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The Veterinary Defence Society Limited

Solvency and Financial Condition Report

For the year ending 31 December 2018

Contents

Summary

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

The Society is a mutual insurance company for veterinary surgeons in the United Kingdom and Ireland that underwrites only one class of business – Professional Indemnity insurance. The business strategy is centred on the themes of "Defend, Support and Develop" which applies to both the business and the veterinary membership.

Gross written premiums in the year to 31 December 2018 amounted to £13.243m (2017, £12.275m) before Return of Premium, and £12.993m (2017, £11.725m) after a Return of Premium of £250,000 (2017, £550,000).

The Group financial result for the year was a deficit of £177,221 against a deficit of £634,514 in 2017.

The Society's total return on its investments after tax in 2018 was a loss of £254k (2017 Return: £524k). Brexit and world trade uncertainty has created volatility in the investment markets, which has resulted in the poor performance of investments in 2018.

KPMG LLP ("KPMG") our Actuarial advisers working from the claims experience in the year have revised down the number of large losses in their IBNR calculation. KPMG also reviewed the reserving and modelling focusing on the impact of the change in basis for the C&D part of the policy.

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 Annotated Combined Code on Corporate Governance for mutual insurers ("the Code"). The committee structure has changed with the Audit Risk and Compliance committee (ARCC) being split into an Audit committee (AC) and a Risk and Compliance committee (RCC) during the year.

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

The Solvency Capital Requirement (SCR) for December 2018 is £11.9m (2017 £11.5m) There have been a number of underlying movements with Underwriting risk increasing by £701k and Counterparty default risk by £611k being offset by Market risk reducing by (£771k). Our Own funds of £21.1m are down £0.9m from 2017 £22.0m, which has produced a Solvency ratio of 178% (2017 191%). The Minimal Capital Requirement (MCR) is £3.29m (2017 £3.25m).

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 MCR or SCR.

This document fulfils the requirements for the submission of information to national competent authorities in 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 company'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 Estate Knutsford Cheshire WA16 8XZ
External auditors	PricewaterhouseCoopers LLP 1 Hardman Square Manchester M3 3EB
Regulators	Prudential Regulatory Authority Bank of England Threadneedle Street London EC2R 8AH Financial Conduct Authority 25 The North Colonnade London E14 5HS
Actuarial advisers	KPMG LLP Risk Consulting and Actuarial Services 1 St Peter's Square Manchester M2 3AE.

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, therefore not having any share capital. 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 associated risk management services such as its advice service, non-clinical training and also acts as an introducer appointed representative to provide third party underwritten products and services to members of the Society, and their employees in the businesses.

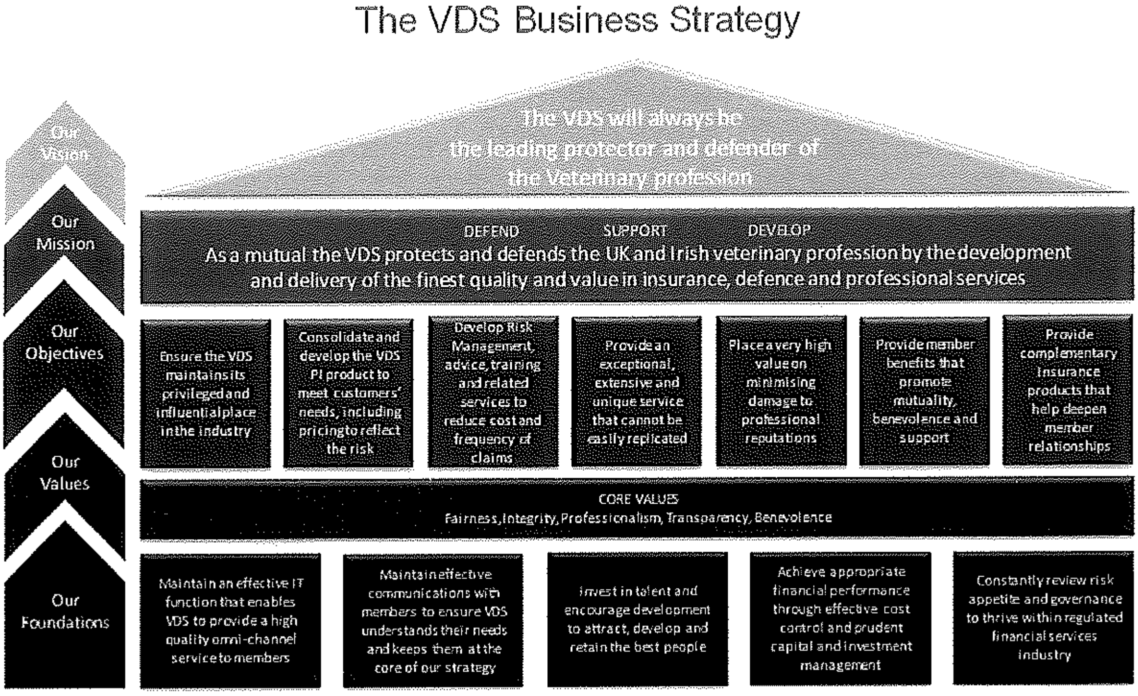
The Society has two, subsidiary companies VDS Training Services Limited incorporated in 2017 and VDS Support Limited was incorporated in 2018.

As an insurance mutual, the Society has no shareholders and no individual controlling party. Surplus is not distributed other than by way of a return of premium to policyholders where appropriate. The 2018 financial statements show a total return of premiums of £250,000 (2017 £550,000), which is returned to eligible premium payers in proportion to the premium they have paid for the year.

Details of the Society's Board and Committee structures as well as further detail on the roles undertaken by key individuals are set down in Section B "System of Governance" on page 8.

The Society underwrites only one class of business.

The Society's Business Strategy is centred round the themes of "Defend, Support and Develop" which applies to both the business and the membership and is described through the business model shown below. This illustrates how strong business Foundations and Values support the Business Objectives in delivering the Society's Vision.



The Society's core business model is unique, utilising experienced veterinary surgeons to provide wide ranging, comprehensive and expert risk management, advice and training service to members. This helps to mitigate both the frequency and severity of claims and provides a high-quality claims service when claims do occur. The Board sees it as important to maintain this core business model and recognises that the costs associated with providing this breadth and quality of service can be higher than industry norms and therefore continually strives to ensure this represents good value for members.

These considerations are key to the Business Strategy and 2018 was the third year of the Society's current cycle of strategic delivery and saw further development of the core professional indemnity (PI) product and the delivery of a number of other key initiatives. The underwriting and pricing of the PI policy has been developed to add further sophistication and accuracy in risk selection whilst operational efficiencies have been achieved through the delivery of a multi-channel service including new websites and online member self-service functionality. The Society's risk management activities have been enhanced through the launch of Vetsafe, an app/online significant event report and risk management tool, and the continued roll out of additional non-clinical training via VDS Training which was launched the previous year. These are important developments as they establish the link between risk management, training and the insurance product and services.

A further addition to the VDS 'family' was the establishment of a second subsidiary company, VDS Support Limited. As with the training company, VDS Support Limited is not regulated by the PRA or FCA. Whilst its primary purpose is to facilitate the offering of complementary products and services to the membership, an additional benefit will be derived through ensuring commission incomes from the sale of such products which start in 2019 will be used for the benefit of all members.

As many of these strategic developments are embedded in to 'business as usual', the Society will continue to develop its strategy and seek to respond to the rapidly changing veterinary profession, which is seeing continued consolidation among practices, competition in the market place and demographic and structural changes, as well as increased demands of insurance regulatory requirements. The Board and Executive are mindful, as always of any potential impact a business strategy can have on the Society's capital reserves and Executive will undertake mid-year ORSA's should any activity or development alter or impact on the capital position.

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

3. Performance from underwriting activities

Gross written premiums in the year to 31 December 2018 amounted to £13.243m (2017, £12.275m) before Return of Premium, and £12.993m (2017, £11.725m) after the Return of Premium of £250,000 (2017, £550,000).

