The Veterinary Defence Society Limited

# Solvency and Financial Condition Report

For the year ending 31 December 2021

# Contents

# Summary

**The Board of The Veterinary Defence Society Limited ("The Society") has prepared this Solvency Financial Condition Report (SFCR) which is an assessment of the financial position, risks and solvency 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 professionals in the United Kingdom and Ireland that underwrites only one class of business – Professional Indemnity insurance. The business strategy is built upon the purpose, vision, and mission - "We want to be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them, enabling them to focus on animal health and welfare".

Gross written premiums in the year to 31 December 2021 amounted to £15.82m (2020: £14.747m), a rise of 7.3% which was a result of growth in the membership base and a movement towards higher indemnity limits. There was a £1.2m Return of Premium made to our members in the 2021 results (2020: £1.8m).

The Group financial result for 2021 was a surplus of £2.277m compared to a surplus of £1.372m in 2020, arising from the increase in written premiums, stable claims ratios and despite reduced investment returns.

The Society's total return on its investments after tax in 2021 was £698k (2020: £1,278k). Concerns around Brexit abated in the year with minimal impact on the Society, however the Covid-19 pandemic continued to create uncertainty and market volatility. Despite this, the risk based, diversified investment portfolio performance remained resilient.

KPMG LLP ("KPMG") our actuarial advisers, after reviewing the Covid-19 pandemic claims experience in 2020, prudently increased the additional large losses loading by two within their IBNR calculation. This was to reflect the court and disciplinary system not expediting cases as quickly as witnessed in the past due to pandemic impact. In 2021 this large loss loading was increased to one negligence and three for Criminal and Disciplinary in each of Ireland and the UK to reflect a potential increase in the frequency of claims. In 2021 uncertainties around Covid are now much clearer and the associated economic impact of Brexit is more widely understood. As a result, The Board agreed to release £500k of additional prudence reserve provided for in 2020 to reflect the uncertainty pertaining to economic and environmental impacts of risks arising from Covid-19 and the UK's departure from the European Union. These changes in reserving approach, allied to changes in the underlying performance of the book resulted in total GAAP technical provisions amounting to £8,272k in 2021 (2020 £8,211k).

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

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

The Solvency Capital Requirement (SCR) for December 2021 is £12.096m (2020: £11.636m), a growth of £460k. The main sources of the growth have arisen from increased counterparty default risk £522k (associated with increased cash holdings) and higher market risk of £134k (ultimately from higher investment portfolio value). Diversified underwriting risk increased marginally by £67k reflecting the growth in the business. Available Own funds are £31,150k (2020: £25,082k) up £6,068k on 2020. The Society's Solvency ratio is 257.5% for the year (2020: 215.6%).

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

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

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

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

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

# Business and Performance

## 1. Company information

| | | |
|---|---|---|
| **The Veterinary Defence Society Limited** | 4 Haig Court<br>Parkgate Estate<br>Knutsford<br>Cheshire<br>WA16 8XZ<br>Registered in England and Wales No. 2159441 | |
| **The Veterinary Defence Society Limited – Irish Branch** | 8th Floor, Block E<br>Iveagh Court<br>Harcourt Road<br>Dublin 2<br>Registered in Ireland No. 909190 | |
| **Independent Auditors** | PriceWaterhouseCoopers LLP<br>1 Hardman Square<br>Manchester<br>M3 3EB | |
| **Regulators – UK** | Prudential Regulation Authority (PRA)<br>Bank of England<br>20 Moorgate<br>London<br>EC2R 6DA | Financial Conduct Authority (FCA)<br>12 Endeavour Square<br>London<br>E20 1JN |
| **Regulators – ROI** | Central Bank of Ireland (CBI)<br>New Wapping Street<br>North Wall Quay<br>Dublin 1<br>D01 F7X3 | |

## 2. Business and external environment

The Veterinary Defence Society Limited ("the Society") is a mutual insurance company and has members rather than shareholders. The Society was incorporated in 1987 as a company limited by guarantee and therefore does not have 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 access to associated risk management services through an advice service and our online incident reporting tool, VetSafe. Non-clinical training is provided through a subsidiary company VDS Training Services Limited, whilst another subsidiary company VDS Support Limited acts as an Introducer Appointed Representative to third party providers offering additional services to members of the Society and their employees. In 2021, the company also ran a pilot providing the Vetsafe platform to an international Veterinary Group in North America.

The nature, scale and pace of change and associated risks in our business environment are accelerating linked to the impacts of the pandemic and, in certain areas, to the outcomes following Brexit.

Within the veterinary market, the changes to working processes, recent increases in pet and equine ownership and changes in the agricultural industry post Brexit alongside the limited availability of veterinary professionals are resulting in further risks and stresses on the market. In addition, the proportion of the market under corporate ownership continues to grow within the UK and Ireland as well as in other international markets. These changes bring additional risk for VDS which heightens the need to remain relevant to the broad range of member needs.

The VDS strategy is designed to strengthen and extend the relationship with veterinary professionals, practices and businesses. We will introduce more personalised and tailored product variants and services to support a more diversified market. Our plans will be enabled through investment in data, digital and communication capability which will create a more integrated and connected range of services that provide ongoing and increased value to members.

The strategy also recognises the increased importance of a connected, capable, resilient and engaged team of colleagues and signals the importance of environmental, social, governance and diversity and inclusion plans as part of a fundamental change to the way of working. Internally the Society is moving away from separate workstreams towards a team orientated and integrated service model where the member is central to all of what we do.

Our core strengths reside in our in-depth understanding of the market and our continued aim of supporting the needs of our members. Our plans reflect this position and ongoing vision with the further development of a broader range of relevant services that help our members identify, monitor, manage and mitigate the day-to-day risks that they face, providing the protection to enable them to focus on where they can make the biggest difference – animal health and welfare.

In terms of our regulatory environment, we actively keep pace with the requirements of our regulators; the PRA and FCA in the UK and the CBI in Ireland. Key issues we have addressed throughout the year being the increased regulatory focus on governance, managing the financial risks of climate change alongside the impact of the pandemic including appropriate reserving with the identification and fair outcomes for vulnerable customers.

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 2021 financial statements reflected a return of premium provision of £1.2m provided as a Mutual Bonus Discount on the 2022 and 2023 renewals (2020 £1.8M).

The ongoing effects of the Covid-19 pandemic on the Society's investments in 2021 were well within the Board's risk appetite. We continue to monitor the impact of the pandemic closely. Stress testing of our plans for a severe but plausible downside scenario suggests more than adequate capital and liquidity reserves are available.

The Society's Business Strategy is focussed on delivering the purpose. The Society's core business model is unique, utilising experienced veterinary surgeons to provide wide ranging, comprehensive and expert risk management, advice, and training services to members supported by teams with specific functional expertise and a robust framework of governance, processes and policies. This helps to mitigate both the frequency and severity of claims and provides a high-quality claims service at the point of need. It provides an in-depth knowledge of our market and members, not only from a clinical perspective but across the broader environment, taking a holistic approach to risk management. Combining the mutual ethos and our in-depth veterinary market expertise, we provide a comprehensive, professional protection proposition. The value of the whole being greater than the individual parts. 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 and delivers overall better outcomes for them.

The three-year business plan approved by the Board in November 2021, focusses on the further development of our range of services supported by investment in our supporting systems, digital and data capability as well our people.

We have different types of members; individual veterinary professionals (including nurses), practices and businesses. Our strategy is to ensure we protect and support them and their different requirements and needs from the risks and pressures they are facing. This allows them to focus on where they make the biggest difference and impact in the community – animal health and welfare.

Our Business Plan is focused on further building our capabilities and enhancing our agility to meet the changing needs of members, change that has been further accelerated due to the impact of the pandemic. This includes the further development of a range of services that develops increased business and personal resilience through training and development, risk management, quality improvement, advice, claims handling, representation and claims payments, thereby providing comprehensive risk and protection solutions to members.

A cornerstone of our Business Plan is the development of a new member-based operating platform that will provide an agile, flexible, and scalable system to support these services and our colleagues with a quality end to end member experience. This is planned to be ready for go-live in 2022, supporting our 2023 renewals programme of activity.

Environmental, Social and Governance (ESG) is increasingly an area of importance and starting with environmental sustainability, we are focussing our activities at three levels; how we embed our approach to managing climate related financial risks, improving our own carbon footprint, and understanding if members need our support in this area. We are also increasing our focus on the development of a socially aware, diverse and inclusive workforce.

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

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

## 3. Performance from underwriting activities

Gross written premiums in the year to 31 December 2021 amounted to £15.820m (2020: £14.747m) before Return of Premium, and £14.620m (2020, £12.947m) after a Return of Premium of £1.2m (2020, £1.8m). Total members associated with practices at the end of December amounted to 25,189 (2020: 23,948) a growth of 5.2%.

The Return of Premium was introduced during 2015 to enable the Society to distribute a share of any surplus to members in years when accumulated reserves are above a level required to operate and invest in a sustainable model. For further information please read the Annual Report and Financial Statements for the year ended 31 December 2021.

As a risk management tool, the Society procures reinsurance to mitigate the impact and exposure to high value claims. The cost of this reinsurance for 2021 was £1,040k (2020: £970k).

The costs of claims incurred net of reinsurance amounted to £6,412k in 2021 (2020: £6,708k). As a Society, we continue to assess and monitor claims trends to ensure appropriate prudent levels of reserves are set aside for liabilities which will need to be settled into the future.

Operating expenses incurred in 2021 totalled £5,263k (2020, £5,198k), a 1.3% increase. Further information on the Society's expenditure can be found in the Annual Report and Financial Statements for the year ended 31 December 2021.

The Society remains in a strong financial position at the end of 2021 with £32.3m (2020 £31.4m) held in our investment portfolio. These investments underpin both the technical insurance reserves and the retained reserves and provide the Society with an excellent foundation from which to deliver its forward-looking strategy and continued security to our members.

| Key Performance Indicators (from Financial Statements) | 2021 | 2020 |
|---|---|---|
| | (£000's) | (£000's) |
| Gross written premiums before return of premium | 15,820 | 14,747 |
| Return of premium | 1,200 | 1,800 |
| Reinsurance paid | 1,040 | 970 |
| Claims incurred net of reinsurance | 6,412 | 6,708 |
| Net operating expenses | 5,263 | 5,198 |
| Balance on technical account | 2,648 | 1,360 |
| Surplus for financial year | 2,277 | 1,372 |
| Combined ratio[1] | 86% | 99% |
| Employee retention[2] | 89% | 91% |

**Note:**

1. *The combined ratio is calculated as claims incurred net of reinsurance plus net operating expenses as a percentage of gross written premiums net of reinsurance.*

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

## 4. Performance from investment activities

The Society has £32,317k (2020, £31,400k) of investments and cash which it considers to be its long-term Investment portfolio assets. These assets support the Society's retained surplus and the technical reserves (on a UK GAAP basis).

