The Veterinary Defence Society Limited

Solvency and Financial Condition Report

For the year ending 31 December 2022

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 our vision and purpose - "To be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them, enabling them to focus on animal health and welfare".

Gross written premiums in the year to 31 December 2022 amounted to £16.77m (2021: £15.82m), a rise of 6% which was a result of growth in the membership, increase in base and a movement towards higher indemnity limits. There was a £1.2m Return of Premium made to our members in 2022 from the 2021 and 2020 financial results.

The Group financial result for 2022 was a loss of £2.679m compared to a surplus of £2.277m in 2021, due to hardening claims experience, increased operating costs and volatility within the financial markets which impacted on our investment portfolio.

The Society's total return on its investments after tax in 2022 was a loss of £3,725k (2021: surplus of £698k). The political and economic environment led to significant investment market volatility during the year that impacted our investment performance. In recent years, action had been taken to diversify the risk and improve the ESG focus of the investment portfolio and further changes have been agreed during the first quarter of 2023 based on the current and projected conditions. The performance is within risk appetite and the solvency position remains strong.

In our reserving we have made allowance for the likelihood of large losses on both the C&D and Negligence book, at a ratio of 2:1 for the UK and 1:1 for ROI (2021: 3:1 for UK and 2:1 for ROI), the reduction of one C&D per geography was a recommendation from the Society's actuaries and more representative of the underlying data set. This level of prudence enables the Society to cover additional large claims should they arise. This change in reserving approach, allied to changes in the underlying performance of the book resulted in total GAAP technical provisions amounting to £9,416k in 2022 (2021: £8,272k).

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

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

The Solvency Capital Requirement (SCR) for December 2022 is £11.847m (2021: £12.096m), a decrease of £249k. The main source of the decrease was in the market risk with a decrease of £1,329k, ultimately from the lower investment portfolio value. Underwriting risk increased by £389k reflecting growth in the business and recent claims experience. Available Own Funds are £27,649k (2021: £31,150k) down £3,501k on 2021. The Society's Solvency ratio is 233.4% for the year (2021: 257.5%).

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 Parkgate Industrial Estate Knutsford Cheshire WA16 8XZ Registered in England and Wales No. 02159441
The Veterinary Defence Society Limited – Irish Branch	8th Floor, Block E Iveagh Court Harcourt Road Dublin 2 Registered in Ireland No. 909190
Independent Auditors	PricewaterhouseCoopers LLP 1 Hardman Square Manchester M3 3EB
Regulators - UK	Prudential Regulation Authority (PRA) Bank of England 20 Moorgate London EC2R 6DA Financial Conduct Authority (FCA) 12 Endeavour Square London E20 1JN
Regulators - ROI	Central Bank of Ireland (CBI) New Wapping Street North Wall Quay Dublin 1 D01 F7X3

2. Business and external environment

The Veterinary Defence Society Limited ("the Society") is a mutual insurance company and therefore has members rather than shareholders. The Society was incorporated in 1987 as a company limited by guarantee, therefore not having any share capital. The Society's principal purpose is to provide professional indemnity insurance against claims arising from allegations of professional negligence and the costs of disciplinary and criminal proceedings to its members who are Veterinary Surgeons and Registered Veterinary Nurses (RVNs) in the United Kingdom and the Republic of Ireland. The Society also provides access to associated risk management services such as an advice service. Non-clinical training is provided through a subsidiary company VDS Training Services Limited. A quality improvement digital proposition, VetSafe, is provided through VDS Support Limited which also acts as an Introducer Appointed Representative to third party providers offering additional services to members of the Society.

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

The increase in demand for pet ownership through the pandemic restrictions led to price increases which seem to have reduced somewhat in the last year. However, we are now seeing the early signs of a reduction in demand in routine and preventative treatments for pets due to the economic conditions and the associated "cost of living" crisis. Recent recessions do not seem to have impacted the veterinary market materially, although these did not have the high inflation dynamic and consequent squeeze on real living standards, that we are currently seeing.

