipment are valued for Solvency II purposes on a fair value basis. The Society believes the fair value of plant and equipment is materially the same as the carrying value in the financial statements and therefore no adjustment has been made. The Society's head office, which is valued annually by independent Chartered Surveyors has a market value of £1.20m as at December 2023 (2022: £1.25m).

Investments

The fair value of an investment is the amount that would be received to sell an asset in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgement used in measuring the fair value of financial instruments generally correlates with the level of pricing observability i.e., how liquid or illiquid a market is. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgement is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgement. An active market is one in which transactions for the asset being valued occurs with sufficient frequency and volume to provide pricing information on an on-going basis.

Solvency II requires a hierarchy of valuation methods to be applied to value assets and liabilities on the Solvency II balance sheet. The Society considers its policy on the fair value of investments to be consistent with the hierarchy of valuation methods required for Solvency II. Accordingly, the valuation policy on fair values is applied consistently between the Society's Solvency II reporting and its statutory financial reporting with the only difference being the presentation of accrued interest which for the purposes of Solvency II has been included in the investments heading.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on hand and deposits with banks.

Reinsurance receivables

Reinsurance receivables are recognised when ownership of liabilities or costs incurred are transferred to the reinsurer and arise as individual cases develop over and above the retention limit of the agreement. Due to the short-term nature of the Society's reinsurance recoveries, these amounts are not discounted for GAAP but are for Solvency II.

Lease Assets

The Society has a 15-year operating lease over an office space adjacent to the owned and occupied property. The operating lease has a break clause at 5 years which falls in 2025. The rent paid on the leased office is £27,110 per annum.

Other Assets

All other assets are valued for Solvency II purposes on the same basis as the financial statements. For all assets there were no changes to the asset recognition and valuation bases used or to the estimations applied during the year.

2. Technical provisions

The Society's Financial Statements include provisions for claims incurred based on earned premiums and considering all reasonably foreseeable best estimates. Within these provisions, are reserves for claims incurred and an allowance for claims incurred but not reported (IBNR). The Society also considers recoveries from reinsurance contracts in respect of its claims reserves.

The Society values its technical provisions using the methodology prescribed by the Solvency II Directive and the regulations made under the Directive. The calculation of the Risk Margin reflects the change in the prescribed cost of capital in line with the "Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023" which came into force on 31 December 2023.

Technical provisions represent the cost of insurance liabilities at the reporting date and are calculated on a discounted cash flow basis. The high-level components are:

- Best estimate of claims provisions being claims incurred on the reporting date.
- Best estimate of premium provision being claims expected to be incurred after the reporting date on contracts bound before that date.
- Best estimate of claims handling and administration expenses on the reporting date, and
- Risk margin being the amount a third party would require to assume the liabilities, calculated on a cost of capital basis.

Claims provisions

Best estimate of claims provisions is projected in line with the methodologies used for statutory financial reporting and include a blend of the Bornhuetter-Ferguson, Chain Ladder and Loss Ratio methods with an overlay of actuarial judgement. The historic claims payment patterns are stable, and these are used to project future expected cash flows of the ultimate claims. These cash flows are then discounted back to give the value of the current liability.