The Return of Premium was introduced during 2015 to enable the Society to distribute a share of any surplus to premium payers in years when there is a positive insurance result and to also to share any investment return. For further information please read the Annual Report and Financial Statements for the year ended 31 December 2018.

The Society purchases reinsurance to mitigate the impact of high value claims and against the impact of increased number of such claims. The cost of this reinsurance for 2018 was £937k (2017, £844k).

The costs of claims in 2018 incurred net of reinsurance was £5.816m (2017, £6,430m).

Claims incurred continue to be the main uncertainty in the business; by continually monitoring our reserves, including the frequency of large claims, we hope to reduce the impact of uncertainty in future years.

Operating expenses incurred in 2018, totalled £5.840m. (2017, £5.609m) Further information on the Society's expenditure can be found in the Annual Report and Financial Statements for the year ended 31 December 2018.

The Society remains in a strong financial position at the end of 2018 with £29.8m 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 strategy.

Key Performance Indicators (extract from Financial Statements)	2018	2017
	£'000	£'000
Gross written Premiums before Return of Premium	13,243	12,275
Return of Premium	250	550
Balance on Technical Account[1]	399	(635)
Employee retention[2]	93%	83%

Note:

1. The increase in the Technical account is mainly due to the 2018 Premium income increasing by £968k from 2017.

2. Employee retention is the number of employees at the year-end as a percentage of the employees at the start of the year.

4. Performance from investment activities

The Society has £29.837m (2017, £29.987m) of investments and cash which it considers to be its long-term 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). The external cost of managing these investments in 2018 was £42k (2017, £81k). Further information is provided in section C2.

Market value of LGIM Investment portfolio	2018	2017
	£'000	£'000
Debt securities	18,478	18,771
Shares and other variable-yield securities and units in unit trusts	8,621	8,966
Deposits with credit institutions	2,263	2,250
Cash in Northern Trust dealing account	475	0
Total invested with LGIM	**29,837**	**29,987**

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The Society is exposed to short term market value fluctuations due to these investments being traded on active markets. In 2018 the market reacted to Brexit and world trade uncertainties and saw a decline in asset values through the year. Unrealised losses on revaluation of the portfolio during 2018 were (£701k) (2017; (£14k) as set out below.

Investment return	2018	2017
	£'000	£'000
Income from investments	487	597
Realised gains on investments	0	81
Unrealised (loss) / gain on investments	(701)	(14)
Investment Management expenses and charges	(42)	(81)
Total Investment (loss) / Return	**(256)**	**583**
Tax on Income from Investments	(3)	(59)
Total Investment (Loss) / Return after Tax	**(254)**	**524**

The Society's total Loss on its investments after tax in 2018 was £ 254k (2017 Return: £524k). The significant reduction from the return in 2017 shows how the investment performance was impacted by the Brexit and world trade uncertainty which created volatility in the investment markets and resulted in the poor performance of investments in the year.

5. Performance of other activities

The Society has established two subsidiary companies, VDS Training Services Limited and VDS Support Limited.

The training company was incorporated in 2017 in order to accommodate the existing Communications Training team and facilitate the integration of Carolyne Crowe Coaching, an established training and coaching business, purchased in July 2017. Although VDS Training will operate outside of the PRA and FCA regulatory regime it will operate as part of the VDS 'family' establishing the link between risk management training and the insurance product and services.

VDS Support was incorporated in 2018 in order to facilitate the offering of third-party products and services to VDS members. The first two products, which were made available to members in 2019 are income protection from PG Mutual and private medical insurance from CS Healthcare.

6. Any other information

The Society has no other information to disclose.

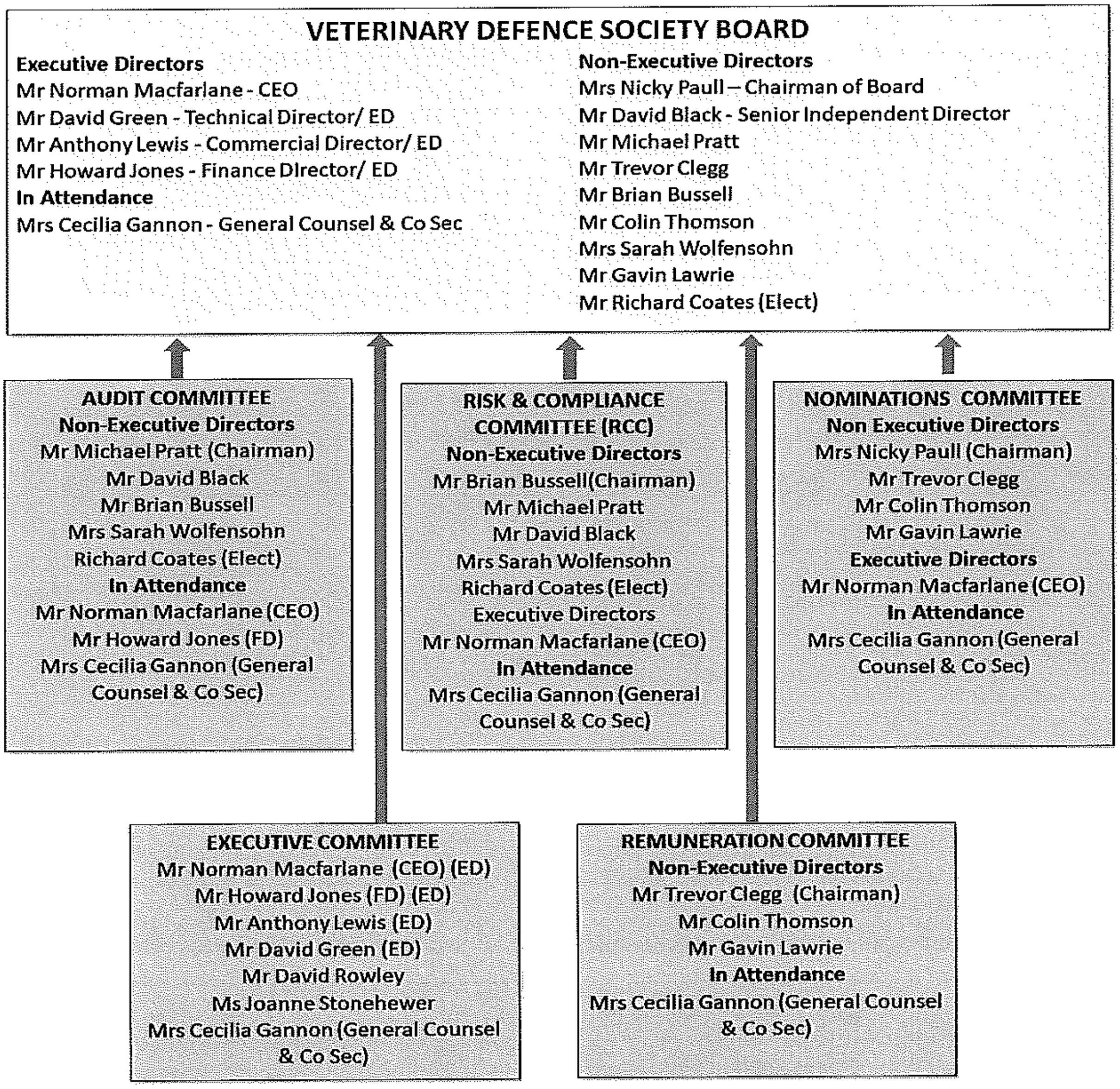
A. System of Governance

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 Association of Financial Mutuals Annotated Combined Code on Corporate Governance for mutual insurers ("the Code").

During the year, changes have been made in the Society's Committee structure with the former Audit Risk and Compliance committee (ARCC) being split into an Audit Committee (AC) and Risk and Compliance Committee (RCC), the Investment Committee has been incorporated into the Risk and Compliance Committee.

The Board composition and committee structures and members are shown below as at 31 December 2018.



The Society considers this governance structure to be adequate for the needs of the business in carrying out the necessary tasks. The following pages describe how the four key functions (risk management, internal audit, compliance and actuarial) have the necessary authority, resources and operational independence to carry out their tasks. The diagram above, together with the tables included under the heading Senior Manager Responsibilities, describe and illustrate how these key functions report and advise the management body.