These investments are managed by Legal & General Investment Management (LGIM) and Redington are engaged as the Society's investment advisors. The external cost of managing the portfolio in 2021 amounted to £30k (2020, £21k). A summary composition of the Society's investment portfolio is shown in the table below. Further information is provided in section C2.

| Market value of investment portfolio | 2021 | 2020 |
|---|---|---|
| | (£000's) | (£000's) |
| Debt securities | 18,476 | 19,212 |
| Shares and variable yield securities and unit trusts | 8,605 | 7,431 |
| Deposits with credit institutions | 4,663 | 4,663 |
| Cash in northern trust dealing account | 480 | - |
| Income accruals | 93 | 94 |
| **Total invested with LGIM** | **32,317** | **31,400** |

The Society is exposed to short term market value fluctuations due to the investments being traded on active markets. In 2020 the equity markets reacted negativity to the Covid-19 pandemic and the associated uncertainties but by the end of the year had rallied and clawed back most of the initial losses. In 2021 the recovery continued, especially in equity markets, and more than offset the falls in bond values which were largely due to market expectations around rising interest rates and higher inflation.

In 2021 the Society disposed of its UK and international equity holdings realising a gain of £494k (2020: NIL), the proceeds were reinvested in the LGIM Future World Equity fund which was the Society's first move into Environmental, Social and Governance (ESG) slanted investments. Unrealised losses on revaluations in the portfolio at 31 December 2021 amounted to £11k (2020: Gain £1,031k) arising from reductions in the valuation of bond funds driven by expectations of higher interest rates. This was partially offset by gains in the property fund.

The Society's total return on its investments after tax in 2021 was £698k (2020 £1,278k). The net of realised and unrealised gains on investments shows how the diversified investment portfolio has proven to be resilient through the uncertainties of the pandemic and Brexit. A summary is set out in the table at the bottom of section 4.

Material sources of income for the Society arise from written premiums and income received from investments, whilst material sources of cost are borne from reinsurance contracts, claims incurred and net operating expenses which can be observed under items 3 and 4 in the business and performance section of this report.

| Investment return | 2021 | 2020 |
|---|---|---|
| | (£000's) | (£000's) |
| Income from investments | 436 | 434 |
| Realised gain  on investments | 494 | - |
| Unrealised (loss) / gain in investments | (12) | 1,031 |
| Investment management expenses and charges | (30) | (21) |
| **Total investment return** | **888** | **1,444** |
| Tax on income from investments | (190) | (166) |
| **Total investment return after tax** | **698** | **1,278** |

## 5. Performance of other activities

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

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

VDS Support was incorporated in 2018 to facilitate the offering of third-party products and services to VDS members alongside risk management and risk mitigating services to veterinary practices in the UK and Ireland and global entities.

## 6. Any other information

The risks to the Society of the Covid-19 pandemic and Brexit are now better understood and managed. The underlying economic outlook regarding rising inflation and interest rates have been considered as part of the Going Concern analysis. On the basis of a best estimate and downside scenario over a 3-year planning cycle, the Society remained well within the regulatory and Board appetite for the SCR.

# A. System of Governance

## 1. General governance arrangements

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

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

**The Board composition and committee structures and members are shown below as at 31 December 2021.**

### VETERINARY DEFENCE SOCIETY BOARD

**Executive Directors**

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

**In Attendance**

Ms Cecilia Gannon - General Counsel & Co Sec
Mr David Rowley - Chief Information Officer
Ms Joanne Stonehewer - Director of Membership
Ms Catherine Oxtoby - Head of Underwriting & Pricing
Mr Tim Phillips - Head of Claims
Ms Carolyne Crowe - Head of Training

**Non-Executive Directors**

Mr David Black - Chair of Board
Mr Brian Bussell - Senior Independent Director
Mr Richard Coates
Mr Gavin Lawrie
Mr Richard Clapham
Mr Andrew Davies
Ms Gudrun Ravetz

### AUDIT COMMITTEE

**Non-Executive Directors**

Mr Richard Coates (Chair)
Mr Brian Bussell
Mr Gavin Lawrie
Mr Andrew Davies
Ms Gudrun Ravetz

**In Attendance**

Mr Raman Sankaran (CEO)
Mr Julian Atherton (Financial Controller)
Ms Cecilia Gannon (General Counsel & Co Sec)
PwC LLP - External Auditors
RSM LLP - Internal Auditors

### RISK & COMPLIANCE COMMITTEE

**Non-Executive Directors**

Mr Brian Bussell (Chair)
Mr Richard Coates
Mr Gavin Lawrie
Mr Andrew Davies
Ms Gudrun Ravetz

**Executive Directors**

Mr Raman Sankaran (CEO)

**In Attendance**

Ms Cecilia Gannon (Chief Risk Officer)
Mr Julian Atherton (Financial Controller)

### NOMINATIONS COMMITTEE

**Non-Executive Directors**

Mr David Black (Chair)
Mr Richard Clapham
Ms Gudrun Ravetz

**Executive Directors**

Mr Raman Sankaran

**In Attendance**

Ms Cecilia Gannon (General Counsel & Co Sec)

### EXECUTIVE COMMITTEE

Mr Raman Sankaran (CEO)
Mr Alan Kirkwood (CFO)
Mr David Rowley (Chief Information Officer)
Ms Joanne Stonehewer (Director of Membership)
Ms Cecilia Gannon (General Counsel & Co Sec)
Ms Catherine Oxtoby (Head of Underwriting & Pricing)
Mr Tim Phillips (Head of Claims)
Ms Carolyne Crowe (Head of Training)

### REMUNERATION COMMITTEE

**Non-Executive Directors**

Mr Gavin Lawrie (Chair)
Mr David Black
Mr Richard Clapham

**In Attendance**

Mr Raman Sankaran (CEO)
Ms Cecilia Gannon (General Counsel & Co Sec)

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

## Principle One – Purpose and Leadership

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

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

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

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

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

**Audit Committee ('AC') -** The committee is chaired by Non-Executive Director, Richard Coates. Mr Coates is a Chartered Accountant with the required financial experience to carry out this role. He is supported on the committee by Non-Executive Directors, Brian Bussell, Gavin Lawrie, Gudrun Ravetz and Andrew Davies.

This committee monitors internal controls and financial reporting. It reviews the work of the internal audit and risk & compliance functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditors, and reviews and monitors the external auditors' independence, objectivity and the effectiveness of the audit process. The committee also has responsibility for ensuring that effective whistle-blowing arrangements are in place, which enable any concerns to be raised by employees in confidence. A separate report on the work of the AC during 2021 is provided below.

The Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary and representatives from the internal and external auditors also attend committee meetings, by invitation. Other members of the management team attend as required.

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

**Nominations Committee ('NC') -** The committee is chaired by David Black, who is also Non-Executive Chair of the Board. The other members of committee are Non-Executive Directors, Richard Clapham and Gudrun Ravetz and the Society's Chief Executive Officer, Raman Sankaran. 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. During 2021 a subcommittee was established to implement a recruitment process for a replacement Chair of the Board in preparation for the retirement of David Black in 2022. The subcommittee is led by the Senior Independent Non-Executive Director, Brian Bussell and includes the Chief Executive and Richard Clapham.

**Risk & Compliance Committee ('RCC') -** The committee is chaired by Non-Executive Director, Brian Bussell. Non-Executive Directors, Richard Coates, Gavin Lawrie, Gudrun Ravetz and Andrew Davies and the Society's Chief Executive Officer, Raman Sankaran form the rest of the RCC. The Society's Chief Risk Officer attends every meeting of the RCC.

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

## Principle Two – Board Composition

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

### The composition of the board

As at 31 December 2021, the Board comprised two Executive Directors and seven Non-Executive Directors. By virtue of the Society's Articles of Association, the Chair of the Board must be a veterinary surgeon. As a result of changes to the Articles of Association at the AGM 2020, the Board may now comprise between 7 and 12 members, at least three of whom must be eligible to be members of the Society.

All bar one of the current Non-Executive Directors have served on the Board for less than nine years. The current Chair David Black, who was appointed to the Board at the AGM 2012, will by Special Resolution of the members, remain in post until the AGM 2022, to facilitate the recruitment and induction of a new Chair.

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

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

### Appointment to the board

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

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

### Commitment

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

When appointing the new Chief Financial Officer during 2021, the Board pursued a vigorous and thorough process to ensure that the most appropriately qualified candidates were identified. An external executive recruitment agency was consulted for the process which considered a broad range of skills required including the future business and leadership needs of the Society. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business need and our stakeholders.

The Nominations Committee continues to keep under review the size and structure of the Board and will make any recommendations for change if it believes appropriate to do so.

## Principle Three – Director Responsibilities

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

### Development

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

### Information and support

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

### Performance evaluation

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

### Re-election

The Board seeks to ensure planned and progressive refreshing of its membership. All directors are subject to election by members at the Annual General Meeting following their appointment. Non-Executive Directors are subject to re-election at regular intervals according to their terms of appointment. Executive Directors appointed after the AGM 2017 are now also required to offer themselves for re-election by the members every three years. Non-Executive Directors serving over nine years will be subject to re-election annually.

In 2021, Alan Kirkwood, B.A., MBA., CA was appointed to the Board as an Executive Director to take up the role of Chief Financial Officer. If elected by the members at the Society's AGM 2022, Alan will be required to offer himself for re-election at the AGM 2025.

The structure of the Board and Board committees is well defined and the activities and decision making of the Board and its committees are clearly defined. The Chair and Company Secretary have reviewed current processes and an annual Board timetable of activities has been introduced to ensure further clarity.

## Principle Four – Opportunity and Risk

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

### Financial and business reporting

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

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

### Risk management and internal control

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

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

## Principle Five – Remuneration

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

### Remuneration

The Society's Remuneration Committee is responsible for recommending the remuneration of the Executive and Non- Executive Directors, Chair of the Board, Claims Consultants, and senior management in accordance with the Society's Remuneration Policy. The committee adopts a rigorous approach to determining appropriate levels of remuneration and is guided by appropriate external benchmarking in the veterinary and financial services sectors before recommending remuneration which it considers necessary to attract, retain, and motivate employees of the right calibre.