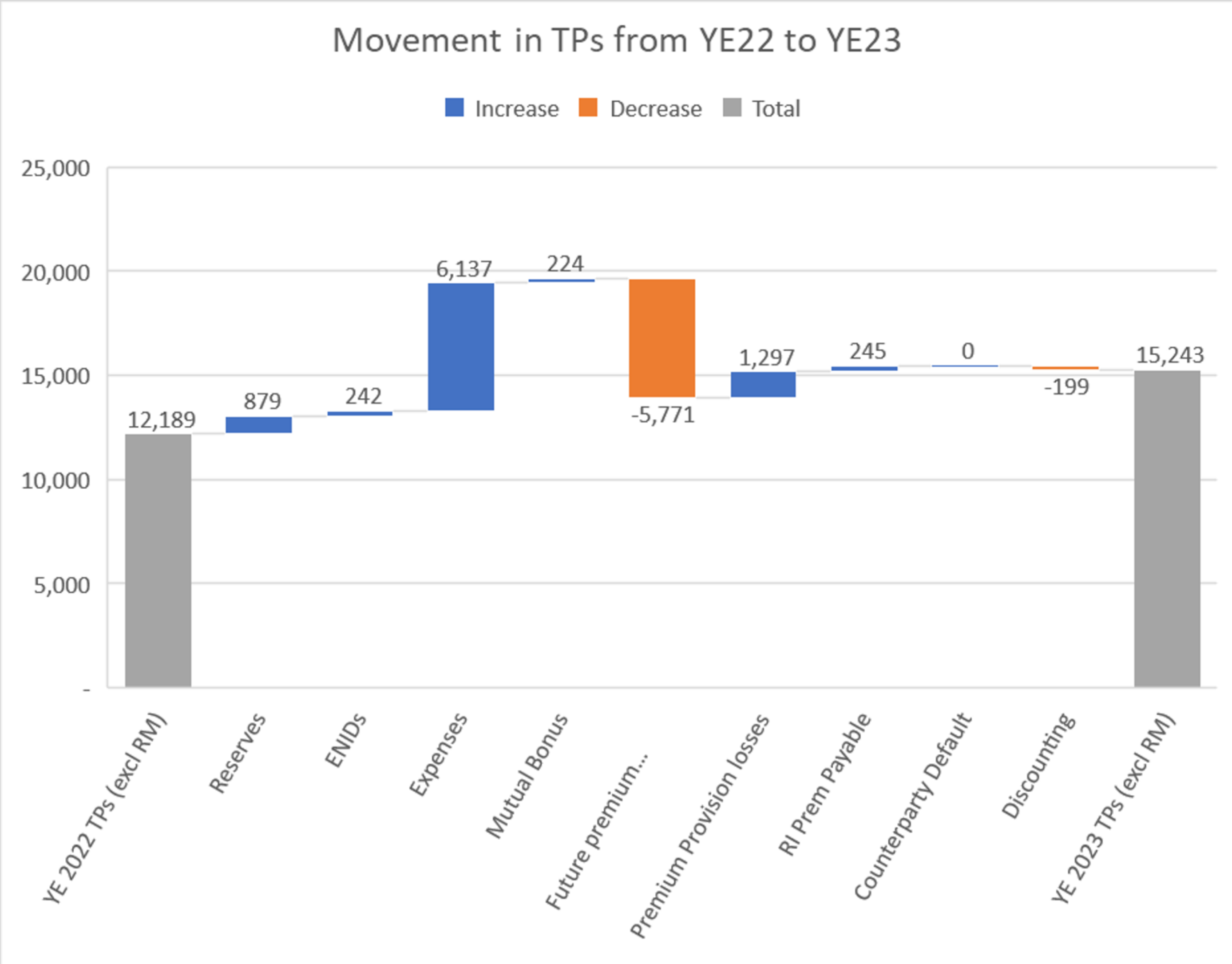
Premium provisions

Best estimate of premium provision is recognised in respect of claims expected to be incurred on contracts bound before 31 December 2023. The Society has no unearned premium except for business "Bound But Not Incepted" ("BBNI") because all policies run on a calendar year basis from 1 January. The gross loss ratio used to value the ultimate liability in respect of BBNI business is based on the best estimate reserving exercise conducted by KPMG, with adjustments for claims inflation and rate changes. As with claims provisions, the historic cash flow patterns are used to project the cash flows associated with these claims. Future claims handling expenses are also included based on historic claims handling expenses incurred by the Society. This year we have reviewed the methodology for accounting for BBNI premiums which has resulted in an increase in the premiums we recognise as being bound to write at the balance sheet date of £5,771k with a consequent increase in the ultimate liability associated with those premiums of £1,297k. The approach to expenses has also been refined, leading to an increase in technical provisions of £6,137k.

Summary of Technical Provisions

Description (£000's)	2023	2022
Provision gross (best estimate)	15,961	12,262
Reinsurance Recoverables	(718)	(73)
Provision net (best estimate)	**15,243**	**12,189**
Risk margin	1,127	1,273
Gross Technical provisions	**17,088**	**13,535**
Technical provisions minus reinsurance recoverables	**16,370**	**13,462**

The below waterfall chart provides a visual representation of the 2022 to 2023 Solvency II technical provisions and the components affected:



Movements from YE 2022 to YE 2023 £000s	
YE 2022 TPs (excl risk margin)	**12,189**
Reserves	879
ENIDs	242
Expenses	6,137
Mutual Bonus	224
Future premium cashflow s	(5,771)
Premium Provision losses	1,297
RI Prem Payable	245
Counterparty Default	-
Discounting	(199)
YE 2023 TPs (excl risk margin)	**15,243**

Technical provisions by line of business and risk group

The Society writes only one line of business being professional indemnity insurance against claims arising from allegations of professional negligence and the costs of disciplinary and criminal proceedings to its members who are Veterinary Surgeons and Registered Veterinary Nurses (RVNs) in the United Kingdom and the Republic of Ireland. As a result, the Society uses one homogenous line of business (professional indemnity) split into specific risk groups (negligence / criminal & disciplinary) for calculating its technical provisions.

Areas of uncertainty around technical provisions

The key areas of uncertainty around technical provisions are set out below:

Estimation of outstanding loss reserves (OSLR) – Estimating how much a claim will settle for is a process that will inherently carry uncertainty and risk. However, the Society's historic claims data demonstrates a high level of stability particularly with low value, high volume claims. The major uncertainty is the value and frequency of large losses which have historically been infrequent. The Society's reinsurance program partially mitigates the impact of this uncertainty.

Estimation of the losses relating to claims which have been incurred but not reported ("IBNR") – There is inherently a higher degree of uncertainty here; however, the Society's exposure to such claims has changed as a result of the change in policy basis for Civil claims on 1 January 2014 from an Occurrence to Claims Made basis, and C&D on 1 January 2017 from a Claims Made to a Losses Occurring basis. The Actuarial IBNR reserves have been estimated to reflect these changes.

Estimation of claims arising on business which have not yet expired ("unexpired risks") – The uncertainty here lies both in the claims not having occurred yet and what the ultimate incurred will be on these claims. This is likely to be the most difficult area to predict. However, as demonstrated in the stress tests carried out by the Society, even significant deterioration of the forward gross loss ratio leaves the Society in a strong capital position. In addition, the Society has a stable base of policyholders and members to the extent its underwriting risk profile changes little from year to year; therefore, historic data is a good predictor of future results.

Market environment – Uncertainty exists as a results of changing market conditions, particularly within the veterinary profession. The Society maintains close ties with the veterinary industry and can therefore proactively address any emerging market challenges.

Events not in data ('ENID loading') – There is considerable uncertainty in estimating a provision for events that have not been observed before.

Run-off expenses – There is a level of uncertainty in determining which expenses would continue in the case of a run-off scenario and how those expenses would be reduced and for how long they would be paid.

Risk margin – There is significant uncertainty in estimating the risk margin as a result of the challenge in forecasting the SCR over a period of run-off. However, the Society's claims have a short tail and therefore the capital impact arising from this uncertainty is expected to be low. The reduction in the risk margin to £1.127m (2022: £1.273m) is driven by the change in the cost of capital rate and makes up only 7% of the total Technical Provisions (2022: 9%).

Solvency II Technical Provisions Components

Under Solvency II, the technical provisions are made up of:

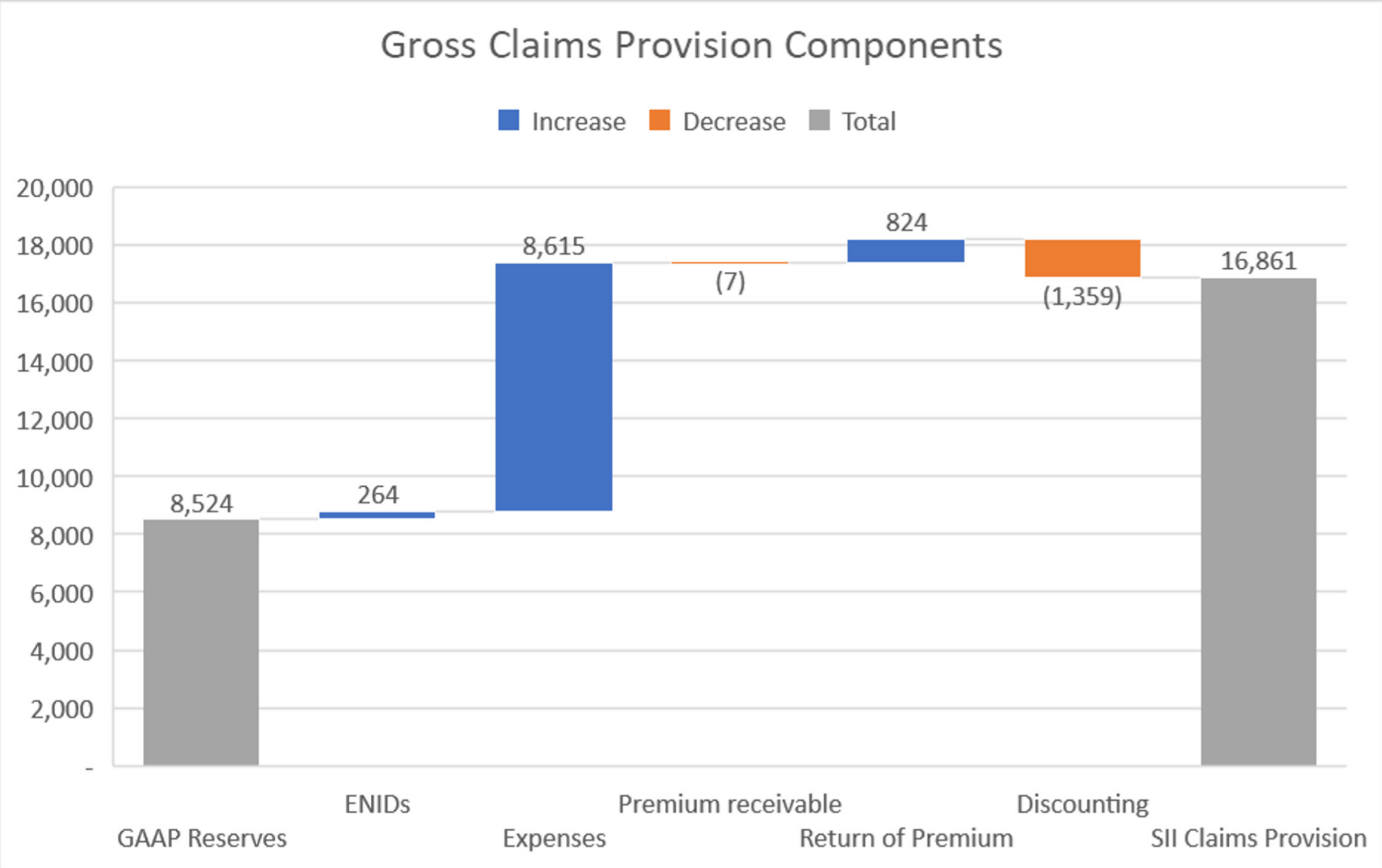
Claims provision + Premium provision + Risk margin

The waterfall charts below provide a visual representation of the components of the 2023 Solvency II Technical Provisions. Split into the Claims Provisions, Premiums Provisions and Total Solvency II Technical Provisions.

Solvency II Claims Provisions

The claims provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums) relating to claim events prior to the 31st December 2023.

The below chart shows the Gross GAAP technical claims provision and the components affected in the transition to Gross Solvency II Technical claims provision:



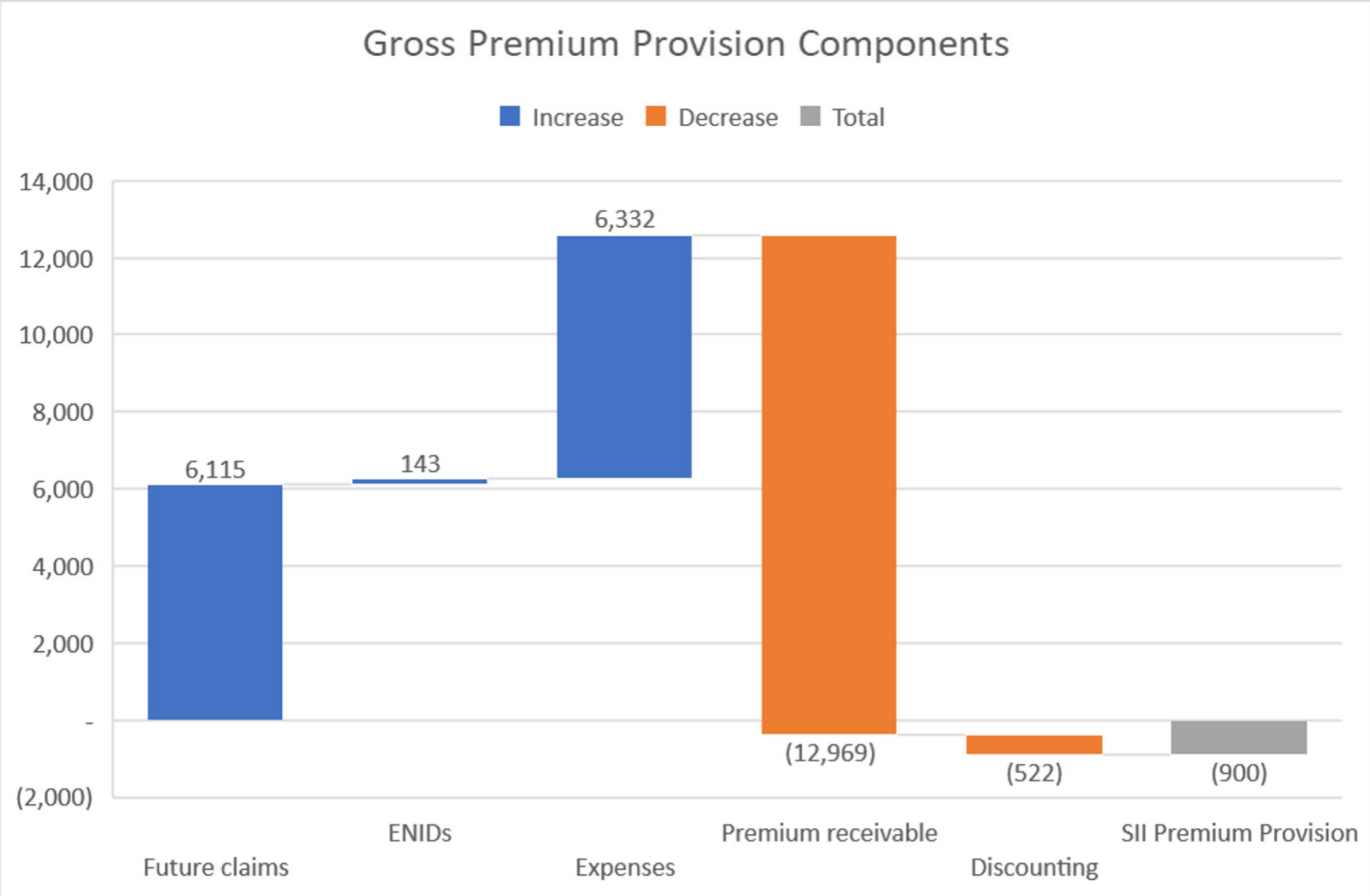
The components are explained below:

- GAAP reserves at £8.524m are a combination of the IBNR Provision (£4.166m) and the Case Specific Provision (£4.358m).
- Events not in data (ENIDs) - Actuarial provisioning estimate for events that have not been observed before and as a result are not in the historic data set.
- Expenses - These relate to all future expenses that will be incurred in servicing existing insurance obligations.
- Premium receivable - These are unpaid 2023 premiums at December 2023.
- Return of premium – The amount due to members which has been expensed through the income statement in 2023 but remains unclaimed at December 2023 and will be settled in 2024.
- Discounting - An adjustment for the time value of money.