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

- Providing leadership in the setting of the Society's 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 Enterprise 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;
- 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 Chairman, 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.

The Board meets every two months, with a two-day Board meeting being held each May and November to allow time for detailed strategic planning and consideration of the Society's key risks.

The Board conducts an annual self-assessment exercise, which is aligned to the Code, to review its effectiveness and highlight any areas which could be improved. In 2018 the Board conducted an external Board evaluation.

The Board also comprises of a number of Board committees to consider specific areas in more detail than would be possible in Board meetings. They are the Remuneration Committee, the Nominations Committee, the Audit Committee ("AC"), and the Risk and Compliance Committee, ("RCC").

Each of the Board committees has Board approved terms of reference, which are published on the Society's website. The composition and terms of reference of each committee are reviewed in July each year by the Chairman and any changes are approved by the Board.

The Board receives recommendations from the committees and the minutes of the committee meetings are provided to the Board. The Board also receives a monthly report from the Executive Committee.

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

- The development of strategy, risk appetite, operational plans and objectives, policies, procedures and budgets for Board approval;
- Following Board approval, the implementation of such strategy, 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;
- Identifying business opportunities outside the strategic plan and implementing them when appropriate;
- Ensuring compliance with relevant legislation, regulation and policies including managing the regulatory reporting processes;
- The implementation of appropriate systems for monitoring, management and mitigation of risk including setting the risk management culture;
- The prioritisation and allocation of 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.

The Board has delegated responsibility for overseeing the Society's risk management to the RCC. 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 RCC. For further information please see section B5. The information received and considered by the RCC provided assurance that during the financial year there were no material breaches of control or regulatory standards.

Audit Committee (AC)

The committee consists of its Chairman, Michael Pratt and three other Non-Executive Directors, David Black, the Senior Independent Director (SID), Professor Sarah Wolfensohn and Brian Bussell.

This committee monitors internal controls and financial reporting. It reviews the work of the Internal Audit function and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditor, and reviews and monitors the external auditor's independence, objectivity and the effectiveness of the audit process. It also has responsibility for fraud and ensuring that effective whistle-blowing arrangements are in place. The whistle-blowing champion is David Black (SID) who's role is to ensure any concerns raised by employees are in total confidence.

Risk and Compliance Committee (RCC)

The committee consists of its Chairman, Brian Bussell and three other Non-Executive Directors, Michael Pratt, David Black (SID) and Professor Sarah Wolfensohn. The Society's CEO, Norman Macfarlane is also a member of the RCC.

This committee monitors risk management and regulatory compliance matters. It reviews the work of the Risk and Compliance functions and assesses their effectiveness. It also has responsibility for review the Investment performance, provides challenge to the Society's investment managers by reviewing annual performance and reporting to the Board.

Nominations Committee

This consists of its Chairman, Nicky Paull (who is also Non-Executive Chairman of the Board) and three Non-Executive Directors, Trevor Clegg, Colin Thomson and Gavin Lawrie. The Society's CEO, Norman Macfarlane, is also a member of the Nominations Committee. 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 Society operates an Equal Opportunities and Diversity Policy. Two of the Society's Non-Executive Directors are female.

Remuneration Committee

The committee consists of its Chairman, Trevor Clegg and two other Non-Executive Directors, Colin Thomson and Gavin Lawrie. The Committee's main role is to determine and agree with the Board the Society's Remuneration Policy for the Chairman of the Board, Executive Directors and senior management.

The committee adopts a rigorous approach to determining appropriate levels of remuneration and takes external independent advice before recommending remuneration which it considers necessary to attract, retain, and motivate Directors and employees of the right calibre.

Remuneration policy and practices

The process for reviewing all Executive and Non-Executive remuneration is in line with good corporate governance as set out in the Code.

The Society's reward philosophy is that total remuneration of Executive Directors should be competitive with the market place for executives in the financial services and insurance sectors to attract and retain high calibre individuals with the relevant experience.

The remuneration of the Executive Directors is benchmarked against the pay available in the Financial Services and Mutual Assurers markets with companies with a turnover similar to that of the Society. The Society uses the Upper Quartile of these two market sectors to create a pay range for each Executive role.

The Society, as a financial mutual organisation, recognises the unique nature of its product offering, being a combination of its professional indemnity insurance policy and the provision of professional advice and assistance to its members. It is also keen to demonstrate its commitment to its core values and corporate strategy. As a consequence, the Society is currently of the view that performance related pay and/or bonuses to any of its senior employees would be inappropriate.

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The Remuneration Committee's decisions are made considering the Society's Corporate Strategy and core values and follow annual consideration of the Society's risks. They are designed to ensure that neither the Executive Directors nor high earning employees are incentivised to act in a manner that is prejudicial to the long-term interests of the Society's members. The Society has implemented a comprehensive approval process in place regarding remuneration and compensation packages offered to staff.

Senior Managers' Responsibilities

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

PRA/FCA Reference	PRA, FCA OR DUAL	Allocation of the 19 Prescribed Responsibilities to SMF	Names
A	Dual	Responsibility for the performance by the firm of its obligations under the Senior Managers Regime, including implementation and oversight.	N.Macfarlane (Lead) C.Gannon
B	Dual	Responsibility for the firm's performance of its obligations under the employee certification regime.	N.Macfarlane (Lead) C.Gannon
C	Dual	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map.	C.Gannon
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.	N.Paull (Lead) N.Macfarlane C.Gannon
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).	N.Macfarlane (Lead) C Gannon
M	Dual	Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices.	T.Clegg - as Chair of RemCo
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 firms.	M.Pratt - as Chair of Audit Committee
N	Dual	Responsibility for oversight of the independence, autonomy and effectiveness of the whistleblowing policies 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).	D. Black - as Senior Independent Director
B-1	FCA	Responsibility for the firm's obligations in relation to individual conduct rules for training and reporting (under Code of Conduct) (COCON).	H.Jones
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.	H.Jones
Z	FCA	Overall responsibility for the firm's compliance with CASS.	Not Applicable
H	PRA	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm.	N.Macfarlane (Lead) N.Paull
I	PRA	Responsibility for leading the development of the firm's culture by the governing body as a whole.	N.Paull (Lead) N.Macfarlane
O	PRA	Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity.	H. Jones
Q	PRA	Responsibility for the production and integrity of the firm's financial information and its regulatory reporting.	H.Jones
T	PRA	Responsibility for the development and maintenance of the firm's business model by the governing body.	N.Macfarlane (Lead) A.Lewis D.Green
T-2	PRA	Responsibility for the performance of the firm's Own Risk and Solvency assessment (ORSA).	N.Macfarlane (Lead) H. Jones C.Gannon
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).	N.Macfarlane (Lead) C.Gannon
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).	A.Lewis

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

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 continues to develop and embed 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 company.

In the ordinary course of business, a number of Executive and 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.

	SENIOR MANAGEMENT FUNCTIONS														
	Chief Executive Function	Chief Finance Function	Chief Risk Function	Chairman	Chair of the Risk Committee	Chair of the Audit Committee	Chair of the Remuneration Committee	Chair of the Nominations Committee	Senior Independent Director	Compliance Oversight	Money Laundering Reporting Officer	Other Overall Responsibility	Chief Actuary Function	Chief Underwriting Officer Function	Chief Operations Function
PRA or FCA SMF	PRA	PRA	PRA	PRA	PRA	PRA	PRA	FCA	PRA	FCA	FCA	FCA	PRA	PRA	PRA
APPROVED PERSONS	SMF1	SMF2	SMF4	SMF9	SMF10	SMF11	SMF12	SMF13	SMF14	SMF16	SMF17	SMF18*	SMF20	SMF23	SMF24*
N.Paull				✓				✓							
N Macfarlane	✓														
M Pratt						✓									
D.Black									✓						
B Bussell					✓										
T Clegg							✓								
A Lewis															✓
D Green														✓	
C Gannon			✓							✓					
H. Jones		✓											✓		
J.Stonehewer												✓			
D.Rowley															✓
A.McCloskey											✓				

* - Subject to Application/ Approval

2. Fit and proper

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

EIOPA's Guidelines on Systems of Governance require that the Board should collectively possess appropriate qualification, experience and knowledge about at least:

- insurance and financial markets;
- business strategy and business model;
- system of governance;
- financial and actuarial analysis; and
- regulatory framework and requirements.