Executive remuneration is not currently linked to corporate or individual performance as this is not consistent with the Society's business model. No Executive Director or senior manager has an employment contract with a notice period exceeding 26 weeks.

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

## Principle Six – Stakeholder Relationships and Engagement

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

### Dialogue with members

As a mutual organisation, the Society has members rather than shareholders. The Society obtains the views and needs of the membership through a range of targeted focus groups and wider membership surveys undertaken in accordance with the annual membership engagement plan. The Society seeks the views of its members in a variety of other ways, including feedback provided directly to the Executive Committee members throughout the year at conferences and seminars. Non-Executive Directors attend meetings of the Claims Group on an ad hoc basis throughout the year. The Society's subsidiary companies, VDS Training Services Limited and VDS Support Limited, also serve to enhance communication with members through direct contact, systemic customer feedback and market research surveys.

Subject to the restrictions imposed by Covid-19 members are invited to attend the AGM, where they can ask questions and voice their opinions.

### Constructive use of the Annual General Meeting

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

All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chairs of the Board and of its committees are available to answer questions. The AGM 2021 was, of necessity held remotely. All members were given the opportunity to ask questions in advance of the meeting and they were all encouraged to participate by exercising their vote.

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

### Audit Committee Report

The committee met four times during 2021.

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

During 2021, the committee assisted the Board in discharging its responsibilities for financial reporting, corporate governance, internal controls, internal and external audit. In carrying out its role, the committee took steps to ensure that it could, where necessary, make recommendations to the Board following the output of the internal and external audit functions and the committee reported to the Board throughout the year on their respective reports. In doing so, the committee was able to assure the Board of the effectiveness of the Society's audit programme and of the independence and objectivity of the internal and external auditors. The Society's internal audit function is outsourced to RSM LLP ('RSM'). The risk-based audit programme ensures that the committee is provided with internal audit reports aligned to the Society's strategy. During 2021 the following internal audits were carried out:

- Cyber Risk Management Follow Up
- Claims Handling & Management
- Renewals
- Complaints Handling
- VDS Training Services Limited
- Irish Branch

Where recommendations for improvements or strengthening of controls were identified, and agreed with management, the committee oversaw the carrying out and embedding of those activities. The committee continues to monitor the implementation of internal audit recommendations as part of its ongoing role.

PwC LLP are the Society's external auditors and the committee worked with them in agreeing an appropriate audit plan for the year ending 31 December 2021. The plan set out PwC's approach to the audit of the Society's Annual Report and Financial Statements 2021. The plan also highlighted key areas of audit risk. The committee took account of a number of audit risks and other key areas of focus identified by PwC which would inform their audit activities.

During 2021, the Audit Committee discharged its responsibilities by:

- Reviewing the Society's Annual Report and Financial Statements prior to Board approval and reviewing the external auditors' detailed reports thereon, in respect of the year ended 31 December 2020.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2021 audit fee in conjunction with an assessment of external auditors' performance.
- Reviewing the plan for the 2021 audit of the Society's financial statements, including an assessment of key risks, the committee requested from the external auditors their assessment of any threats to independence, which the committee reviewed and determined.
- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.
- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Society's policies relating to fraud, whistleblowing, and conflicts of interest.
- Reviewing and overseeing the Society's Own Risk and Solvency Assessment in accordance with the requirements of Solvency II.
- Reviewing the provision of internal audit services and updating the three-year internal audit programme.

### The Board Responsibilities

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

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

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

- Development of strategy, risk appetite, operational plans and budgets, objectives, policies, and procedures for Board approval.
- Following Board approval, the implementation of strategy, operational plans, and budgets, policies, and procedures.
- 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 following board approval.
- 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.
- 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 information received and considered by the RCC provided assurance that during the financial year the risks are managed within the Risk Framework.

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

## 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. As at 31 December 2021 the Society was awaiting final authorisation for the Chief Financial Officer in respect of a number of senior management functions. These and the relevant prescribed responsibilities were undertaken by the Financial Controller on a temporary basis, pending approval of the CFO which occurred on the 18th February 2022.

| Ref | PRA, FCA OR DUAL | Allocation of 19 Prescribed Responsibilities to SMF (for UK) | Allocation - VDS Role | Names |
|---|---|---|---|---|
| A | Dual | Responsibility for the performance by the firm of its obligations under the Senior Managers Regime, including implementation and oversight. | CEO<br>General Counsel & Company Secretary | R.Sankaran (Lead)<br>C.Gannon (Support) |
| B | Dual | Responsibility for the firm's performance of its obligations under the employee certification regime. | CEO<br>General Counsel & Company Secretary | R.Sankaran (Lead)<br>C.Gannon (Support) |
| C | Dual | Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map. | General Counsel & Company Secretary | C.Gannon (Lead) |
| F | Dual | Responsibility for:<br>(a) leading the development of; and<br>(b) monitoring the effective implementation of,<br>policies and procedures for the induction, training and professional development of all members of the firm's governing body. | Chair of Governing Body<br>CEO<br>General Counsel & Company Secretary | D. Black (Lead)<br>R.Sankaran (Support)<br>C.Gannon (Support) |
| G | Dual | Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all of the firm's senior managers/ key function holders (other than members of the firm's governing body). | General Counsel & Company Secretary<br>CEO | C Gannon (Lead)<br>R. Sankaran (Support) |
| M | Dual | Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices. | Chair of Remuneration Committee | G. Lawrie (Lead) |
| J-2 | Dual | Responsibility for providing for and oversight of the internal audit function, where this function is outsourced to an external third-party provided by a non-significant firms. | Chair of Audit Committee | R.Coates (Lead) |
| 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). | Senior Independent Director | B. Bussell (Lead) |
| B-1 | FCA | Responsibility for the firm's obligations in relation to individual conduct rules for training and reporting (under Code of Conduct) (COCON). | General Counsel & Company Secretary | C.Gannon (Lead) |
| D | FCA | Overall responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime. | Financial Controller<br>Chief Financial Officer<br>Senior Risk & Compliance Manager | J. Atherton (Lead)<br>*A.Kirkwood (Lead)<br>A.McCloskey (Support) |
| Z | FCA | Overall responsibility for the firm's compliance with CASS. | N/A | Not Applicable |
| H | PRA | Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm. | CEO<br>Chair of Governing Body | R.Sankaran (Lead)<br>D. Black (Support) |
| I | PRA | Responsibility for leading the development of the firm's culture by the governing body as a whole. | Chair of Governing Body<br>CEO | D. Black (Lead)<br>R. Sankaran (Support) |
| O | PRA | Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity. | Financial Controller<br>Chief Financial Officer | J.Atherton (Lead)<br>*A.Kirkwood (Lead) |
| Q | PRA | Responsibility for the production and integrity of the firm's financial information and its regulatory reporting. | Financial Controller<br>Chief Financial Officer | J.Atherton (Lead)<br>*A.Kirkwood (Lead) |
| T | PRA | Responsibility for the development and maintenance of the firm's business model by the governing body. | CEO | R.Sankaran (Lead) |
| * Subject to approval as SMF 2 & SMF 20. Upon approval, Alan Kirkwood will take over as Lead for these Prescribed Responsibilities. | | | Financial Controller<br>Chief Financial Officer<br>General Counsel & Company Secretary | J.Atherton (Lead)<br>*A.Kirkwood (Lead)<br>C.Gannon (Support) |
| U | PRA | Responsibility for the firm's performance of its obligations under Fitness and Propriety (in the PRA Rulebook) in respect of notified non-executive directors and those who perform a key function (where applicable for insurers). | Chair of Governing Body<br>General Counsel & Company Secretary | D. Black (Lead)<br>R.Sankaran (Support)<br>C. Gannon (Support) |
| X | PRA | Responsibility for the firm's performance of its obligations under the Outsourcing part of the PRA Rulebook (for CRR and non CRR firms), Conditions Governing Business 7 (for SII firms and third country branches). | N/A | N/A |

* Subject to approval as SMF 2 & SMF 20. Upon approval, Alan Kirkwood will take over as Lead for these Prescribed Responsibilities.

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 can provide for the sound and prudent management of the Society.

The Society has successfully developed and embedded a Compliance and Risk Management framework which is appropriate to its business so that it can evaluate its strategy and measure 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 material to either the Society or related parties.

| | PRA & FCA - SENIOR MANAGEMENT FUNCTIONS | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Chief Executive Function | Chief Finance Function | Chief Risk Function | Chair of the Governing Body | Chair of the Risk & Compliance Committee | Chair of the Audit Committee | Chair of the Remuneration Committee | Chair of the Nominations Committee | Senior Independent Director | Compliance Oversight | Money Laundering Reporting Officer | Chief Actuary Function | Chief Underwriting Officer Function | Chief Operations Function |
| **APPROVED PERSONS** | **SMF1** | **SMF2** | **SMF4** | **SMF9** | **SMF10** | **SMF11** | **SMF12** | **SMF13** | **SMF14** | **SMF16** | **SMF17** | **SMF20** | **SMF23** | **SMF24** |
| **PRA or FCA SMF** | **PRA** | **PRA** | **PRA** | **PRA** | **PRA** | **PRA** | **PRA** | **FCA** | **PRA** | **FCA** | **FCA** | **PRA** | **PRA** | **PRA** |
| D. Black | | | | ✓ | | | | ✓ | | | | | | |
| R. Sankaran | ✓ | | | | | | | | | | | | | |
| R. Coates | | | | | | ✓ | | | | | | | | |
| G. Lawrie | | | | | | | ✓ | | | | | | | |
| B Bussell | | | | | ✓ | | | | ✓ | | | | | |
| C.Oxtoby | | | | | | | | | | | | | ✓ | |
| C Gannon | | | ✓ | | | | | | | ✓ | | | | |
| J.Atherton | | ✓ | | | | | | | | | | ✓ | | |
| * A.Kirkwood | | ✓ | | | | | | | | | | ✓ | | |
| J.Stonehewer | | | | | | | | | | | | | | ✓ |
| D.Rowley | | | | | | | | | | | | | | ✓ |
| A.McCloskey | | | | | | | | | | | ✓ | | | |

* Subject to approval as SMF 2 & 20

| | CENTRAL BANK OF IRELAND - PRE-APPROVED CONTROLLED FUNCTIONS | | | | |
|---|---|---|---|---|---|
| | Head of Compliance | Head of Internal Audit | Chief Risk Officer | Branch Manager | Head of Actuarial Function |
| **PRE-APPROVED CONTROLLED FUNCTION (PCF)** | **PCF 12** | **PCF 13** | **PCF 14** | **PCF 41** | **PCF 48** |
| A.McCloskey | ✓ | | ✓ | | |
| R.Coates | | ✓ | | | |
| A.Cummins | | | | ✓ | |
| S.Ryan (KPMG) | | | | | ✓ |

## 2. Fit and proper

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

The Society's processes ensure that all Senior Management Function holders, Key Function holders, individuals who perform Key Functions and Notified NEDs are at all times fit and proper persons.