Solvency II Premium Provisions

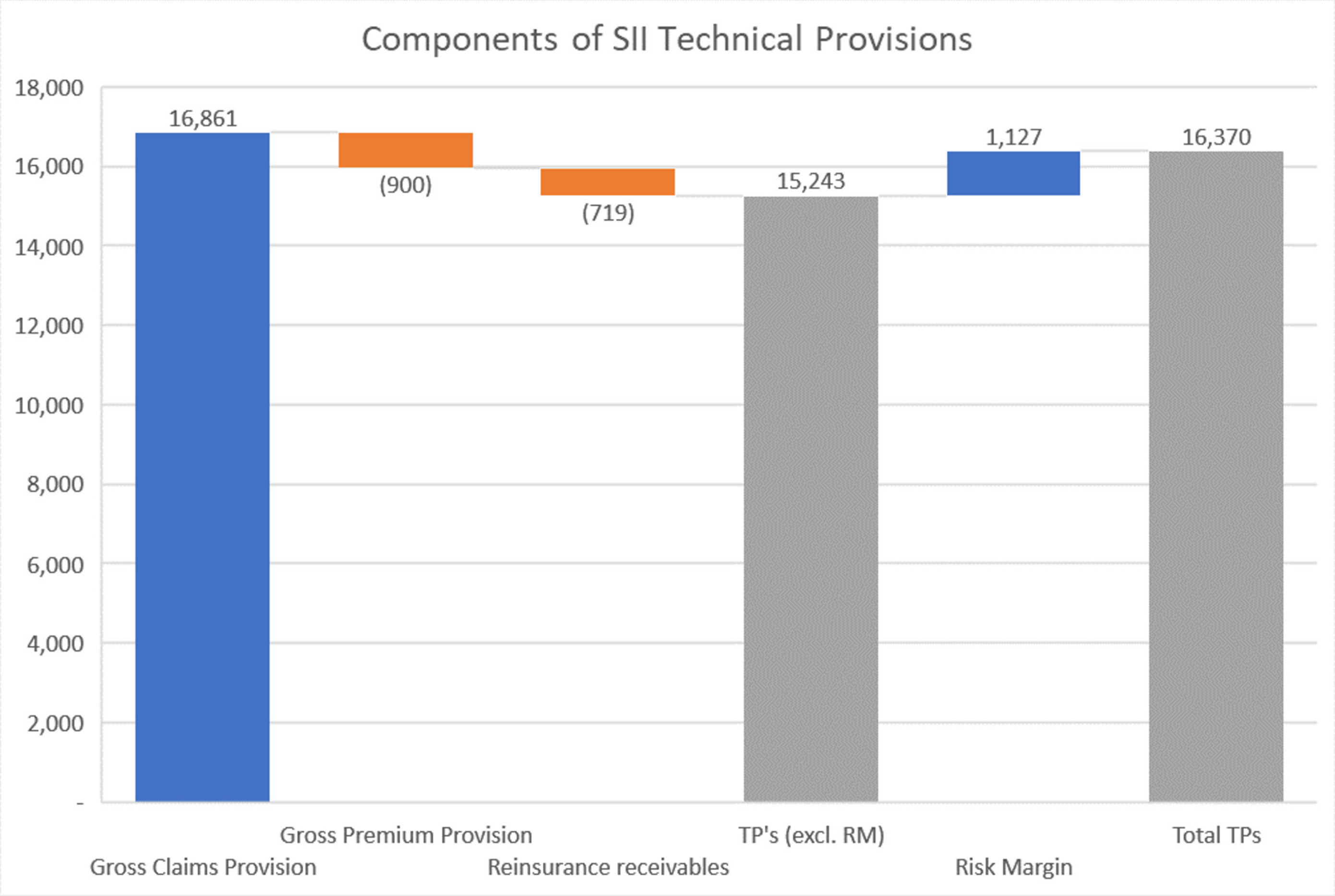
The premium provision is the discounted best estimate of all future cash flows (claim payments, expenses and future premiums due) relating to future exposure arising from policies that VDS is obligated to at the 31 December 2023.

The below chart shows the components of the Gross Solvency II Technical Premium provisions:



The components are explained below:

- Future claims – Claims costs relating to 2024 polices bound at December 2023.
- Events not in data (ENIDs) - Actuarial provisioning estimate for events that have not been observed before and as a result are not in the historic data set relating to 2024 polices bound at December 2023.
- Expenses - Relate to all future expenses that will be incurred in servicing insurance obligations in the future as a result of 2024 polices bound at December 2023.
- Premium receivable - Premiums receivable from 2024 polices bound at December 2023.
- Discounting - An adjustment for the time value of money.



The Statutory Reserve (UK GAAP) is made up of three components as shown in the table below:

Description (£000's)	2023	2022
UK GAAP claims provisions	8,524	7,564
Claims handling expenses and unallocated loss adjustment expenses for earned business	2,108	1,852
Deferred income	6,165	5,450
Statutory reserve (UK GAAP)	**16,797**	**14,866**

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was required. The Society plans to maintain and improve its ability to efficiently report accurate data in 2024 in order to support its business strategy as set out earlier in this report.

Changes since the last reporting period

There have been no changes to our reserving methods, we have maintained the allowance for the likelihood of large losses on both the C&D and Negligence book, at a ratio of 2:1 for the UK & 1:1 for ROI (2022: UK 2:1 ROI 1:1). This level of prudence enables the Society to cover additional large claims should they arise.

We have continued to separate the Irish business claims reserves, with the Actuaries reserving for large losses on the Irish book of business. This enables the Solvency II Technical Provisions to be calculated for the SCR projections for the Irish book.

The Society has reviewed and challenged the actuarial methodologies and assumptions and is comfortable with the actuarial reserving and Solvency II work that KPMG has produced.

3. Other liabilities

Set out in the table below are the Society's Other liabilities under Solvency II. The Society's other liabilities are recognised and valued on the same basis as the UK GAAP financial statements.

Description (£000's)	2023	2022
Other creditors (including taxation and social security)	1,148	995
Accruals	451	679
Pension scheme	76	68
Statutory reserve (UK GAAP)	**1,675**	**1,742**

4. Alternative methods for valuation

No alternative methods of valuation have been used beyond those disclosed.

5. Any other information

The Society has no other information to disclose.