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

In addition to the annual Board effectiveness evaluation, the Chairman 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 Chairman of the Board is appraised by the Senior Independent Director each year, taking into account the views of the other Non-Executive Directors.

The Society's processes ensure that all Controlled 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 Controlled Function.

Any breaches of the Fit and Proper requirements are internally reported to the RCC. The General Counsel and 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 B1) are all PRA/FCA 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 company. 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 the area that has been working in. The individual should also be of good repute, and the assessment includes taking relevant references.

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

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

- 1st Line of Defence – Executive and Senior Management
- 2nd Line of Defence - Risk and Compliance Function/Anti Money Laundering Officer and Chief Actuary Function
- 3rd Line of Defence - Internal Audit

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 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 review the Risk Register on a regular basis and update the register where appropriate throughout the year, including an assessment of emerging risks. An Executive report on risk management within the Society is provided to RCC in May each year and throughout the year, where necessary.

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 the 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. The Solvency ratio is still well in excess of the regulatory requirements.

Own Risk and Solvency Assessment (ORSA)

The Society has embraced the ORSA and 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 Executive Committee provide a report on the Society's top risks to the RCC in May each year. The RCC reports on the risk profile to the Board.

2. During 2018, the Society's Risk Management Group ("RMG"), met to identify, monitor, manage and report risks to senior management and Executive. This enabled the Society to improve information available to Executive which was then factored into the Risk Register as appropriate. The RMG has its own terms of reference, approved by the Board.

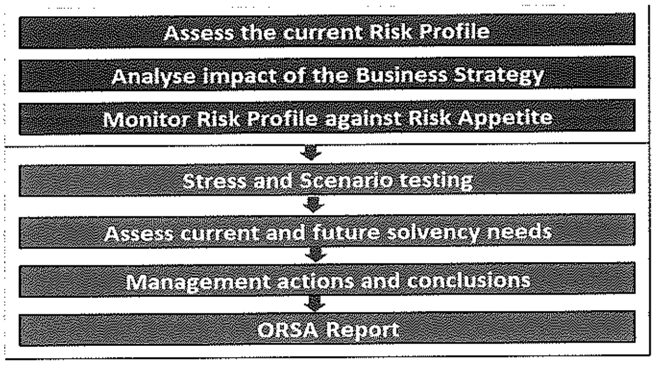
3. The business strategy and risk appetite are annually agreed by the Board and monitored by Executive throughout the year. The position of the risk profile against the defined risk appetite metrics is evaluated and any deviations outside the agreed risk appetite are highlighted for review and action.

4. The Executive Committee performs stress 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.

5. The Standard Formula is used for the calculation of solvency requirements for the quantifiable risks in the ORSA and is carried out by the Finance Director with the support of external actuarial consultants. The Executive Committee review the Solvency Capital Ratio (SCR) and solvency projection against the conclusions of the stress 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.

6. The Board conclude whether there should be any changes to the capital held over the planning period and whether additional capital needs to be raised 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 Society 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 complete 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 on-going 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 improving controls. Based on the frequency and severity scores, risks are then classified as Fully Effective, Strong, Effective, Needs Improvement, or Ineffective. Throughout 2018, 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 Risk and Compliance Function.

Risk policies

As part of the Society risk management framework, the Risk and Compliance Function, in conjunction with Executive Committee has developed a suite of risk policies. The policies are aligned with the commonly used risk category definitions and incorporate the key risks identified and assessed, together with controls and mitigation techniques. Each risk is assigned a risk owner, who is responsible for the maintenance of the policy, monitoring adherence to its requirements and reporting in accordance with the documented risk appetite.

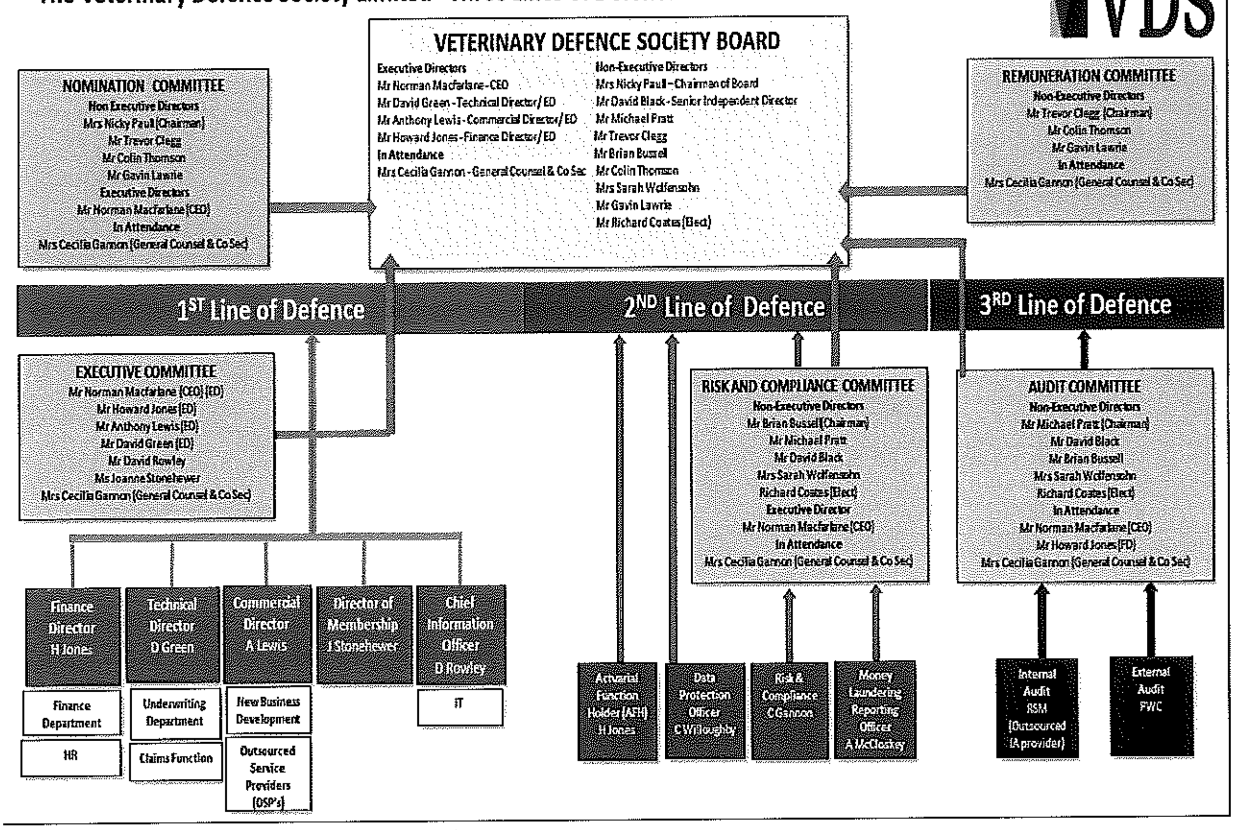
4. Internal Control

The Society adopts the 'Three lines of defence' 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 of defence 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.

The Veterinary Defence Society Limited - Three Lines of Defence



The principle of this model is that there are three layers of protection, as explained below:

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 of defence 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 of defence is responsible for providing assurance that business units are adhering to policies and procedures and 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 of defence is provided through the following functions:

A. The Risk and Compliance function

The Risk and Compliance function is headed by the General Counsel and Company Secretary who holds the Senior Management Function of Chief Risk Officer ("CRO") (SMF4) and FCA Compliance Oversight Function (SMF16) and who has a direct reporting line to the CEO and RCC. The General Counsel and Company Secretary 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 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 the risks to which the Society is or may be exposed. The function works with Executive and the Board in developing policies and procedures with the aim of providing reasonable 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 Risk and Compliance function is to promote an organisational culture committed to integrity, ethical conduct and compliance with regulations, the law, and to set or oversee standards, policies and procedures that provide reasonable assurance that the Society acts in a manner consistent with its compliance and regulatory obligations.