Currently, the Society does not outsource any Senior Management Function.

Any breaches of the Fit and Proper requirements are internally reported to the RCC. The 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 A1) are all PRA/FCA or CBI approved persons or Notified Non-Executive Directors.

### Assessing "Fit and "proper"

The Society has established processes for ensuring all employees maintain the qualities needed for the effective and prudent operation of the 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, Senior Management and Operational Teams.
- 2nd Line of Defence - Risk and Compliance, Anti Money Laundering, Actuarial and Data Protection.
- 3rd Line of Defence - Internal and External 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 monthly basis and update the register where appropriate throughout the year, including an assessment of emerging risks. A report from the Chief Risk Officer is provided to every meeting of the RCC.

The Society's risk strategy is focused on mitigating the risks of not meeting strategic objectives, which are captured and monitored through the Society's Risk Register. Risk appetite statements are defined by the Board to set limits on the amount of risk it should accept or tolerate. The risk appetite is directly linked to business strategy and the principal risks to which the Society is exposed. Any changes to business strategy as a result of 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 could be significant unplanned or reactionary 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 continues to embed a risk management framework which is appropriate to its business so that it can evaluate its strategy and measure this against its risk profile to determine the Society's overall solvency needs. The ORSA is integral to the business strategy and is carried out through the processes and procedures employed to identify, assess, monitor, manage and report the short and long-term risks. This includes current and future risks, which help to determine the Own Funds necessary to ensure that our overall solvency requirements are met.

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

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

1. The Executive Committee reviews and updates the Risk Register throughout the year, to evaluate whether the Society's risk profile will change as a result of the implementation of the business strategy or other external factors impacting the business during the planning period. The RCC reports on the risk profile to the Board.
2. The business strategy and risk appetite are annually agreed by the Board and monitored by Executive throughout the year. The position of the risk profile against the defined risk appetite metrics is evaluated and any deviations outside the agreed risk appetite are highlighted for review and action.

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

4. The Standard Formula is used for the calculation of solvency requirements for the quantifiable risks in the ORSA and is carried out by the Chief Financial Officer with the support of external actuarial consultants. The Executive Committee 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.

5. 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.**

Assess the current Risk Profile

↓

Analyse impact of the Business Strategy

↓

Monitor Risk Profile against Risk Appetite

↓

Stress and Scenario testing

↓

Assess base case plan against Risk profile, Risk appetite and Capital requirements

↓

Management actions and conclusions

↓

ORSA Report

## Role of the Board

The ORSA is the responsibility of the Board and is regularly (at least annually) reviewed and approved by the Board. The Board has taken an active part in the ORSA including steering how the assessment is performed and challenging the results. The Board has reviewed, challenged, and used the ORSA Report to reaffirm the risk tolerances adopted by Executive and management.

The Executive Committee provides oversight of the process and ensures that technical expertise is available to provide input and challenge the ORSA process.

The ORSA is reviewed and challenged by the Executive Committee, Chief Actuary Function and RCC; the resulting ORSA is then discussed and challenged by the Board before any approval is given.

## Risk Register

The Society maintains a 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. Consideration and discussion are focussed on the Society's top risks and any changes to their risk profile.

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, Needs Improvement, Poor or Ineffective. Throughout 2021, 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 required to report on the risks monthly and to raise and escalate issues promptly to the Risk and Compliance Function. This Management Information forms the basis of the Society's "Risk Dashboard", which provides an at-a-glance view of the main risk areas within the Society and forms the basis for wider discussion by Executive and the RCC.

## Risk policies

As part of the Society risk management framework, the Risk and Compliance Function, in conjunction with the 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.

## Three Lines of Defence

**Appendix 2 has the diagram of the VDS 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. As Chief Risk Officer the General Counsel and Company Secretary provides an independent report of the Society's top risks to each meeting of the RCC and is responsible for the overall management and day-to-day leadership of the risk management framework and compliance oversight of the Society.

The purpose of the Risk element of the Risk and Compliance function is to provide the Society with a framework that supports the identification, measurement, monitoring, management and reporting on a continuous basis of the risks to which the Society is or may be exposed. The function works with Executive 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.

In addition, the Data Protection Officer (DPO) is part of the second line of defence, working alongside the Risk & Compliance function, with responsibility for monitoring compliance with data protection obligations and proving advice on data protection matters. The DPO has a direct reporting line into the CEO.

*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 Chief Financial Officer, who holds (SMF20) responsibility as the Chief Actuary Function, and the RCC.

**Third line: Internal Audit**

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

## 5. Internal audit function

RSM Risk Assurance services LLP (RSM) were appointed as internal auditors to the Society in 2018. They operate a rolling 3-year strategic audit plan, the terms of which are reviewed and approved annually by the Audit Committee (AC). Throughout the year, the work of RSM is co-ordinated by the Internal Audit and Compliance Manager who reports directly to the General Counsel and Company Secretary in relation to strategic audit planning and Chief Financial Officer on an operational basis. The Internal Audit and Compliance Manager also has a direct and independent line of communication into the Chair of the AC in respect of internal audit matters.

The current three-year audit programme covers reviews in the areas of Financial Risk Management, Operational Risk and Assurance Frameworks each of which incorporate core PRA and FCA areas of focus.

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

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

Specifically, the internal audit's main objectives are to:

- Provide an independent and objective opinion to the Society's AC, the CEO, and the Executive Committee on the Society's risk management, control, and governance framework.
- Provide independent assurance of the effectiveness of the Society's governance and risk framework, its supporting policies, procedures and controls and the effectiveness of the first and second lines 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.
- Monitor and report on progress against Internal Audit recommendations.

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

# 6. Actuarial function

The major responsibilities of the actuarial function include:

- Analysing submissions and providing pricing support to underwriting.
- Monitoring results and performing profitability analyses.
- Assessing the adequacy of the gross and net held reserves.
- Assisting in the preparation of various financial statements.
- Developing, maintaining, and implementing regulatory capital requirements.
- Providing an opinion on underwriting decisions and pricing; 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 Chief Financial Officer supported by external actuarial expertise to establish reserves and thereby manage reserve risk. The Society's process of assessing the gross and net held reserves is divided into the following three parts:

- An annual reserve study performed using data through the end of the second quarter, including a specific review of loss reserves. This analysis sets forth a point estimate for the net reserve need as of the close of the 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 key contracts for any business area within the Society.

The Society has an Outsourcing Policy and separately, a Material and Key Contract Policy. Both policies are regularly reviewed and approved by the Board and implemented by Executive. The aim of the policies is to ensure that all outsourcing arrangements and any material, key contracts with the Society are subject to appropriate due diligence, formal approval and on-going monitoring and oversight.

**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."

**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."

The Society outsources its Internal Audit function (as detailed in Section B5). It has in place material and key contracts with its actuarial advisers, investment managers and re-insurers.

Regarding the Society's operations in particular, key activities such as underwriting, claims handling, and information technology are all provided in-house. Other services carried out in the normal course of business such as legal and accountancy services are provided in accordance with agreed contractual terms and terms of business as required and subject to the Material and Key Contracts Policy.

The Society will not enter any arrangement whether an outsourcing contract or a material and key contract 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.

The Society has named individuals responsible for those activities that are outsourced or provided under a material and key contract as follows:

The Chair of the Audit Committee has primary responsibility for the outsourced internal audit function with support from the General Counsel & Company Secretary. The contract with the external, internal auditors and the three-year service plan is overseen by the Audit Committee. In addition,

- The Chief Financial Officer is the Key Function holder for Investments, and he manages the services provided by the Society's investment managers
- The Chief Financial Officer holds Senior Manager Responsibility (SMF20) for managing the provision of actuarial services by KPMG LLP.

- The Society's Head of Underwriting and Pricing holds Senior Manager Responsibility (SMF 23) for underwriting and managers the services provided by and arrangements with the Society's reinsurers.

The Society is satisfied that these persons have sufficient knowledge and experience regarding the outsourced and externally provided services to be able to challenge the performance and results of the service provided. All the outsourced and external services provided are in the United Kingdom jurisdiction.

The Society monitors developments in this area, specifically by the PRA, FCA and CBI.

## 8. Any Other Information

**Assessment of the adequacy of the system of governance**

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

# B. Risk Profile

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

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

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

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

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, it puts priority on the financial security of the Society, adherence to regulatory requirements and protection of its members. It is open to investigating and developing innovative insurance products within these bounds, and always with a carefully planned 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, Professional Indemnity.

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

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

| Gross written premiums by region (£000's) | UK | ROI | Total |
|---|---|---|---|
| 2021 | 14,162 | 1,658 | 15,820 |
| 2020 | 13,272 | 1,475 | 14,747 |
| 2019 | 12,922 | 1,457 | 14,379 |
| 2018 | 11,895 | 1,348 | 13,243 |
| 2017 | 11,102 | 1,173 | 12,275 |

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

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

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

## Underwriting risk sensitivities - stress and scenario tests

The Society models certain stresses and scenarios for its Underwriting risk through its SCR financial model. The Society models the impact of a reduction in GWP from the loss of its largest customer through to a 40% reduction in premium income as a result of a domino effect of large customers self-insuring. The Society also stress tests against a deterioration of its gross loss ratio by 22% which could be associated with a claims management shock due to a change in law on distress claims / export certification issues. Reinsurance default risk is also stress tested in the context of downgrading the credit rating of the panel of 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 and other fixed income securities as well as shares and other variable yield securities and units in unit trusts which are traded on active markets. The 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 looking to maximise returns over the longer term. In acknowledgment of these risks, the Society looks to hold bank deposits which are not exposed to the same level of market risk as the investment portfolio assets and are accessible for working capital as required.