D. Capital Management

1. Own funds

The Society's own funds are made up from retained profits which have arisen on past underwriting and investment performance. All capital is therefore classified as Tier 1 and there are no restrictions on the availability of own funds to support the minimum capital requirement ("MCR") or solvency capital requirement ("SCR").

The Society has a simple capital structure (mutual with no share capital), as a result the own funds are equal to the value of the excess of assets over liabilities.

Own funds (£000's)	2023	2022
Assets	47,890	42,926
Liabilities	(18,763)	(15,277)
Total own funds	**29,127**	**27,649**

The Society manages its capital through a series of policies and processes which have been set out in section B1. There have been no material changes to these policies or processes during the reporting period.

The table below reconciles the UK GAAP Reserves from the Annual Report and Financial Statements (that is the retained surpluses derived from past underwriting and investment performance) to the Solvency II own funds. The Solvency II available own funds £29.127m (2022 £27.649m) is disclosed on QRT S.23.01.01 and is made up of the excess of assets over liabilities and so the potential volatility of the own funds is directly related to potential volatility of those assets and liabilities.

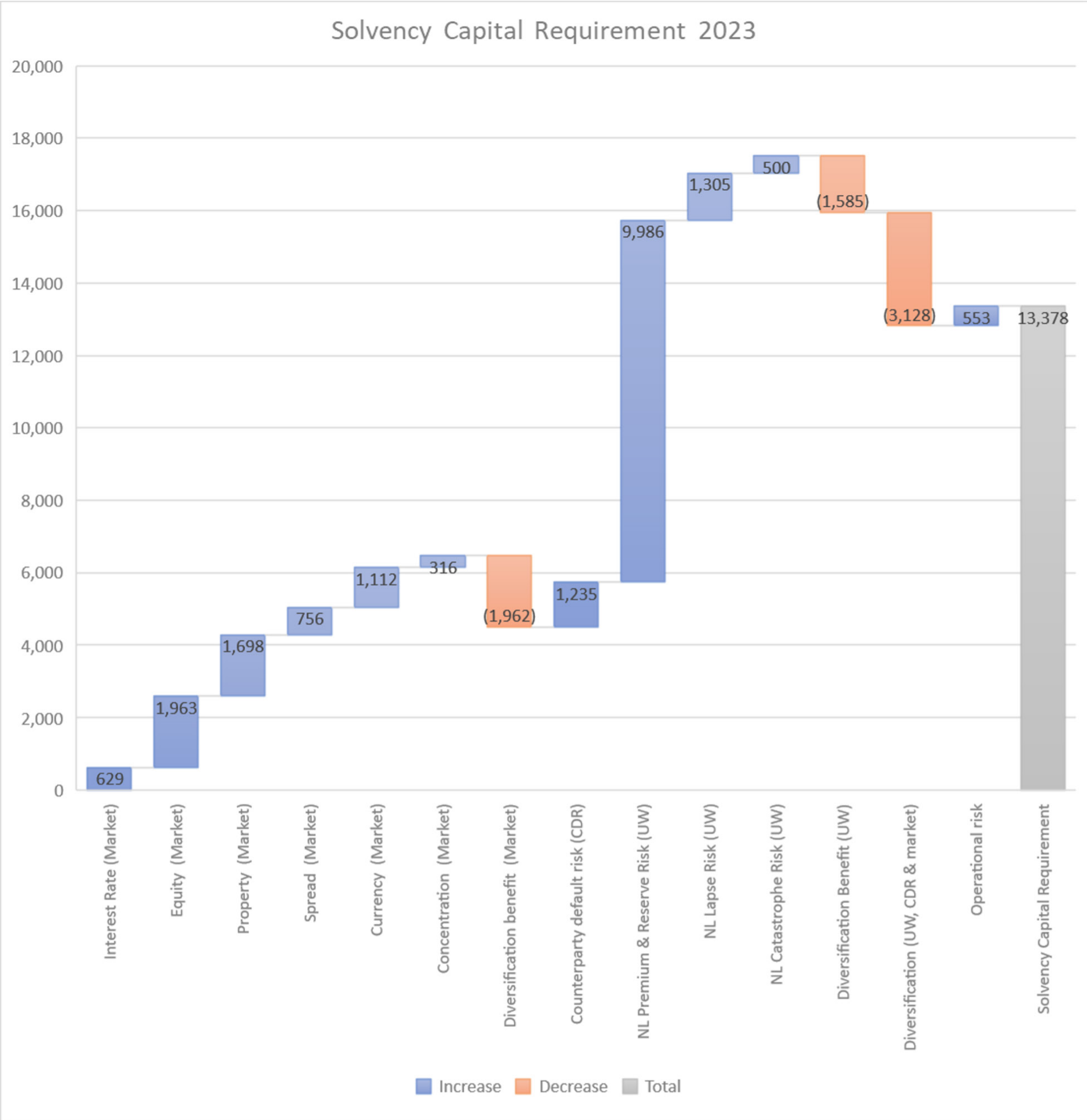
Description (£000's)	2023	2022
UK GAAP reserves (including property revaluations)	29,428	26,818
Difference in the valuation of assets (predominantly intangible & deferred tax assets)	(1,303)	(1,004)
Difference in the valuation of technical provisions	(5,987)	(4,632)
Difference in the valuation of other liabilities (predominantly deferred income & mutual bonus accruals)	6,989	6,467
Own funds	**29,127**	**27,649**

2. Solvency Capital Requirement and Minimum Capital Requirement

Set out below is a summary of own funds, the Society's solvency capital requirement (SCR) and the minimum capital requirement (MCR). The ratio of eligible own funds to the SCR has reduced from 233% in 2022 to 218% in 2023, due to the increase in the SCR driven by mix changes in the investment portfolio and higher technical provisions driven by growth in the insurance business and changes in the methodology of calculating the premium reserve. The Society continues to remain in a strong capital position with the ability to meet its liabilities and accommodate stresses to valuations of its assets as required under the Solvency II regime. The Society continues to take a conservative approach to risk, prioritising the financial security, adherence to regulatory requirements and protection and support of its members as demonstrated by the strength of the SCR ratio.