The 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 Risk and Compliance function reports to the Executive Committee.

B. Actuarial

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 LLP provides actuarial support to the Society on reserving, capital modelling, regulatory filings and reporting. The work of KPMG is overseen by the Finance Director, who holds (SMF20) responsibility as the Chief Actuary Function, and RCC.

Third line: Internal Audit

The third line of defence is given by internal audit and the Money Laundering Reporting Officer (MLRO) (SMF17), who are responsible for providing independent assurance that the first and second lines of defence are fulfilling their responsibilities.

5. Internal audit function

The Society's internal audit function was reviewed in 2018 and RSM Risk Assurance services LLP (RSM) were appointed as internal auditors to the Society replacing BDO LLP ('BDO'). They will operate a rolling 3-year strategic audit plan, the terms of which are reviewed and approved annually by the AC. Throughout the year, the work of RSM is co-ordinated by the Internal Audit and Compliance Manager who reports directly to the General Counsel and Company Secretary and reports directly to the Chair of the AC in respect of internal audit matters.

The current three-year audit programme covers reviews in the areas of governance and high-level controls, regulatory requirements and second line of defence, information technology, and business processes and key controls.

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 Manger, 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, the internal audit's main objectives are:

- Provide an independent and objective opinion to the Society's RCC, 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 of defence;
- Assist the Society's line management in its role as a first line of defence by providing assurance over the adequacy of procedures and controls and reporting findings and recommendations where appropriate; and
- Monitor and report on progress against Internal Audit recommendations.

In addition to reporting into the RCC, the internal audit function holds regular meetings with the Society's Finance Director 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; and
- Review of reinsurance arrangements;
- Producing an Actuarial Function Holders Report to the Board.

Reserve risk is one of the key drivers of the Society, and it is the responsibility of the Finance Director 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 third quarter, which is compared to the net reserves at the same point in time;
- 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 three-month period. 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. This analysis determines the held reserves at year-end; and
- KPMG LLP 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, which is 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 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."

With regard to 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 or FCA 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 a key function is outsourced, the Society has named individuals who have responsibility for that outsourced function;

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

The Society is satisfied that these persons have 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

The Society has no other information to disclose.

C. Risk Profile

The Society's risk management system is driven by the Executive, led by the General Counsel and Company Secretary, who carries the Chief Risk Function (SMF4), . The Executive are responsible for the preparation and review of a detailed Risk Register which 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 Risk Management Group ("RMG") is comprised of representatives from the various business units within the Society. Its purpose is to provide a forum in which a) existing risks and controls can be discussed and reviewed, b) whether there are events or occurrences taking place which would affect the management of risks, and c) to highlight any new or emerging risks that need consideration by the group for inclusion into the Risk Register.

The RMG will consider agenda items raised by its members, the Executive Committee and other stakeholders, and make recommendations for courses of actions to the Executive Committee and/ or the RCC as appropriate.

The RMG has an agreed terms of reference and is supported and facilitated by the Risk and Compliance function.

The Chair of the RMG reports to the Executive team and RCC at regular intervals on the matters it has reviewed and makes recommendations as appropriate. The Chair is also responsible for updating the Risk Register following the meeting and for providing this to Executive in advance of scheduled Executive meetings.

Executive review the Risk Register on a monthly basis and update the register where appropriate throughout the year, including an assessment of emerging risks. An Executive report is provided to RCC on risk annually and throughout the year, where necessary.

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.

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, Effective, Needs Improvement, or Ineffective) is used to easily identify which areas need further attention. The Risk Register also identifies the owner of each risk as well as allocating likelihood and impact scores for each risk, which are multiplied together to give a severity score (on the scoring notation above). Scores are calculated pre- and post-mitigation to gauge the effectiveness of controls.

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. The Board are reviewing and considering the options that impact the solvency ratio for 2019.

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

The Society takes a conservative approach to underwriting risk, prioritising 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 assessment and ORSA exercise if any new product is to be considered. During the period in reference, however, the Society only wrote one class of business.

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

GWP (before Return of Premium) has shown steady growth over the past 4 years and our Member retention is high which provides a high level of comfort about the risks being underwritten.

Gross written Premiums before Return of Premium	
	£'000
2018	13,243
2017	12,275
2016	11,527
2015	10,934
2014	10,835

As the Society principally writes a number of 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 insures most veterinary practices in the UK and therefore industry concentration risk is inherent. However, by maintaining this large base the Society is able to remain relevant to the whole industry, and consequently continues to represent the subtle industry developments (e.g. corporate groups, specialist referral practices, large practices, charities, traditional partnerships and locums) and therefore naturally mitigates this risk.

The Society operates a reinsurance strategy to assist with its approach with risk mitigation to protect the funds from both high claims 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. The Society models the impact of a reduction in GWP, a deterioration of its gross loss ratio, and the one credit rating downgrade of its' reinsurers. Under each of the stresses and scenarios the Solvency Ratio remains within the Society's risk appetite.

2. Market risk

The Society is principally exposed to market risk through its investment portfolio which includes debt securities, equities, unit trusts and other variable yield securities which are traded on active markets. The policy is to hold a significant amount of the Society's reserves against such assets since the capital position allows for short term fluctuations in value whilst maximising returns over the longer term. In acknowledgment of these risks, the Society looks to hold bank deposits and investments which are not exposed to the same level of market risk as the investment portfolio assets and which 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		Portfolio Valuation @ December 2018	Actual Allocation @ December 2018	Central Benchmark %	Allowed movement from benchmark (Control Ranges) +/- %
PAIF (Property authorized investment funds)	UK Property Fund	4,435,895	14.9%	15.0%	-
Unit Trusts	Sterling Corporate Bond Index	7,275,681	24.4%	25.0%	5%
	UK Index	2,035,517	6.8%	7.5%	5%
	International Index	2,149,773	7.2%	7.5%	5%
	All Stocks Index Linked Gilt Index	1,494,924	5.0%	5.0%	5%
SICAV (Open ended investment funds)	Absolute Return Bond (Cash+1.5%)	9,707,341	32.5%	32.5%	5%
OEIC (Open ended investment company)	Sterling Liquidity Fund	2,262,789	7.6%	7.5%	5%
Northern Trust Dealing interest cash accounts		474,857	1.6%		
	Total	29,836,777	100.0%	100.0%	

The principal risks identified in the Risk Register under the category of Market Risk are:

- Reduction in value or illiquidity of bonds
- Volatility of property market
- Euro exchange rate volatility with regard to Euro denominated business

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

Market risk sensitivities - stress and scenario tests

The Society models the impact of a market shock on its Market risk through its SCR model. The shock models the following asset value reductions: 20% of corporate bonds; 15% 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 150%.

The Society also models a reverse stress test which illustrate the stresses which, when combined, would reduce the Society's Own Funds to be equal to its SCR (that is, a Solvency Ratio of 100%). This exercise illustrates the robustness of the Society's capital position, although the risk of all the combined stresses occurring at the same time are very remote.

3. Credit risk

The Society's principal credit risks are with institutions that hold our financial assets are 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 organisations with a minimum credit rating of A.

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

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

- Counterparty risk of failure of a financial institution holding investments
- Illiquidity risk – delayed payments from members or reinsurers 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 in order to avoid any significant concentration of credit risk. Deposits are only placed in high credit rating banks to minimise default risk and similarly reinsurance credit risk is minimised by using a panel of reinsurers with a minimum rating of A.