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

**Investment portfolio asset allocation**

| Asset class | Investment product | Valuation @ December 2021 | Allocation @ December 2021 | Benchmark | Allowed movement (control ranges) |
|---|---|---|---|---|---|
| PAIF (property authorised investment funds) | UK property fund | £5.1m | 15.8% | 15% | 5% |
| Unit trusts | Sterling corporate bond index | £15.2m | 47.1% | 50% | 5% |
| | All stocks index linked gilt index | £3.3m | 10.2% | 10% | 5% |
| | Future world climate change equity index fund | £3.5m | 10.8% | 10% | 5% |
| OEIC (open ended investment company) | Sterling liquidity fund | £4.7m | 14.6% | 15% | 5% |
| Northern trust cash accounts / income accruals | | £0.5m | 1.5% | | |
| **Total** | | **£32.3m** | **100%** | **100%** | |

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

- Property risk: volatility of property market
- Currency risk: exchange rate volatility regarding 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 vary with the changes in asset allocation, which consequently 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 stress & scenario tests for other material risks including 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 200%.

The Society also models a reverse stress test which looks at the necessary increase in the gross loss ratio that would reduce the Society's Own Funds to be equal to its SCR (that is, a Solvency Ratio of 100%). The test indicates that a rise in the gross loss ratio of 59% would have this effect. This exercise illustrates the robustness of the Society's capital position since the risk of such growth in the gross loss ratio is very remote.

## 3. Credit risk

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

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

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

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

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

Due to the size of its assets the Society is exposed to default risk and has a policy for spreading its exposure over several counterparties to avoid any significant concentration of credit risk. Bank deposits are only placed with banks that have high credit ratings and exposure is limited to £6m with each bank, this minimises exposure and sensitivity to default risk.

| Credit risk by class of financial instrument at December 2021 (£000's) | AAA | AA | A | Other | Total |
|---|---|---|---|---|---|
| Debt securities | 4,907 | 6,261 | 7,308 | | 18,476 |
| Shares and variable yield securities and units in unit trusts | | | | 8,605 | 8,605 |
| Deposits with credit institutions | 89 | 1,059 | 3,516 | | 4,664 |
| Cash at bank and on hand | | | 10,448 | 480 | 10,928 |
| Other debtors | | | | 1,235 | 1,235 |
| Debtors arising out of reinsurance operations | | 1 | 10 | | 11 |
| **Total** | **4,996** | **7,321** | **21,282** | **10,320** | **43,919** |

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

## 4. Liquidity risk

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

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

## 5. Operational risk

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

## 6. Other material risks

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

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

## 7. Any other information

### Risk concentration

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

### Other risk mitigation practices

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

### Prudent person principal

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

# C. Valuation for Solvency Purposes

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

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

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

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

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

## 1. Assets

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

| **Assets as at December 2021 (£000's)** | **Solvency II** | **UK GAAP** |
|---|---|---|
| **Description** | | |
| Intangible assets[1] | - | 699 |
| Property, plant & equipment held for own use | 1,452 | 1,452 |
| Total investments[2] | 30,948 | 31,745 |
| Reinsurance recoverables | 169 | 125 |
| Insurance and intermediaries' receivables | 503 | 503 |
| Cash and cash equivalents[2] | 11,470 | 10,605 |
| Any other assets not shown else where[3] | 1,871 | 1,962 |
| **Total assets** | **46,413** | **47,091** |

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

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

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

## Property, plant & equipment held for own use

Property, plant and equipment are valued for Solvency II purposes on 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 is valued annually by independent Chartered Surveyors has a market value of £1.225m as at December 2021 (2020: £1.275m).

## 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 i.e., how liquid or illiquid a market is. 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 comprise of cash on hand and deposits with banks.

## Reinsurance receivables

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

## Lease Assets

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

## Other Assets

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

# 2. Technical provisions

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

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

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 a blend of the Bornhuetter-Ferguson, Chain Ladder and Loss Ratio methods with an overlay of actuarial judgement. The historic claims payment patterns are stable, and these are used to project future expected cash flows of the ultimate claims. These cash flows are then discounted back to give the value of the current liability.

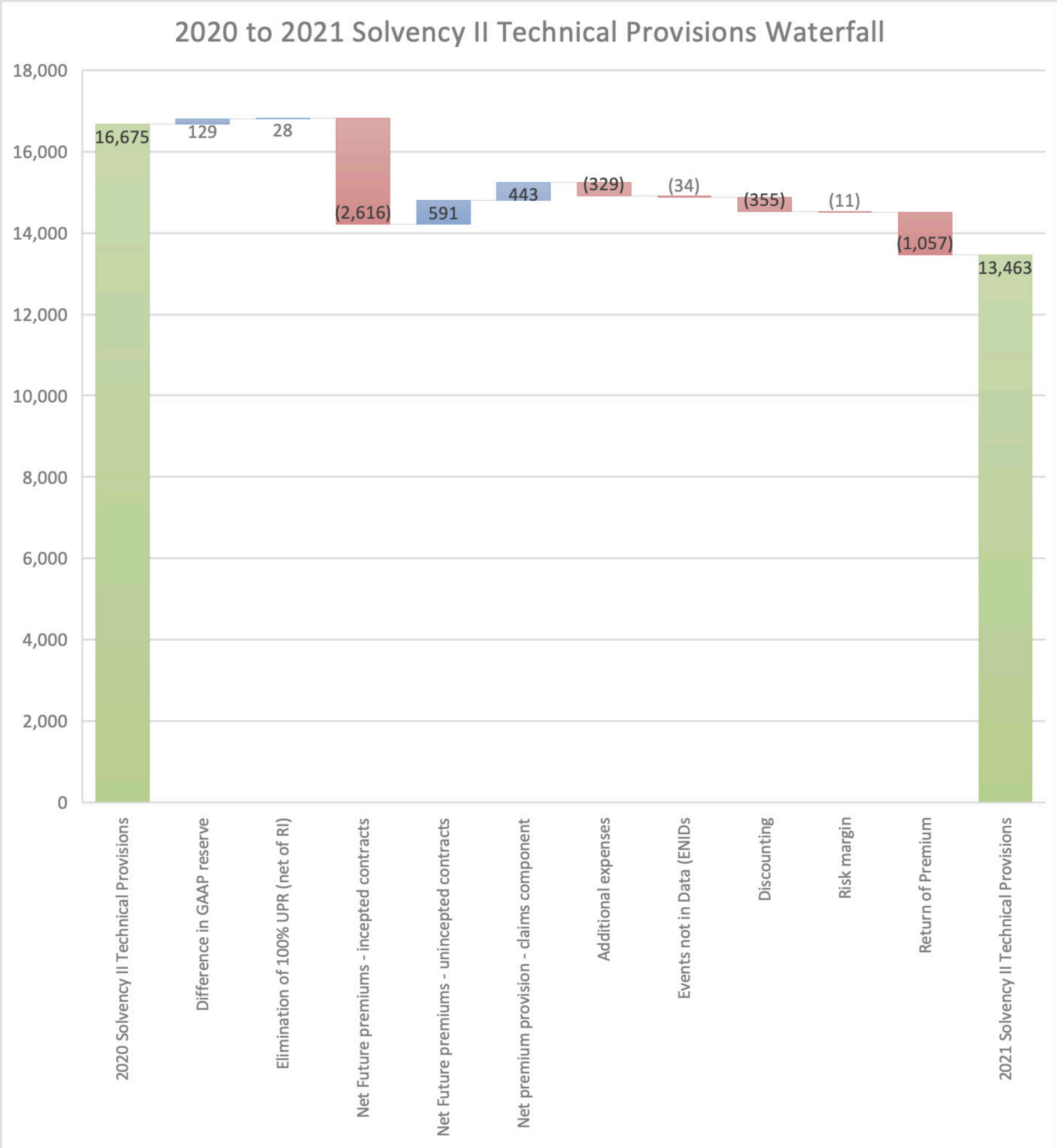
## Premium provisions

Best estimate of premium provision is recognised in respect of claims expected to be incurred on contracts bound before 31 December 2021. 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 (£000's) | 2021 | 2020 |
|---|---|---|
| Discounted total provision (best estimate) | 12,762 | 16,059 |
| Reinsurers' share of claims provisions | (169) | (266) |
| Risk margin | 870 | 882 |
| **Technical provisions** | **13,463** | **16,675** |

The below waterfall chart provides a visual representation of the 2020 to 2021 Solvency II technical provisions and the components affected:



## Technical provisions by line of business and risk group

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

## Areas of uncertainty around technical provisions

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

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

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

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

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

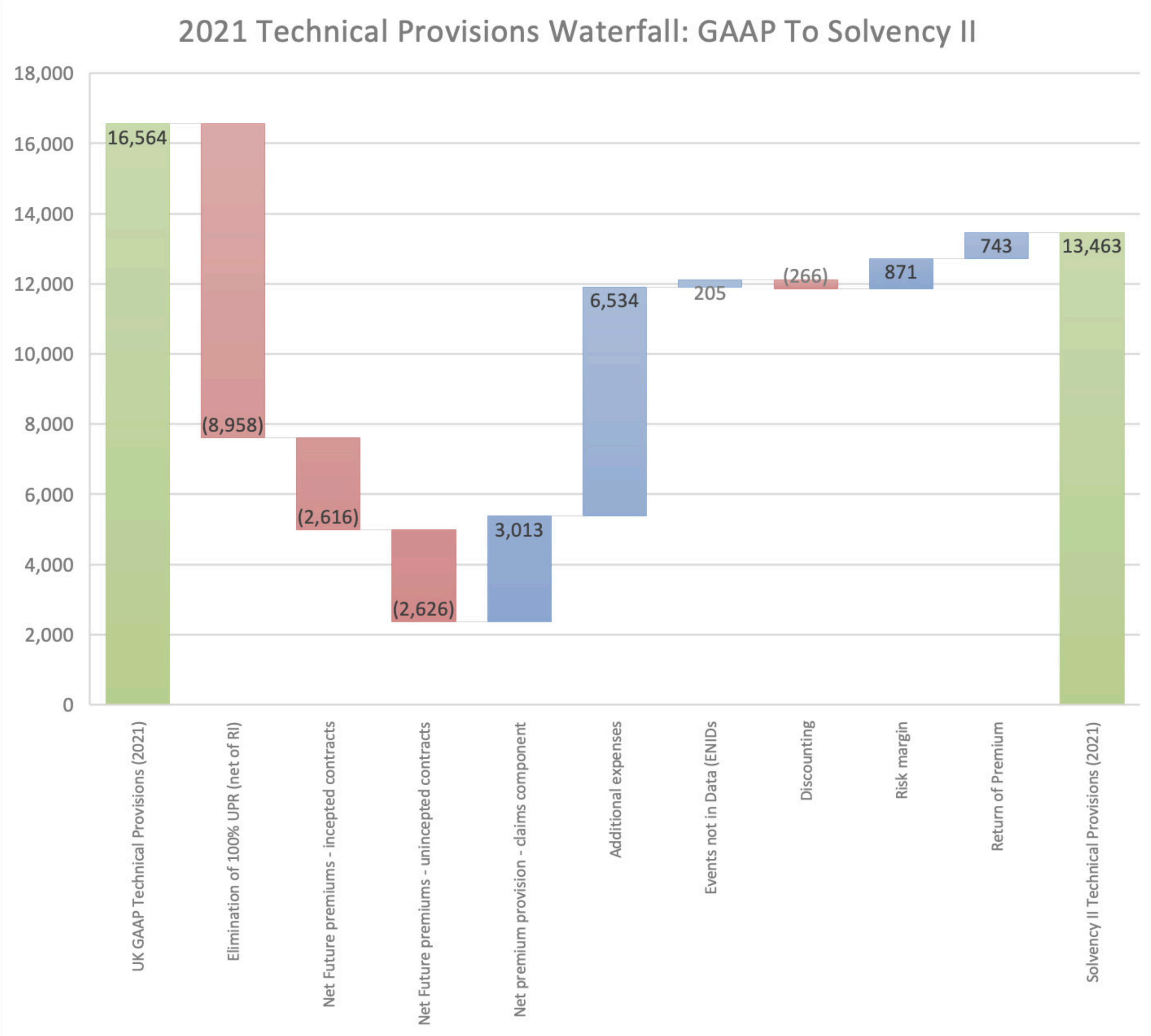
**Events not in data ('ENID loading') –** There is considerable uncertainty in estimating a provision for events that have not been observed before.