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

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

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

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

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

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

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

In terms of our regulatory environment, we actively keep pace with the requirements of our regulators; the PRA and FCA in the UK and the CBI in Ireland. Key issues we have addressed throughout the year being the increased regulatory focus on governance, managing the financial risks of climate change, Operational Resilience and Consumer Duty.

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 2022 financial statements reflected a return of premium of £0.6m that is intended as a Mutual Bonus by way of a discount on the 2024 premiums, subject to performance in the intervening period.

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 qualifications together with 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. This model includes an approach of supporting members and the broader reputation of the professions and our assessment of claims is on that basis. The Board sees it as important to maintain this core business model that extends beyond a normal insurance proposition as this provides more value to members, the model itself being regularly reviewed and tested for fitness in purpose.

The Business Plan 2023 – 2025 is built around the changing needs and requirements of our members that are being impacted by an environment with more uncertainty than we have seen in recent years from an economic, market and business perspective.

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

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

These have been central to the Board's deliberations of our risks and ongoing capital requirement for solvency purposes. Risks to our business strategy and plans are set out later in this document, as is the detail of the stress and scenario testing applied. The risks have also considered the ongoing uncertainty from the exit from the COVID-19 pandemic, the socio-economic fallout from the war in Ukraine and the current and future forecast economic conditions including impacts of inflation.

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 2022 amounted to £16.77m (2021: £15.82m) before Return of Premium, and £16.17m (2021: £14.62m) after a Return of Premium of £0.6m (2021: £1.2m). Total members associated with practices at the end of December amounted to 26,560 (2021: 25,189) a growth of 5.4%.

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 2022.

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 2022 was £1,055k (2021: £1,040k).

The costs of claims incurred net of reinsurance amounted to £8,040k in 2022 (2021: £6,412k). 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 2022 totalled £6,158k (2021: £5,263k), a 17% increase. Further information on the Society's expenditure can be found in the Annual Report and Financial Statements for the year ended 31 December 2022.

The Society remains in a strong financial position at the end of 2022 with c£28m (2021: £32.3m) 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)	2022	2021
	(£000's)	(£000's)
Gross written premiums before return of premium	16,769	15,820
Return of premium	600	1,200
Reinsurance paid	1,055	1,040
Claims incurred net of reinsurance	8,040	6,412
Net operating expenses	6,158	5,263
Balance on technical account	915	2,648
(Loss) / surplus for financial year	(2679)	2,277
Combined ratio[1]	94%	86%
Employee retention[2]	90%	89%

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 yearend as a percentage of employees at the start of the year.

4. Performance from investment activities

The Society has £27,969k (2021: £32,317k) 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 2022 increased from £30k in 2021 to £69k in 2022 due to increased support from Redington as a result of the heightened volatility in the financial markets. 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	2022	2021
	(£000's)	(£000's)
Debt securities	16,110	18,476
Shares and variable yield securities and unit trusts	6,961	8,605
Deposits with credit institutions	4,648	4,663
Cash in Northern Trust dealing account	136	480
Income accruals	114	93
Total invested with LGIM	**27,969**	**32,317**

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

In 2022, the Society has witnessed significant volatility in its investment portfolio valuation. The source of the volatility has been due to several sources. The ESG slanted equity investments suffered because of the Ukraine war and geopolitical and economic uncertainty arising therefrom, resulting in unrealised losses of £300k / 8% reduction in value. Inflationary growth and the Bank of England's policy response by the progressive raising of interest rates from 0.25% in December 2021 to 3.5% at December 2022 also had a profound effect. Approximately 60% of the Society's portfolio is in designated Bond and Gilt investment funds and higher interest rates expectations resulted in a decline in valuation of £4m / 21.6%. The Society also has investments in a liquidity fund which has not suffered from devaluations due to the nature of the underlying assets and a holding in a property fund. The property fund has experienced a net reduction in value of circa £0.5m / 10.7% in the year due to uncertainty over rental yields in the commercial property sector and the long-term impact on demand for office accommodation from increased home working.