Credit risk by class of financial instrument at 31 December 2018 (UK valuation basis)							
At 31 December 2018	AAA	AA	A	BBB	BB	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Debt securities	1,257	9,878	4,858	1,349	320	815	18,478
Shares and variable yield securities and unit trusts	-	-	-	-	-	8,621	8,621
Deposits held with credit institutions	2,263	-	-	-	-	-	2,263
Cash at bank and on hand	-	-	398	5,078	-	0	5,476
Other debtors	-	-	-	-	420	193	613
Debtors arising out of reinsurance operations	-	20	9	-	-	-	29
Total	3,520	9,898	5,265	6,427	741	9,630	35,480

Financial instruments included in Other above, do not carry a credit risk assessment 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 its forecast annual expenditure to minimise liquidity risk. As well as cash assets, the Group holds a significant portion of highly liquid assets such as government bonds within the investment portfolio.

Expected profit included in future premiums ("EPIFP") is another liquidity measure. This measure intends to illustrate the impact if cash inflows included in Technical Provisions (to reduce the liability) were not received by the Society. EPIFP is calculated as £1,050k as at 31 December 2018 (2017; £891k).

5. Operational risk

Operational risk for the Society covers the 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. Due to their potential impact, 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 risks identified by the Society, which are not included in the previous categories, include a series of strategic risks such as:

- Risk of a new competitor entering the market, mitigated by Executive keeping abreast of market changes and ensuring the Society's products are appropriate and competitive;
- Failure of corporate strategy, mitigated by regular review of strategy by Board and Executive;
- Inadequate risk management, mitigated by the risk management system in place described above, including monthly monitoring of the Risk Register by the Executive;
- Hostile takeover risk, mitigated by the corporate nature of the Society;
- Internal contagion risk e.g. training being offered not related to insurance, mitigated by maintaining the operational structure of the VDS Training company in line with regulatory obligations and overall business strategy; and
- Increased activity from financial services regulators as a consequence of Brexit, mitigated by monitoring the regulatory and political landscape as well as working with external advisers.

7. Any other information

The nature of material risk concentrations

Given the limited nature of risks underwritten by the Society (professional indemnity of individual veterinary practices or practitioners), in theory there is a concentration of risk in one industry. We do not believe there could be a systemic failure in the industry which would give rise to a concentration of risk.

In other areas, the Investment Policy ensures assets are reasonably diversified and thus avoid concentration of asset risk.

Risk mitigation practices

The Society has reinsurance arrangements in place via its appointed reinsurance brokers, Capsicum 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. The review in conjunction with the Reserving Policy is particularly important to ensure that both reflect changes in claims movements and trends and that the Reinsurance Policy supports the Reserving Policy.

D. 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. 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 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 some assets and liabilities, which have been followed.

The Society exercises judgement in selecting each of its accounting policies. The Society 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 values shown in the financial statements are summarised in the table below.

Description	Solvency II	UK GAAP
	£'000s	£'000s
Intangible assets (1)	-	476
Property, plant & equipment held for own use	1,688	1,688
Total investments	34,124	29,362
Reinsurance recoverables	230	200
Insurance and intermediaries receivables	313	313
Cash and cash equivalents	5,898	5,359
Any other assets, not elsewhere shown	1,225	1,306
Total Assets	**43,478**	**38,704**

(1) – Intangible assets are not recognised under Solvency II because the assets cannot be readily realised for solvency purposes.

Property, plant & equipment held for own use

Property, plant and equipment are valued for Solvency II purposes on the 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 makes up £1.3 million of the fair value was valued in December 2018 by independent chartered surveyors.

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 judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment 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 judgment. 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 comprises of cash on hand and deposits with banks.

Reinsurance receivables and payables

Receivables and payables are recognised when due. These include amounts due to and from insurance contract holders. Receivables and payables are recognised at the amount expected to be received or paid when due. Due to the short-term nature of the Society's reinsurance these amounts are not discounted.

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 2020. 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 during the year.

2. Technical provisions

The Society's Financial Statements include provisions for claims incurred based on earned premiums taking into account 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 and IBNR.

The Society values its technical provisions using the methodology prescribed by the Solvency II directive and the regulations made under the Directive.

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 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 the Bornhuetter-Ferguson and Chain Ladder 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 flow 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 2018. 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 is based on the Society's forecasting model which takes inputs of claims frequency and severity based on historic data. As for 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.

Summary of Technical Provisions

Description	2018	2017
	£'000	£'000
Discounted Total Provision best estimate	14,624	15,517
Risk margin	816	915
Technical Provisions	**15,440**	**16,432**

Technical provisions by line of business and risk group

The Society writes only one lines of business and uses one homogenous risk group 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. 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 those claims will cost. 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 its underwriting risk profile changes little from year to year; therefore, historic data should be a reasonably 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.

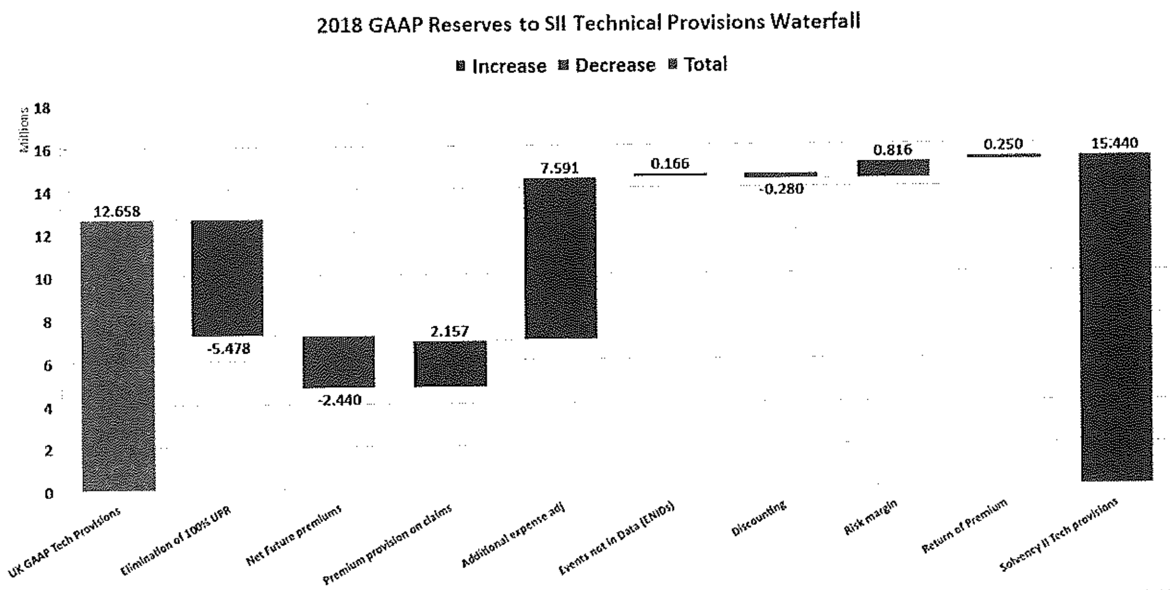
Events not in data ('ENID loading') – there is considerable uncertainty in estimating a provision for events that have not been observed before;

Run-off expenses – there is uncertainty in determining which expenses would continue in the case of run-off, whether those expenses would be reduced and for how long they would be paid; and

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 Risk margin makes up only 5% of the total Technical Provisions.

Reconciliation between UK GAAP financial statements' statutory claims reserves and Solvency II Technical provisions

The chart below details the changes made to convert the UK GAAP statutory reserve into the Solvency II Technical provisions.



- Unearned premium reserves UPR (Deferred Income) is deducted from the Statutory Reserve because this balance is valued differently for Solvency II purposes. The £5,478k (2017: £6,920k) relates to premiums paid for the 2019 year of cover received by the Society on or prior to 31 December 2018. Under UK GAAP accounting these premiums are classified as liabilities until the related policy incepts (which would be the 1 January 2019).
- Net Future Premiums of £2,440k (2017: £2,844k) reduces the Technical Provision liability because these monies will flow to the Society during the 2019 calendar year. These monies relate to policies which were bound but not incepted (BBNI) and not paid on 31 December 2018. That is, the Society had received completed proposal forms, but no premium had been received as at 31 December 2018.