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

**Risk margin –** There is significant uncertainty in estimating the risk margin as a result of the challenge in forecasting the SCR over a period of run-off. However, the Society's claims have a short tail and therefore the capital impact arising from this uncertainty is expected to be low. The Risk margin makes up only 6.4% of the total Technical Provisions (2020: 5.3%).

## Reconciliation between UK GAAP and Solvency II Technical provisions

The below waterfall chart provides a visual representation of the 2021 GAAP technical provisions and the components affected in the transition to Solvency II Technical provisions:




**The components are explained below:**

- Elimination of 100% UPR (net of RI) - This is an adjustment for unearned premium reserves at December 2021 and relates to 2022 policies, the valuation method is different under Solvency II actuarial techniques
- Net future premiums (incepted contracts) - This relates to 2022 policies committed to paying by direct debit by the end of 2021
- Net future premiums (unincepted contracts) - Essentially this relates to 2022 policies invoiced in 2021 that the Society is bound to but not received payment for or commitment to direct debits at the end of December
- Net premium provision (claims component) - Claims costs associated with 2022 bound policies

- Additional expenses - These relate to insurance associated ongoing overhead costs the society will incur on a going concern basis in the future as a result of 2022 polices bound at December 2021
- Events not in data - Actuarial provisioning estimate for events that have not been observed before and as a result are not in the historic data set
- Discounting - An adjustment for the time value of money
- Risk margin - Is included to ensure the value of the Technical Provisions is equivalent to the amount needed by a third party if they were to assume the Society's liabilities
- Return of premium – The amount due to members which has been expensed through the income statement but remains unclaimed at December 2021 and will be settled in 2022

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

| Description (£000's) | 2021 | 2020 |
|---|---|---|
| UK GAAP claims provisions | 6,184 | 5,698 |
| Claims handling expenses and unallocated loss adjustment expenses for earned business | 1,422 | 1,750 |
| Deferred income | 8,958 | 6,701 |
| **Statutory reserve (UK GAAP)** | **16,564** | **14,149** |

## Data adjustments and recommendations

There were no data deficiencies for which an adjustment was required. The Society plans to maintain and improve its ability to efficiently report accurate data in 2022 in order to support its business strategy as set out earlier in this report.

## Changes since the last reporting period

The changes in the basis of reserving for 2021 have been the inclusion of additional large losses in the IBNER and the reversal of a £500k additional provision included as at December 2020 to cover the uncertainty and risks associated with Brexit & Covid.

The reserving for 2021 has focused on the claims experience for the C&D aspect of the policy which in 2017 changed from a claims made to accident year basis. In our reserving we have made allowance for the likelihood of large losses on both the C&D and Negligence book (at a ratio of 3:1 for both the UK & ROI), this enables the Society to prudently cover additional large claims should they arise.

The 2020 claims data reflected lower activity due to the pandemic than was initially anticipated. The use of historical loss ratios was used (alongside chain ladder and Bornhuetter-Ferguson) to provide claims reserving best estimates at the end of that year. The additional prudence reserve added in 2020 of £500k was reversed as visibility of the unknowns and uncertainties at the year-end of 2020 were better understood and captured within our data set in 2021.

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.

| Description (£000's) | 2021 | 2020 |
|---|---|---|
| Derivative liabilities | - | 2 |
| Other creditors (including taxation and social security) | 1,192 | 1,224 |
| Accruals | 378 | 524 |
| Pension scheme | 61 | 61 |
| **Statutory reserve (UK GAAP)** | **1,631** | **1,811** |

## 4. Alternative methods for valuation

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

## 5. Any other information

The Society has no other information to disclose.

# D. Capital Management

## 1. Own funds

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

The Society has a simple capital structure (Mutual with no share capital), as a result the Own Funds are equal to the value of the Excess of Assets over Liabilities.

| Own funds (£000's) | 2021 | 2020 |
|---|---|---|
| Assets | 46,413 | 43,834 |
| Liabilities | (15,263) | (18,752) |
| **Total own funds** | **31,150** | **25,082** |

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

The table below reconciles the UK GAAP Reserves from the Annual Report and Financial Statements (that is the retained surpluses derived from past underwriting and investment performance) to the Solvency II Own Funds. The Solvency II available Own Funds £31,150k (2020 £25,082k) is disclosed on QRT S.23.01.01 and is made up of the excess of assets over liabilities and so the potential volatility of the Own Funds is directly related to potential volatility of those assets and liabilities.

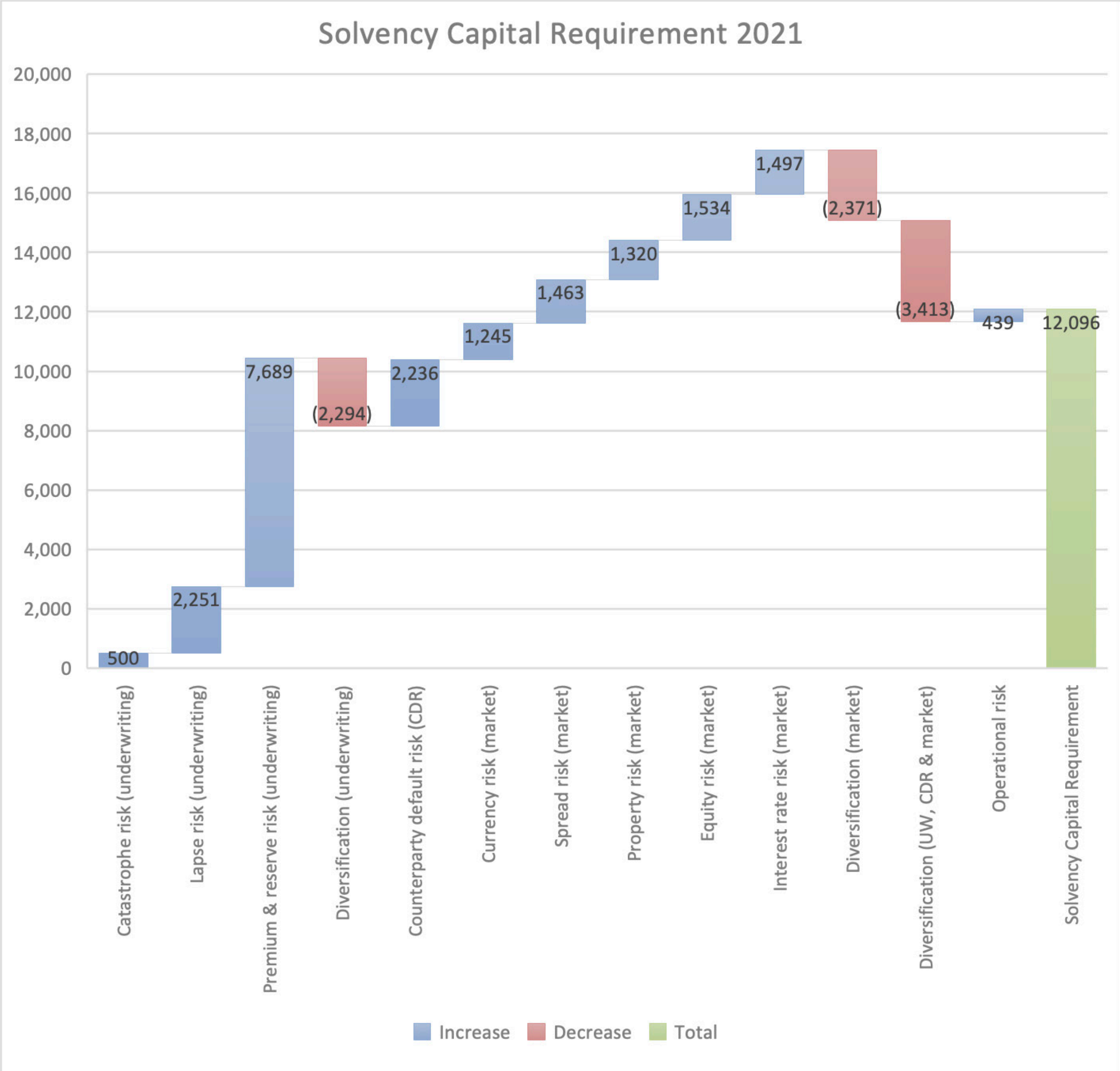
| Description (£000's) | 2021 | 2020 |
|---|---|---|
| UK GAAP reserves (including property revaluations) | 29,596 | 26,982 |
| Difference in the valuation of assets (predominantly intangible assets) | (678) | (485) |
| Difference in the valuation of technical provisions | (5,360) | (8,730) |
| Difference in the valuation of other liabilities (predominantly deferred income & mutual bonus accruals) | 7,592 | 7,315 |
| **Own funds** | **31,150** | **25,082** |