For the same reasons the Society's total return on its investments after tax in 2022 was a loss of £3,724k (2021: surplus of £698k), with the net of realised and unrealised losses on investments in the period experiencing volatility. 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	2022	2021
	(£000's)	(£000's)
Income from investments	490	436
Realised gain on investments	41	494
Unrealised loss in investments	(4,846)	(12)
Investment management expenses and charges	(69)	(30)
Total investment (loss) / return	**(4,384)**	**888**
Tax on income from investments	660	(190)
Total investment return / (loss) after tax	**(3,724)**	**698**

5. Performance of other activities

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

The training company was incorporated in 2017 to accommodate our increased focus in non-clinical training as part of our strategic plans. Although VDS Training operates out with 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. These services include the VetSafe software which is currently being developed inhouse and will be available to Members as a benefit of holding a policy with the Society as well as opening potential markets outside of the UK and Ireland to non-members.

6. Any other information

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

A. System of Governance

1. General governance arrangements

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

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

The Board composition and committee structures and members are shown below as at 31 December 2022.

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
Ms Mary Stewart

AUDIT COMMITTEE

Non-Executive Directors
Mr Richard Coates (Chair)
Mr Brian Bussell
Mr Andrew Davies
Ms Gudrun Ravetz
Mr Richard Clapham

In Attendance
Mr Raman Sankaran (CEO)
Mr Alan Kirkwood (CFO)
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 Andrew Davies
Ms Gudrun Ravetz
Mr Richard Clapham

Executive Directors
Mr Raman Sankaran (CEO)

In Attendance
Ms Cecilia Gannon (Chief Risk Officer)
Mr Alan Kirkwood (CFO)
Mr Julian Atherton (Financial Controller)

NOMINATIONS COMMITTEE

Non-Executive Directors
Mr David Black (Chair)
Mr Gavin Lawrie
Ms Gudrun Ravetz

Executive Directors
Mr Raman Sankaran
Mr Alan Kirkwood

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
Mr Andrew Davies

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.

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, Gudrun Ravetz, Andrew Davies and Richard Clapham.

This committee monitors internal controls, financial reporting, risk management and regulatory compliance matters. It reviews the work of the Internal Audit, Risk & Compliance functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditors, and reviews and monitors the external auditors' independence, objectivity and the e ectiveness of the audit process. The committee also has responsibility for ensuring that e ective whistle-blowing arrangements are in place, which enable any concerns to be raised by employees in confidence. A separate report on the work of the Audit Committee during 2022 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. 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, Andrew Davies 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 Gudrun Ravetz, Gavin Lawrie, the Society's Chief Executive Officer, Raman Sankaran and Chief Financial Officer, Alan Kirkwood. The committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive succession planning, the appointment of new directors and the election and re-election of directors. The committee is guided by the ongoing work of Executive to strengthen the Society's approach to matters of Equity, Diversity and Inclusion.

Risk & Compliance Committee ('RCC') - The committee is chaired by Non-Executive Director, Brian Bussell. Non-Executive Directors, Richard Coates, Gudrun Ravetz, Andrew Davies, Richard Clapham 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 2022, the Board comprised two Executive Directors and seven Non-Executive Directors. A further Non-Executive Director was co-opted to the Board on 30 November 2022 subject to regulatory approval. The new Non-Executive Director, who is a Veterinary Surgeon will stand for election by the membership at the AGM 2023 as the Society's new Chair, in accordance with the Society's constitution.

All the current Non-Executive Directors have served on the Board for less than nine years except for the current Chair, David Black who will retire from the Board at the AGM 2023 having completed 11 years' service.

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 and Financial Conduct Authority.

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

Commitment

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

When appointing the new Non-Executive director during 2022, the Board pursued a vigorous and thorough process to ensure that the most appropriately qualified candidates were identified. The process considered the current skills sets around the Board and the future business and leadership needs of the Society. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business need and our stakeholders.