- Best Estimate Claims Reserve of £2,157k (2017: £2,882k) relates to the claims expected to be incurred on business which the Society was bound to write in 2018 as at 31 December 2018. That is, these are the claims on policies which will incept on 1 January 2019 for which signed proposal forms had been received on or before 31 December 2018.
- The Expenses adjustment of £7,592k (2017: £7,317k) increases the Technical Provision liability because these are additional expenses the Society will incur in the future as a result of the policies which were bound but not incepted at 31 December 2018.
- Events not in data (ENID) loading – this is an allowance for events that have not been seen in the historic dataset and have therefore not been valued within the UK GAAP claims provision. This allowance has been calculated as an additional liability of £166k (2017: £419k).
- Discounting – This adjustment reflects the time-value of money and reduces the Technical Provisions by £280k (2017: £222k).
- Risk Margin – The risk margin is included to ensure that the value of the Technical Provisions is equivalent to the amount that would need to be held by a third party if they were to assume the Society's liabilities. The risk margin has been calculated as £816k (2017: £915k).

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

Description	2018	2017
	£'000	£'000
UK GAAP Technical Provisions (Claims provisions and claims handling	7,409	7,394
Reinsurers' share of claims provisions	(229)	(247)
Deferred income	5,478	6,920
Statutory Reserve (UK GAAP)	**12,658**	**14,067**

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was required. The Society plans to improve its ability to efficiently report accurate data in 2019 in order to support its business strategy as set out earlier in this report.

Changes since the last reporting period

The only change in the basis of reserving for 2018 has been the reduction of one large loss.

The reserving for 2018 has focused on the claims experience for the C&D policy which in 2017 changed from a Claims Made to Accident year basis. KPMG have within their reserving made allowance for the likelihood of large losses on both the C&D and Negligence book, which enables the Society to cover larger claims should they arise.

We have separated 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 LLP 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.

Other Liabilities	2018 £'000	2017 £'000
Derivatives - Liabilities	5,347	5,603
Other creditors including taxation and social security	1,224	1,165
Accruals	337	328
Pension scheme	49	42
Any other liabilities	-	25
Total Other liabilities	**6,957**	**7,163**

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.

VDS

E. 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); and as a result, the Own Funds (eligible own funds and eligible basic own funds) are equal to the value of the Excess of Assets over Liabilities.

Own Funds	2018	2017
	£'000	£'000
Assets	43,478	45,598
Liabilities	(22,628)	(23,595)
Total Own Funds	**20,850**	**22,003**

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 reconciliation reserve £20,850k is disclosed on form S.23.01.01 and is made up of the excess of assets over liabilities and so the potential volatility of the reconciliation reserve is directly related to potential volatility of those assets and liabilities.

Description	2018	2017
	£'000	£'000
UK GAAP Reserves	**23,957**	**23,545**
Intangible assets not recognised under Solvency II	(476)	(28)
Increase in Technical Provision	(2,962)	(2,118)
Add 2017 Return of Premium (included within technical provisions)	250	550
Add SII valuation difference (Accrued Interest)	81	54
Own Funds	**20,850**	**22,003**

2. Solvency Capital Requirement and Minimum Capital Requirement

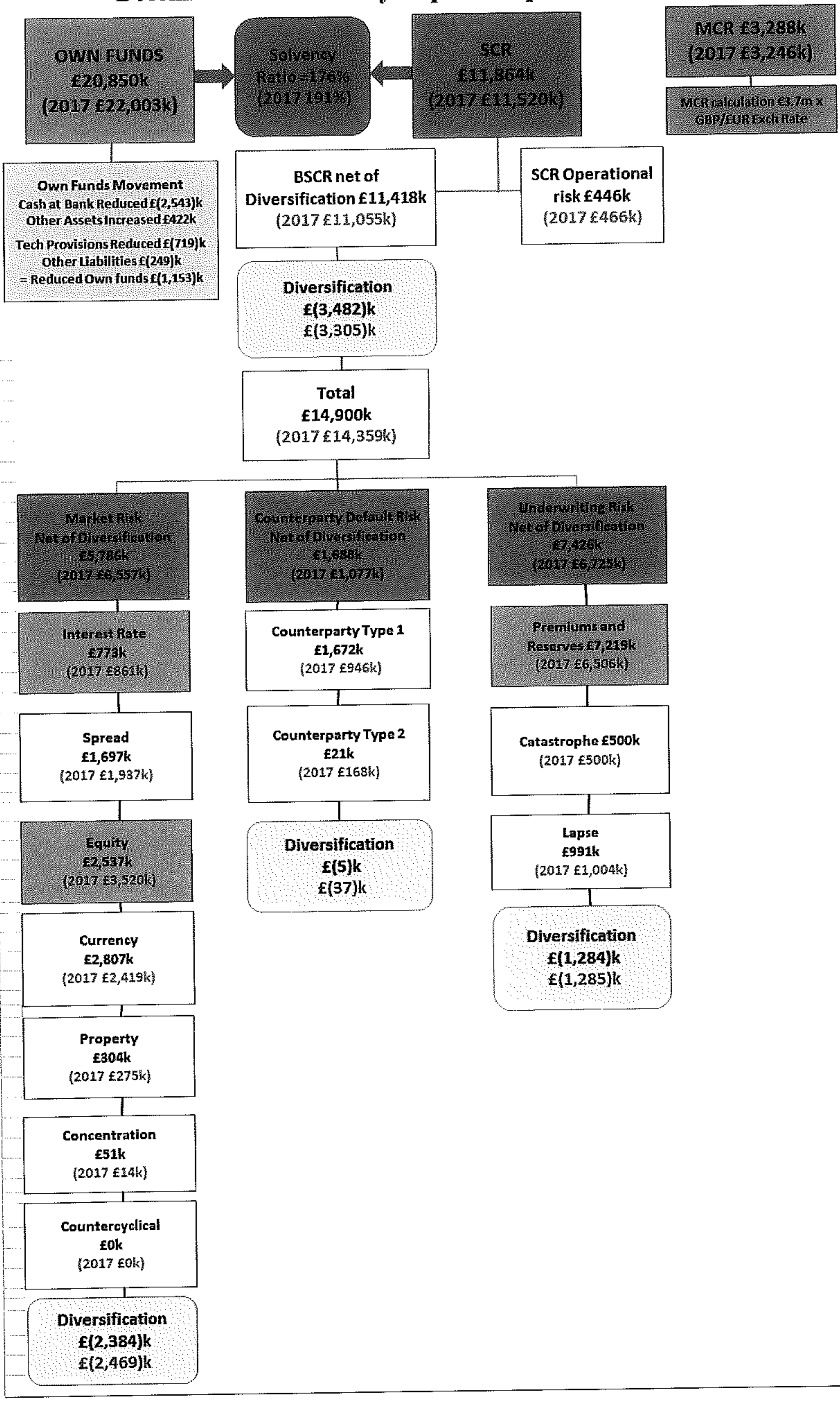
Set out below is a summary of Own Funds, SCR and MCR.

Description	2018	2017
	£'000	£'000
Own Funds	20,850	22,003
MCR	3,288	3,251
SCR	**11,864**	**11,520**
Solvency Ratio (= Own Funds / SCR)	**176%**	**191%**

Note – The movement on the SCR has been due to the increase in the Underwriting Risks for premium and reserve risks, and an increase in Counter Party Default risk.

The Veterinary Defence Society Limited

December 2018 Solvency Capital Requirements (SCR) Results



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 €3.7 million (or £3.288m) at 31 December 2018. The Society's MCR as at 2018 is equal to the Absolute floor because the Combined MCR falls below this level.

The table below illustrates this computation

MCR inputs	2018	2017
	£'000	£'000
Net value of technical provisions	15,440	16,188
Net written premiums over the last 12 months	12,055	10,881
Linear MCR	**3,118**	**3,071**
SCR	**11,864**	**11,520**
MCR Cap (at 45% of SCR)	5,339	5,184
MCR Floor (at 25% of SCR)	2,966	2,880
Combined MCR	**3,118**	**3,071**
Absolute floor (based on Euros 3.7m)	3,288	3,251
Minimum Capital Requirement MCR (Higher of Combined MCR and Absolute Floor)	**3,288**	**3,251**

The Solvency Capital Requirement of the Society is made up as follows:

Description	2018	2017
	£'000	£'000
Market risk	5,786	6,557
Counterparty default risk	1,688	1,077
Underwriting risk	7,426	6,725
Diversification	(3,482)	(3,305)
Basic SCR	11,418	11,054
Operational Risk	446	466
SCR	**11,864**	**11,520**

The movement in the SCR in the period is due to the increased Counter party default Risk and the increased premiums have increased the Underwriting Risks for premium and reserve risks.