## 2. Solvency Capital Requirement and Minimum Capital Requirement

Set out below is a summary of Own Funds, the Society's Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). The ratio of eligible own funds to the SCR has grown from 216% in 2020 to 258% in 2021 showing the Society is in a stronger position from the previous year to meet its liabilities and accommodate stresses to valuations of its assets as required under the Solvency II regime. The Society continues to take a conservative approach to risk, prioritising the financial security, adherence to regulatory requirements and protection and support of its members as demonstrated by the strength of the SCR ratio.

| Description (£000's) | 2021 | 2020 |
|---|---|---|
| Own funds | 31,150 | 25,082 |
| Minimum capital requirement | 3,126 | 3,436 |
| Solvency capital requirement | 12,096 | 11,636 |
| **Solvency ratio (Own funds / SCR)** | **258%** | **216%** |

### December 2021 Solvency Capital Requirements:



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

| Solvency capital requirements by module (£000's) | 2021 | 2020 |
|---|---|---|
| Underwriting risk pre diversification | 10,440 | 9,778 |
| Diversification (underwriting) | (2,294) | (1,698) |
| **Net underwriting risk** | **8,146** | **8,080** |
| **Counterparty default risk (CDR)** | **2,236** | **1,713** |
| Market risk | 7,059 | 6,726 |
| Diversification (market) | (2,371) | (2,172) |
| **Net market risk** | **4,688** | **4,554** |
| Diversification (UW, CDR & market) | (3,413) | (3,163) |
| **Operational risk** | **439** | **452** |
| **Solvency Capital Requirement** | **12,096** | **11,636** |

The movement in the SCR in the period predominantly arises from higher CDR and growth in market risk. Further analysis of these risks follow in this section of the report.

## Minimum Capital Requirement

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

The Combined MCR is then subject to an Absolute floor which is set by the Solvency II Directive Article 129(1)(d). The Absolute floor applicable to the Society is €3.7 million (or £3.126m) at 31 December 2021. The Society's MCR as at 2021 is equal to the Absolute floor because the Combined MCR falls below this level.

The table below illustrates this computation:

| Solvency capital requirements by module (£000's) | 2021 | 2020 |
|---|---|---|
| Solvency II technical provisions | 13,463 | 16,675 |
| Net (of reinsurance) written premiums over last 12 months | 13,579 | 11,977 |
| **Linear MCR** | **3,076** | **3,436** |
| **SCR** | **12,096** | **11,636** |
| MCR Cap (at 45% of SCR) | 5,443 | 5,236 |
| MCR floor (at 25% of SCR) | 3,024 | 2,909 |
| **Combined MCR** | **3,076** | **3,436** |
| Absolute floor (based on €3.7m) | 3,126 | 3,315 |
| **Minimum capital requirement (higher of combined MCR & absolute floor)** | **3,126** | **3,436** |

## Market Risk

The Society is exposed to market risks derived predominately from the investment 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 (£000's) | 2021 | 2020 |
|---|---|---|
| Interest rate risk | 1,497 | 1,608 |
| Spread risk | 1,463 | 2,812 |
| Equity risk | 1,534 | 1,307 |
| Currency risk | 1,245 | 385 |
| Property risk | 1,320 | 319 |
| Market concentration risk | - | 295 |
| Diversification | (2,371) | (2,172) |
| **Market risk contribution to solvency capital requirement** | **4,688** | **4,554** |

The property portfolio holds a large balance containing multiple assets within one financial instrument, this was stressed under spread risk in 2020 and management deem this asset to be more appropriately stressed under property risk in 2021.

## Counterparty Risk

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

| Counterparty default risk (£000's) | 2021 | 2020 |
|---|---|---|
| Cash at bank | 10,605 | 8,907 |
| Reinsurance recoveries (Solvency II) | 169 | 266 |
| **Gross type 1 risks pre-stress** | **10,774** | **9,173** |
| Debtors arising out of direct insurance operations - policyholders | 503 | 255 |
| Group debtor balances | 396 | 2 |
| Other debtors | 1,194 | 1,245 |
| **Gross type 2 risk pre-stress** | **2,093** | **1,502** |
| **CDR contribution to solvency capital requirement (post stress)** | **2,236** | **1,713** |

## 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 (£000's) | 2021 | 2020 |
|---|---|---|
| Premium and reserve risk | 7,689 | 7,804 |
| Lapse risk | 2,251 | 1,473 |
| Catastrophe risk | 500 | 500 |
| Diversification | (2,294) | (1,698) |
| **Underwriting risk contribution to solvency capital requirement** | **8,146** | **8,080** |

## Undertaking specific parameters and simplified calculations

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

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

This is not applicable for the Society.

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

This is not applicable for the Society.

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

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

## 6. Any other information

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 though it is becoming increasingly immaterial.

Following Brexit, the Society separated the Irish business claims reserves, with the Actuaries reserving for large losses on both the UK and the Irish book of business. This enables the Solvency II Technical Provisions to be calculated for the SCR projections for the Irish book and comply with the associated regulatory reporting requirements with the Central Bank of Ireland.

From an insurance sector perspective, there was a high level of attention being placed in assessing the increased risks and impact associated with the Covid pandemic and Brexit, though it has had minimal disruption on the Society than initially anticipated.

The Society is committed to enhancing its ESG compliance and migrated its equity holdings into the LGIM Future World fund in 2021. The Society will consult with its investment advisors (Redington) in 2022 to consider the risks and benefits of further investment into ESG slanted investments.

The conflict between Ukraine and Russia is ongoing at the time of writing, and following discussions with Redington, our direct fund exposure to Russian investments is c£3.5k. Our portfolio will have indirect exposure to investment in Russia and the impact of this on the valuation of the portfolio is being closely monitored.

Inflation has emerged as a significant risk in the current year. The impact of the crisis in Ukraine is likely to exacerbate this risk for the duration of the crisis. We have stress tested our claims reserves, in light of this emerging risk, and on the basis of this modelling remain comfortable that our reserving remains adequate to cover any likely impact of rising costs on our claims ultimates.

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 2021, the Society has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable to the Society; and

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

**Approved by the Board and signed on behalf of the Board**

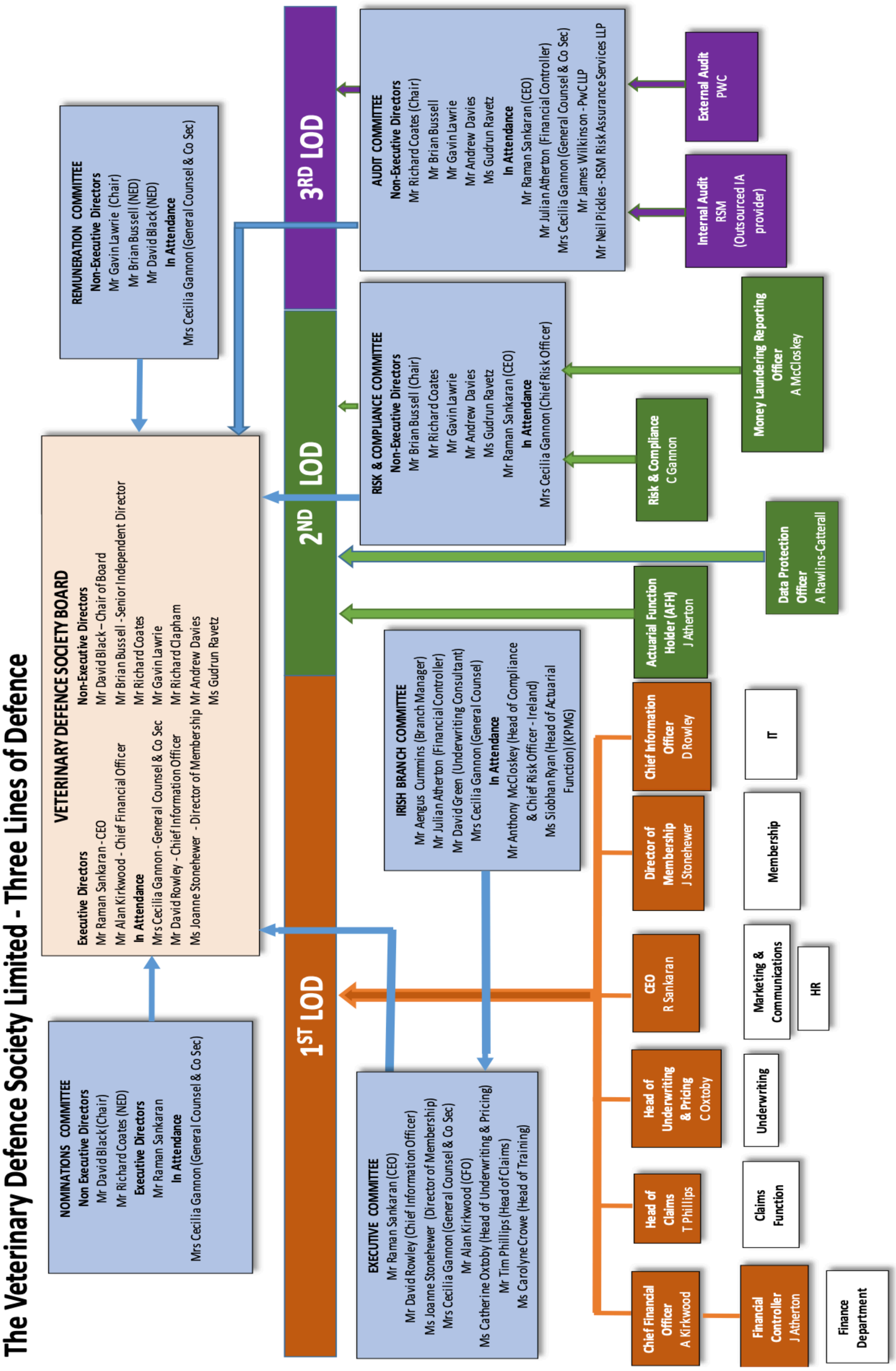
**R Sankaran**
**Chief Executive**

30th March 2022

**A Kirkwood**
**Chief Financial Officer**

30th March 2022

# Appendix 2 - Three Lines of Defence



# Appendix 3 – SFCR QRT Disclosures

## Veterinary Defence Society Limited

### Solvency and Financial Condition Report

### Disclosures

31 December

2021

(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 2021 |
| 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

| | Assets | Solvency II value |
|---|---|---|
| | | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 1,452 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 30,948 |
| R0080 | *Property (other than for own use)* | 4,054 |
| R0090 | *Holdings in related undertakings, including participations* | 0 |
| R0100 | *Equities* | 3,740 |
| R0110 | *Equities - listed* | 3,740 |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 22,251 |
| R0140 | *Government Bonds* | 9,496 |
| R0150 | *Corporate Bonds* | 12,432 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 323 |
| R0180 | *Collective Investments Undertakings* | 14 |
| R0190 | *Derivatives* | 0 |
| R0200 | *Deposits other than cash equivalents* | 889 |
| 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: | 169 |
| R0280 | *Non-life and health similar to non-life* | 169 |
| R0290 | *Non-life excluding health* | 169 |
| 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 | 503 |
| 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 | 11,470 |
| R0420 | Any other assets, not elsewhere shown | 1,870 |
| R0500 | **Total assets** | 46,413 |

| | Liabilities | Solvency II value |
|---|---|---|
| | | C0010 |
| R0510 | Technical provisions - non-life | 13,632 |
| R0520 | *Technical provisions - non-life (excluding health)* | 13,632 |
| R0530 | *TP calculated as a whole* | 0 |
| R0540 | *Best Estimate* | 12,761 |
| R0550 | *Risk margin* | 871 |
| 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 | 0 |
| 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) | |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 1,631 |
| R0900 | **Total liabilities** | 15,263 |
| R1000 | **Excess of assets over liabilities** | 31,150 |