Description (£000's)	2023	2022
Own funds	29,127	27,649
Minimum capital requirement	3,836	3,445
Solvency capital requirement	13,378	11,847
Solvency ratio (own funds / SCR)	**218%**	**233%**

December 2023 Solvency Capital Requirements:



Set out below is a summary of the risk modules which contribute to the Society's solvency capital requirements:

Solvency capital requirements by module (£000's)	2023	2022
Underwriting risk pre diversification	11,791	9,722
Diversification (underwriting)	(1,585)	(1,187)
Net underwriting risk	**10,206**	**8,535**
Counterparty default risk (CDR)	**1,235**	**2,424**
Market risk	6,473	5,013
Diversification (market)	(1,962)	(1,654)
Net market risk	**4,511**	**3,359**
Diversification (UW, CDR & market)	(3,128)	(2,956)
Operational risk	**553**	**485**
Solvency Capital Requirement	**13,378**	**11,847**

The movement in the SCR in the period predominantly arises from higher underwriting risk and market risk offset by a reduction in CDR. Further analysis of these risks follows in this section of the report.

Minimum Capital Requirement

The MCR calculation is based on the net value of technical provisions and the net written premiums over the last 12 months. The result of the calculation (known as the "Linear MCR") is then subject to a floor and a cap of 25% and 45% of the SCR, respectively. The Society's Linear MCR falls between the floor and the cap and therefore the Combined MCR is equal to the Linear MCR.

The Combined MCR is then subject to an Absolute floor which is set by the Solvency II Directive Article 129(1)(d). The Absolute floor applicable to the Society is €4 million (or £3.495m) at 31 December 2023. The Society's MCR as at 2023 is equal to the Combined MCR as the Absolute floor MCR falls below this level.

The table below illustrates this computation:

Minimum capital requirements inputs (£000's)	2023	2022
Solvency II technical provisions	16,370	13,462
Net (of reinsurance) written premiums over last 12 months	16,712	15,114
Linear MCR	**3,836**	**3,235**
SCR	**13,378**	**11,847**
MCR Cap (at 45% of SCR)	6,020	5,331
MCR floor (at 25% of SCR)	3,345	2,962
Combined MCR	**3,836**	**3,235**
Absolute floor (based on €4m)	3,495	3,445
Minimum capital requirement (higher of combined MCR & absolute floor)	**3,836**	**3,445**

Market Risk

The Society is exposed to market risks derived predominately from the investment assets held by the Society to meet its insurance liabilities, through exposures to shocks in interest rates, equity and property values and currency rates.

Market risk (£000's)	2023	2022
Interest rate risk	629	882
Spread risk	1,963	1,202
Equity risk	1,698	1,100
Currency risk	755	768
Property risk	1,112	1,017
Market concentration risk	316	43
Diversification	(1,962)	(1,654)
Market risk contribution to solvency capital requirement	**4,511**	**3,358**

The property portfolio comprises a single large balance representing multiple underlying property assets within one fund. This asset was stressed under property risk in both 2023 and 2022.

Counterparty Risk

The Society is exposed to counterparty risks in the form of bank cash deposits and recoveries from reinsurers (type 1) and from receivables from intermediaries, policyholders, and other debtors (type 2). Counterparty risk has reduced compared with last year due to improvements in the financial strength of our counterparties.

Counterparty default risk (£000's)	2023	2022
Type 1 solvency capital requirement	900	1,064
Type 2 solvency capital requirement	407	1,521
Diversification	(72)	(161)
CDR contribution to solvency capital requirement	**1,235**	**2,424**

Underwriting Risk

The Society is exposed to non-life underwriting risk as a result of the insurance policies it sells. The risks are based on volatility around earned premium and claims reserves, and to catastrophe events to which the Society may be exposed. The increase in Premium and reserve risk is explained in the Section 2 above. Lapse risk has increased due to the higher level of premium income brought into account in computing the premium reserve.

Underwriting risk (£000's)	2023	2022
Premium and reserve risk	9,986	8,351
Lapse risk	1,305	871
Catastrophe risk	500	500
Diversification	(1,585)	(1,187)
Underwriting risk contribution to solvency capital requirement	**10,206**	**8,535**

Undertaking specific parameters and simplified calculations

The Society has not applied any specific parameters or simplified calculations within the SCR computation.

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

This is not applicable for the Society.

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

This is not applicable for the Society.

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

There are no areas of non-compliance in this matter for the Society.

6. Any other information

From an insurance sector perspective, there was a high level of attention being placed in assessing the increased risks and impact associated with the economic fallout from the ongoing war in Ukraine with higher inflation and rising interest rates being a key component. This has had a significant impact on the value of the investment portfolio and is feeding through into claims and premium inflation. We have considered forecasts of how these impacts will develop and factored this into the underlying assumptions for our strategic plan. We have stress tested our claims reserves, in light of this emerging risk, and on the basis of this modelling remain comfortable that our reserving remains adequate to cover any likely impact of rising costs on our claims. We continue to monitor this impact and will revise our plans accordingly if the underpinning assumption proves to be materially inaccurate.

The Society is committed to enhancing its ESG compliance and migrated its equity holdings into the LGIM Future World fund in 2021. A further increase in weighting towards ESG slanted equity from 10% to 15% which was implemented in Q1 2023. In 2024 we will dispose of half of our holding in the L&G Sterling Corporate Bond Fund and reinvest the proceeds in the L&G Short Dated Global Corporate Bond Fund to further increase our exposure to ESG slanted investments. This is not expected to materially change the risk profile of the investment portfolio.

The Society has reviewed and challenged the actuarial methodologies and assumptions and is comfortable with the actuarial reserving and Solvency II work that KPMG has produced.

Appendix 1 - Directors' statement in respect of the SFCR

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

We are satisfied that:

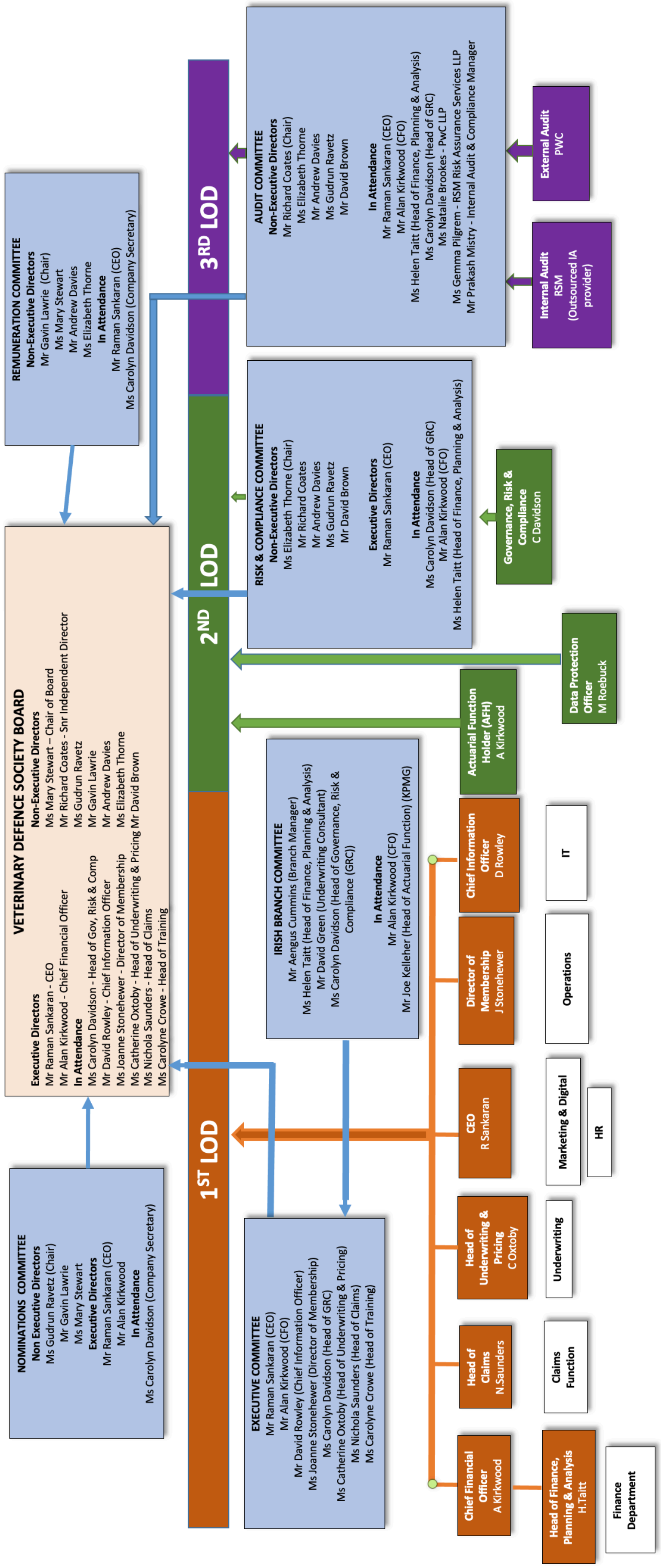
a. throughout the financial year to December 2023, the Society has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the Society; and

b. it is reasonable to believe that the Society has continued so to comply subsequently and will continue so to comply in the future.

Approved by the Board and signed on behalf of the Board

R Sankaran **Chief Executive**	**A Kirkwood** **Chief Financial Officer**
27th March 2024	**27th March 2024**

Appendix 2 - Three Lines Model



The Veterinary Defence Society Limited

Solvency and Financial Condition Report

Disclosures

31 December 2023

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0060	Property, plant & equipment held for own use	1,411,192.37
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	28,403,920.56
R0080	*Property (other than for own use)*	0.00
R0090	*Holdings in related undertakings, including participations*	2.00
R0100	*Equities*	4,851,611.85
R0110	*Equities - listed*	4,851,611.85
R0120	*Equities - unlisted*	
R0130	*Bonds*	17,960,237.95
R0140	*Government Bonds*	8,220,262.04
R0150	*Corporate Bonds*	9,521,724.38
R0160	*Structured notes*	0.00
R0170	*Collateralised securities*	218,251.52
R0180	*Collective Investments Undertakings*	5,592,068.76
R0270	Reinsurance recoverables from:	718,871.56
R0280	*Non-life and health similar to non-life*	718,871.56
R0290	*Non-life excluding health*	718,871.56
R0360	Insurance and intermediaries receivables	7,032.46
R0410	Cash and cash equivalents	15,211,345.44
R0420	Any other assets, not elsewhere shown	2,137,837.03
R0500	**Total assets**	47,890,199.41

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	17,088,720.18
R0520	*Technical provisions - non-life (excluding health)*	17,088,720.18
R0530	*TP calculated as a whole*	0.00
R0540	*Best Estimate*	15,961,469.86
R0550	*Risk margin*	1,127,250.32
R0840	Payables (trade, not insurance)	1,224,017.00
R0880	Any other liabilities, not elsewhere shown	450,616.63
R0900	**Total liabilities**	18,763,353.81
R1000	**Excess of assets over liabilities**	29,126,845.60

S.05.01.01
Premiums, claims and expenses by line of business

Non-life		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		General liability insurance	
		C0080	C0200
	Premiums written		
R0110	*Gross - Direct Business*	18,471,341.07	18,471,341.07
R0140	*Reinsurers' share*	1,159,413.00	1,159,413.00
R0200	*Net*	17,311,928.07	17,311,928.07
	Premiums earned		
R0210	*Gross - Direct Business*	18,471,341.07	18,471,341.07
R0240	*Reinsurers' share*	1,159,413.00	1,159,413.00
R0300	*Net*	17,311,928.07	17,311,928.07
	Claims incurred		
R0310	*Gross - Direct Business*	4,550,120.00	4,550,120.00
R0340	*Reinsurers' share*	122,017.00	122,017.00
R0400	*Net*	4,428,103.00	4,428,103.00
R0550	**Expenses incurred**	10,906,136.00	10,906,136.00
	Administrative expenses		
R0610	*Gross - Direct Business*	6,561,251.00	6,561,251.00
R0700	*Net*	6,561,251.00	6,561,251.00
	Investment management expenses		
R0710	*Gross - Direct Business*	51,470.00	51,470.00
R0800	*Net*	51,470.00	51,470.00
	Claims management expenses		
R0810	*Gross - Direct Business*	4,293,415.00	4,293,415.00
R0900	*Net*	4,293,415.00	4,293,415.00
R1300	**Total expenses**		10,906,136.00

S.05.02.01

Premiums, claims and expenses by country

		C0010	C0020	C0070
	Non-life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - non-life obligations**	**Total Top 5 and home country**
R0010			**IE**	
		C0080	C0090	C0140
	Premiums written			
R0110	*Gross - Direct Business*	16,548,179.07	1,923,162.00	18,471,341.07
R0140	*Reinsurers' share*	1,043,472.00	115,941.00	1,159,413.00
R0200	*Net*	15,504,707.07	1,807,221.00	17,311,928.07
	Premiums earned			
R0210	*Gross - Direct Business*	16,548,179.07	1,923,162.00	18,471,341.07
R0240	*Reinsurers' share*	1,043,472.00	115,941.00	1,159,413.00
R0300	*Net*	15,504,707.07	1,807,221.00	17,311,928.07
	Claims incurred			
R0310	*Gross - Direct Business*	3,833,854.00	716,266.00	4,550,120.00
R0340	*Reinsurers' share*	118,157.00	3,860.00	122,017.00
R0400	*Net*	3,715,697.00	712,406.00	4,428,103.00
R0550	**Expenses incurred**	9,815,522.00	1,090,614.00	10,906,136.00
R1200	**Other expenses**			
R1300	**Total expenses**			10,906,136.00