These risks and values are further analysed on the following pages

Market Risk

The Society is exposed to market risks derived predominately from the assets held by the Society to meet its insurance liabilities, although exposures to shocks in interest rates and currency rates also consider exposure from underwriting risks.

Market Risk	2018	2017
	£'000	£'000
Interest rate risk	773	861
Spread risk	1,697	1,937
Equity risk	2,537	3,520
Currency risk	2,807	2,419
Property risk	304	275
Market concentration risk	51	14
Diversification	(2,384)	(2,469)
Market risk contribution to SCR	**5,786**	**6,557**

Counterparty Risk

The Society are exposed to counterparty risks in the form of cash deposits and recoveries from reinsurers (type 1) and from receivables from intermediaries, policyholders and other debtors (type 2).

Counterparty default risk	2018	2017
	£'000	£'000
Type 1 risk	1,672	946
Type 2 risk	21	168
Diversification	(5)	(37)
Counter party default risk contribution to SCR	**1,688**	**1,077**

Note – The movement on Counterparty Default Risk is due to the credit rating movement on the banks we use

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.

Underwriting risk	2018	2017
	£'000	£'000
Premium and reserve risk	7,219	6,506
Lapse risk	991	1,004
Catastrophe risk	500	500
Diversification	(1,284)	(1,285)
Underwriting risk contribution to SCR	**7,426**	**6,725**

Undertaking specific parameters and simplified calculations

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

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

At the beginning of 2017 the Society changed the policy terms for C&D cases from a Claims Made (Reported year) to a Claims Incurred basis (Accident year). This has had an impact on the Technical Provisions and SCR calculation, increasing both the GAAP reserves and the Technical Provisions for Solvency II. KPMG reviewed the reserving and modelling carried out for the 2016 year-end by the previous actuarial advisers. The reserving for 2018 has focused on the impact of the change in basis for the C&D policy to a Claims Made basis. KPMG have within their reserving made an allowance for the likelihood of large losses on both the C&D and Negligence book, which combined with liability limits having been increased, enables the Society to cover larger claims should they arise. Previous reserving had limited or no allowance for the likelihood for large losses on the most recent Accident year.

We have separated 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 LLP 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 2018, 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

N A Macfarlane
Chief Executive
17th April 2019

H J Jones
Finance Director
17th April 2019

Appendix 2 – QRT's

Veterinary Defence Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2018

(Monetary amounts in GBP thousands)

General information

Undertaking name	Veterinary Defence Society Limited
Undertaking identification code	213800HDDOCF4Q2C9561
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	1,688
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	34,045
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	4,182
R0110	*Equities - listed*	4,182
R0120	*Equities - unlisted*	
R0130	*Bonds*	20,002
R0140	*Government Bonds*	8,951
R0150	*Corporate Bonds*	9,460
R0160	*Structured notes*	0
R0170	*Collateralised securities*	1,591
R0180	*Collective Investments Undertakings*	3,198
R0190	*Derivatives*	5,223
R0200	*Deposits other than cash equivalents*	1,440
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	230
R0280	*Non-life and health similar to non-life*	230
R0290	*Non-life excluding health*	230
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	313
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	5,954
R0420	Any other assets, not elsewhere shown	1,225
R0500	**Total assets**	43,454

S.02.01.02

Balance sheet

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions - non-life	15,670
R0520	*Technical provisions - non-life (excluding health)*	15,670
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	14,854
R0550	*Risk margin*	816
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	5,324
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,273
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	337
R0900	**Total liabilities**	22,604
R1000	**Excess of assets over liabilities**	20,850

S.05.01.02

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)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business								12,993									12,993
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share								937									937
R0200	Net								12,055									12,055
	Premiums earned																	
R0210	Gross - Direct Business								12,993									12,993
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share								937									937
R0300	Net								12,055									12,055
	Claims incurred																	
R0310	Gross - Direct Business								2,518									2,518
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share								4									4
R0400	Net								2,514									2,514
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net								0									0
R0550	**Expenses incurred**								9,170									9,170
R1200	**Other expenses**																	
R1300	**Total expenses**																	9,170

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	12,993						12,993
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	937						937
R0200	Net	12,055	0	0	0	0	0	12,055
	Premiums earned							
R0210	Gross - Direct Business	12,993						12,993
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	937						937
R0300	Net	12,055	0	0	0	0	0	12,055
	Claims incurred							
R0310	Gross - Direct Business	2,518						2,518
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	2,518	0	0	0	0	0	2,518
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	9,170						9,170
R1200	**Other expenses**							
R1300	**Total expenses**							9,170

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**								0									0
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
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross								2,868									2,868
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								0									0
R0150	**Net Best Estimate of Premium Provisions**								2,868									2,868
	Claims provisions																	
R0160	Gross								11,987									11,987
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								230									230
R0250	**Net Best Estimate of Claims Provisions**								11,757									11,757
R0260	**Total best estimate - gross**								14,854									14,854
R0270	**Total best estimate - net**								14,624									14,624
R0280	**Risk margin**								816									816
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**								15,670									15,670
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**								230									230
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**								15,440									15,440

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Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Underwriting Year

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

	Year	C0010 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)
		Development year												
R0100	Prior											2	2	2
R0160	2009	237	458	661	402	201	11	1	9	0	0		0	1,980
R0170	2010	261	494	266	287	192	48	13	5	1			1	1,568
R0180	2011	357	625	439	145	92	11	3	-2				-2	1,670
R0190	2012	240	355	336	99	87	229	18					18	1,363
R0200	2013	451	459	336	192	22	10						10	1,472
R0210	2014	296	407	305	166	72							72	1,245
R0220	2015	487	857	569	373								373	2,286
R0230	2016	558	668	401									401	1,627
R0240	2017	693	1,018										1,018	1,711
R0250	2018	626											626	626
R0260												Total	2,519	15,548

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 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)
		Development year											
R0100	Prior											2	2
R0160	2009	2,039	1,452	1,074	489	206	81	74	64	0	0		0
R0170	2010	2,510	1,450	873	565	348	102	114	14	0			0
R0180	2011	2,312	986	758	343	132	114	13	2				2
R0190	2012	1,857	1,571	926	592	508	199	70					70
R0200	2013	2,012	1,574	424	220	369	46						46
R0210	2014	1,501	711	260	284	100							100
R0220	2015	1,606	1,228	1,893	528								528
R0230	2016	2,079	2,566	763									763
R0240	2017	5,821	1,596										1,596
R0250	2018	2,773											2,773
R0260												Total	5,880

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	20,850	20,850			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	20,850	20,850	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	20,850	20,850	0	0	0
R0510	Total available own funds to meet the MCR	20,850	20,850	0	0	
R0540	Total eligible own funds to meet the SCR	20,850	20,850	0	0	0
R0550	Total eligible own funds to meet the MCR	20,850	20,850	0	0	
R0580	**SCR**	11,864				
R0600	**MCR**	3,288				
R0620	**Ratio of Eligible own funds to SCR**	175.74%				
R0640	**Ratio of Eligible own funds to MCR**	634.07%				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	20,850
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	20,850
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	1,050
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,050

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	5,786		
R0020	Counterparty default risk	1,688		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	7,426		
R0060	Diversification	-3,482		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	11,418		

USP Key

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

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

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

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	446
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	11,864
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	11,864

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	3,118

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	14,624	12,305
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

Linear formula component for life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	0

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

Overall MCR calculation

		C0070
R0300	Linear MCR	3,118
R0310	SCR	11,864
R0320	MCR cap	5,339
R0330	MCR floor	2,966
R0340	Combined MCR	3,118
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	3,288