**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) | Total |
|---|---|---|---|
| | | General liability insurance | |
| | | C0080 | C0200 |
| | **Premiums written** | | |
| R0110 | Gross - Direct Business | 14,620 | 14,620 |
| R0120 | Gross - Proportional reinsurance accepted | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | 0 |
| R0140 | Reinsurers' share | 1,040 | 1,040 |
| R0200 | Net | 13,580 | 13,580 |
| | **Premiums earned** | | |
| R0210 | Gross - Direct Business | 14,620 | 14,620 |
| R0220 | Gross - Proportional reinsurance accepted | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | 0 |
| R0240 | Reinsurers' share | 1,040 | 1,040 |
| R0300 | Net | 13,580 | 13,580 |
| | **Claims incurred** | | |
| R0310 | Gross - Direct Business | 3,309 | 3,309 |
| R0320 | Gross - Proportional reinsurance accepted | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | 0 |
| R0340 | Reinsurers' share | 396 | 396 |
| R0400 | Net | 2,913 | 2,913 |
| | **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** | 8,792 | 8,792 |
| R1200 | **Other expenses** | | |
| R1300 | **Total expenses** | | 8,792 |

S.05.02.01

## Premiums, claims and expenses by country

## Non-life

| | | C0010 | C0020 | C0070 |
|---|---|---|---|---|
| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | Total Top 5 and home country |
| R0010 | | | IE | |
| | | C0080 | C0090 | C0140 |
| | **Premiums written** | | | |
| R0110 | Gross - Direct Business | 13,088 | 1,532 | 14,620 |
| R0120 | Gross - Proportional reinsurance accepted | | | 0 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | 0 |
| R0140 | Reinsurers' share | 936 | 104 | 1,040 |
| R0200 | Net | 12,152 | 1,428 | 13,580 |
| | **Premiums earned** | | | |
| R0210 | Gross - Direct Business | 13,088 | 1,532 | 14,620 |
| R0220 | Gross - Proportional reinsurance accepted | | | 0 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | 0 |
| R0240 | Reinsurers' share | 936 | 104 | 1,040 |
| R0300 | Net | 12,152 | 1,428 | 13,580 |
| | **Claims incurred** | | | |
| R0310 | Gross - Direct Business | 2,809 | 501 | 3,309 |
| R0320 | Gross - Proportional reinsurance accepted | | | 0 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | 0 |
| R0340 | Reinsurers' share | 478 | -82 | 396 |
| R0400 | Net | 2,331 | 583 | 2,913 |
| | **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 |
| R0550 | **Expenses incurred** | 7,913 | 879 | 8,792 |
| R1200 | **Other expenses** | | | |
| R1300 | **Total expenses** | | | 8,792 |

S.17.01.02

## Non-Life Technical Provisions

| | | Direct business and accepted proportional reinsurance<br>General liability insurance | Total Non-Life obligation |
|---|---|---|---|
| | | C0090 | 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 | 613 | 613 |
| R0140 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | 0 |
| R0150 | **Net Best Estimate of Premium Provisions** | 613 | 613 |
| | **Claims provisions** | | |
| R0160 | Gross | 12,148 | 12,148 |
| R0240 | Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | 169 | 169 |
| R0250 | **Net Best Estimate of Claims Provisions** | 11,979 | 11,979 |
| R0260 | **Total best estimate - gross** | 12,761 | 12,761 |
| R0270 | **Total best estimate - net** | 12,592 | 12,592 |
| R0280 | **Risk margin** | 871 | 871 |
| | **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** | 13,632 | 13,632 |
| R0330 | **Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total** | 169 | 169 |
| R0340 | **Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total** | 13,463 | 13,463 |

**S.19.01.21**

## Non-Life insurance claims

### Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0170 | C0180 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Development year | | | | | | | | | | | In Current | Sum of years |
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | year | (cumulative) |
| R0100 | Prior | | | | | | | | | | | -2 | -2 | -2 |
| R0160 | 2012 | 240 | 355 | 336 | 99 | 87 | 229 | 18 | 12 | 31 | 99 | | 99 | 1,505 |
| R0170 | 2013 | 451 | 459 | 336 | 192 | 22 | 10 | 75 | 12 | 5 | | | 5 | 1,564 |
| R0180 | 2014 | 296 | 407 | 305 | 166 | 72 | 17 | 165 | 9 | | | | 9 | 1,435 |
| R0190 | 2015 | 487 | 857 | 569 | 373 | 64 | 285 | 162 | | | | | 162 | 2,797 |
| R0200 | 2016 | 558 | 668 | 401 | 292 | 166 | 20 | | | | | | 20 | 2,105 |
| R0210 | 2017 | 693 | 1,018 | 596 | 418 | 789 | | | | | | | 789 | 3,513 |
| R0220 | 2018 | 626 | 831 | 445 | 346 | | | | | | | | 346 | 2,248 |
| R0230 | 2019 | 664 | 519 | 149 | | | | | | | | | 149 | 1,332 |
| R0240 | 2020 | 452 | 702 | | | | | | | | | | 702 | 1,154 |
| R0250 | 2021 | 927 | | | | | | | | | | | 927 | 927 |
| R0260 | | | | | | | | | | | | Total | 3,205 | 18,578 |

**Gross Undiscounted Best Estimate Claims Provisions**
(absolute amount)

| | | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0290 | C0300 | C0360 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Development year | | | | | | | | | | | Year end |
| | | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 & + | (discounted data) |
| R0100 | Prior | | | | | | | | | | | 1 | 1 |
| R0160 | 2012 | 1,857 | 1,571 | 926 | 592 | 508 | 199 | 70 | 159 | 419 | 102 | | 102 |
| R0170 | 2013 | 2,012 | 1,574 | 424 | 220 | 369 | 46 | 198 | 8 | 0 | | | 0 |
| R0180 | 2014 | 1,501 | 711 | 260 | 284 | 100 | 181 | 70 | 63 | | | | 63 |
| R0190 | 2015 | 1,606 | 1,228 | 1,893 | 528 | 308 | 1,022 | 246 | | | | | 246 |
| R0200 | 2016 | 2,079 | 2,566 | 763 | 859 | 674 | 35 | | | | | | 35 |
| R0210 | 2017 | 5,821 | 1,596 | 2,673 | 2,847 | 331 | | | | | | | 331 |
| R0220 | 2018 | 2,773 | 3,356 | 2,731 | 333 | | | | | | | | 333 |
| R0230 | 2019 | 5,036 | 2,099 | 512 | | | | | | | | | 512 |
| R0240 | 2020 | 3,441 | 605 | | | | | | | | | | 605 |
| R0250 | 2021 | 1,444 | | | | | | | | | | | 1,444 |
| R0260 | | | | | | | | | | | | Total | 3,673 |

S.23.01.01

## Own Funds

| | Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35 | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 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 | 31,150 | 31,150 | | | |
| 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 | | | | |
| R0290 | **Total basic own funds after deductions** | 31,150 | 31,150 | 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 | 31,150 | 31,150 | 0 | 0 | 0 |
| R0510 | Total available own funds to meet the MCR | 31,150 | 31,150 | 0 | 0 | |
| R0540 | Total eligible own funds to meet the SCR | 31,150 | 31,150 | 0 | 0 | 0 |
| R0550 | Total eligible own funds to meet the MCR | 31,150 | 31,150 | 0 | 0 | |
| R0580 | **SCR** | 12,096 | | | | |
| R0600 | **MCR** | 3,126 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 257.53% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 996.44% | | | | |

| | **Reconcilliation reserve** | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 31,150 |
| 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 | |
| R0760 | **Reconciliation reserve** | 31,150 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 0 |

S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

| | | Gross solvency capital requirement | USP | Simplifications |
|---|---|---|---|---|
| | | C0110 | C0090 | C0120 |
| R0010 | Market risk | 4,688 | | |
| R0020 | Counterparty default risk | 2,236 | | |
| R0030 | Life underwriting risk | 0 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 8,146 | | |
| R0060 | Diversification | -3,413 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 11,657 | | |

**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 | 439 |
| 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** | 12,096 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement** | 12,096 |
| | **Other information on SCR** | |
| R0400 | Capital requirement for duration-based equity risk sub-module | 0 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 0 |
| R0420 | Total amount of Notional Solvency Capital Requirements for ring fenced funds | 0 |
| R0430 | Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios | 0 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | 0 |

| | **Approach to tax rate** | C0109 |
|---|---|---|
| R0590 | Approach based on average tax rate | Yes |

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

**S.28.01.01**

## 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 | 3,076 |

| | | 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 | 12,592 | 13,580 |
| 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 | 3,076 |
| R0310 | SCR | 12,096 |
| R0320 | MCR cap | 5,443 |
| R0330 | MCR floor | 3,024 |
| R0340 | Combined MCR | 3,076 |
| R0350 | Absolute floor of the MCR | 3,126 |
| R0400 | **Minimum Capital Requirement** | 3,126 |

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