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance	Total Non-Life obligation
		General liability insurance	
		C0090	C0180
R0010	**Technical provisions calculated as a whole**	0.00	0.00
R0050	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		0.00
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	**Gross - Total**	-899,729.67	-899,729.67
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0.00
R0150	**Net Best Estimate of Premium Provisions**	-899,729.67	-899,729.67
	Claims provisions		
R0160	**Gross - Total**	16,861,199.53	16,861,199.53
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	718,871.56	718,871.56
R0250	**Net Best Estimate of Claims Provisions**	16,142,327.97	16,142,327.97
R0260	**Total best estimate - gross**	15,961,469.86	15,961,469.86
R0270	**Total best estimate - net**	15,242,598.30	15,242,598.30
R0280	**Risk margin**	1,127,250.32	1,127,250.32
	Amount of the transitional on Technical Provisions		
R0290	TP as a whole		0.00
R0300	Best estimate		0.00
R0310	Risk margin		0.00
R0320	**Technical provisions - total**	17,088,720.18	17,088,720.18
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	718,871.56	718,871.56
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	16,369,848.62	16,369,848.62

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010 (Development year 0)	C0020 (1)	C0030 (2)	C0040 (3)	C0050 (4)	C0060 (5)	C0070 (6)	C0080 (7)	C0090 (8)	C0100 (9)	C0110 (10 & +)	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											3,043.00	3,043.00	3,043.00
R0160	N-9	295,738.36	406,749.34	304,536.69	165,570.88	72,220.20	17,000.00	164,790.16	8,874.42	16,841.00	29,722.14		29,722.14	1,482,043.19
R0170	N-8	486,802.82	857,043.78	569,345.22	372,737.06	64,000.00	284,970.67	161,726.55	67,022.00	49,001.94			49,001.94	2,912,650.03
R0180	N-7	557,915.66	668,357.15	400,589.21	292,000.00	165,954.81	20,205.23	9,331.00	49,846.06				49,846.06	2,164,199.11
R0190	N-6	692,599.02	1,018,071.36	596,000.00	417,867.99	788,865.75	206,373.00	96,420.47					96,420.47	3,816,197.59
R0200	N-5	625,890.70	831,000.00	445,246.34	345,622.43	97,980.00	241,185.21						241,185.21	2,586,924.67
R0210	N-4	664,000.00	519,079.90	148,580.85	264,658.00	175,706.08							175,706.08	1,772,024.83
R0220	N-3	451,970.15	702,139.90	244,179.00	464,464.25								464,464.25	1,862,753.30
R0230	N-2	926,876.88	834,036.00	395,532.20									395,532.20	2,156,445.08
R0240	N-1	1,384,967.00	616,709.56										616,709.56	2,001,676.56
R0250	N	1,166,216.75											1,166,216.75	1,166,216.75
R0260												Total	3,287,847.66	21,924,174.12

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

Year	C0200 (Development year 0)	C0210 (1)	C0220 (2)	C0230 (3)	C0240 (4)	C0250 (5)	C0260 (6)	C0270 (7)	C0280 (8)	C0290 (9)	C0300 (10 & +)	C0360 Year end (discounted data)
Prior											98,272.00	98,272.00
N-9	1,500,690.00	710,599.00	259,620.00	284,061.77	99,988.74	180,724.98	69,707.04	62,937.16	79,839.00	1,222.11		1,222.11
N-8	1,606,300.00	1,227,589.00	1,892,611.18	528,392.99	307,858.79	1,022,337.52	245,644.70	263,710.00	93,317.06			93,317.06
N-7	2,078,557.00	2,566,296.12	762,534.32	858,613.22	673,886.29	35,013.96	30,166.00	57,320.90				57,320.90
N-6	5,821,088.15	1,596,088.37	2,672,692.68	2,846,523.96	331,453.06	172,458.00	121,433.80					121,433.80
N-5	2,773,104.86	3,356,151.46	2,731,138.02	332,737.49	513,506.00	231,179.66						231,179.66
N-4	5,035,787.59	2,098,770.92	512,260.16	166,487.00	64,860.31							64,860.31
N-3	3,440,659.84	605,341.61	600,369.00	353,834.52								353,834.52
N-2	1,444,218.35	946,102.00	918,717.66									918,717.66
N-1	1,052,618.00	786,361.45										786,361.45
N	1,631,851.39											1,631,851.39
											Total	4,358,370.86

S.23.01.01
Own Funds

		Total	Tier 1 unrestricted
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020
R0130	Reconciliation reserve	29,126,845.60	29,126,845.60
R0290	**Total basic own funds after deductions**	29,126,845.60	29,126,845.60
	Available and eligible own funds		
R0500	Total available own funds to meet the SCR	29,126,845.60	29,126,845.60
R0510	Total available own funds to meet the MCR	29,126,845.60	29,126,845.60
R0540	Total eligible own funds to meet the SCR	29,126,845.60	29,126,845.60
R0550	Total eligible own funds to meet the MCR	29,126,845.60	29,126,845.60
R0580	**SCR**	13,378,428.51	
R0600	**MCR**	3,835,730.13	
R0620	**Ratio of Eligible own funds to SCR**	217.71%	
R0640	**Ratio of Eligible own funds to MCR**	759.36%	

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	29,126,845.60
R0760	**Reconciliation reserve**	29,126,845.60

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010	Article 112	**Regular reporting**	
		Net solvency capital requirement	**Gross solvency capital requirement**
		C0030	C0040
R0010	Market risk	4,511,418.12	4,511,418.12
R0020	Counterparty default risk	1,234,859.11	1,234,859.11
R0030	Life underwriting risk		
R0040	Health underwriting risk		
R0050	Non-life underwriting risk	10,206,499.59	10,206,499.59
R0060	Diversification	-3,128,488.54	-3,128,488.54
R0100	**Basic Solvency Capital Requirement**	12,824,288.28	12,824,288.28

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	554,140.23
R0200	**Solvency Capital Requirement excluding capital add-on**	13,378,428.51
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	13,378,428.51

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance	C0010
R0010	MCR_{NL} Result	3,835,730.13

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0090	General liability insurance and proportional reinsurance	15,242,598.30	17,295,744.31

	Overall MCR calculation	C0070
R0300	Linear MCR	3,835,730.13
R0310	SCR	13,378,428.51
R0320	MCR cap	6,020,292.83
R0330	MCR floor	3,344,607.13
R0340	Combined MCR	3,835,730.13
R0350	Absolute floor of the MCR	3,494,640.00
R0400	**Minimum Capital Requirement**	3,835,730.13

The Veterinary Defence Society Limited

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