The Nominations Committee 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 team. Non-Executive Directors who have served more than six years on the Board are subject to a particularly rigorous performance evaluation in line with the Code's requirements. The membership and terms of reference of the Board committees are reviewed and agreed by the Board at the first Board meeting held after the AGM.

Re-election

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

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

During 2022, Mary Stewart, BVM&S MRCVS was appointed to the Board and will be subject to election to the Board by the members at the AGM 2023.

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 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. No Executive Director or Senior Manager has an employment contract with a notice period exceeding 26 weeks.

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

Principle Six – Stakeholder Relationships and Engagement

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

Dialogue with members

As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a variety of ways, including feedback provided directly to Executive Team members throughout the year at conferences and seminars. Non-Executive Directors attend meetings of the Claims Group on an ad hoc basis throughout the year and there is a schedule for Non-Executive Directors attendance at other key team meetings. 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.

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

Constructive use of the Annual General Meeting

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

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

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

Audit Committee Report

The committee met six times during 2022.

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

During 2022, the committee assisted the Board in discharging its responsibilities for financial reporting, corporate governance, internal controls, internal and external audit, and risk management. In carrying out its role, the committee took steps to ensure that it could, where necessary, make recommendations to the Board following the output of the internal and external audit functions and the committee reported to the Board throughout the year 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 2022 the following internal audits were carried out:

- Climate Change
- Data Governance
- Compliance Framework-follow up
- Cyber Risk Management
- Vulnerable Customers
- Financial Risk Management.

Where recommendations 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 2022. The plan set out PwC's approach to the audit of the Society's Annual Report and Financial Statements 2022. 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 2022, 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 2021.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2022 audit fee in conjunction with an assessment of external auditors' performance.
- Reviewing the plan for the audit of the Society's financial statements, including an assessment of key risks, the committee requested from the external auditors their assessment of any threats to independence, which the committee reviewed and determined.
- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.
- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Society's policies relating to fraud, whistleblowing, and conflicts of interest.
- Reviewing and overseeing the Society's Own Risk and Solvency Assessment in accordance with the requirements of Solvency II.
- Reviewing the provision of internal audit services and updating the three-year internal audit programme.

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.
- 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 when appropriate.
- Ensuring compliance with relevant legislation, regulation and policies including managing the regulatory reporting processes.
- The implementation of appropriate systems for monitoring, management and mitigation of risk including setting the risk management culture.
- The prioritisation and allocation of resources whilst ensuring appropriate delegation of authority.
- Reviewing the organisational structure of the Society.
- 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 see section B5. The information received and considered by the Audit Committee provided assurance that during the financial year there were no material breaches of control or regulatory standards.

Senior Managers' Responsibilities

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

Ref	PRA, FCA OR DUAL	Allocation of 19 Prescribed Responsibilities to SMF (for UK)	Allocation - VDS Role	Names
A	Dual	Responsibility for the performance by the firm of its obligations under the Senior Managers Regime, including implementation and oversight.	CEO General Counsel and Company Secretary	R. Sankaran (Lead) C. Gannon (Support)
B	Dual	Responsibility for the firm's performance of its obligations under the employee certification regime.	CEO General Counsel and Company Secretary	R. Sankaran (Lead) C. Gannon (Support)
C	Dual	Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map.	General Counsel and Company Secretary	C. Gannon (Lead)
F	Dual	Responsibility for: (a) leading the development of; and (b) monitoring the effective implementation of, policies and procedures for the induction, training and professional development of all members of the firm's governing body.	Chair of Governing Body CEO General Counsel and Company Secretary	D. Black (Lead) R. Sankaran (Support) 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 and Company Secretary CEO	C. Gannon (Lead) R. Sankaran (Support)
M	Dual	Responsibility for overseeing the development of, and implementation of the firm's remuneration policies and practices.	Chair of Remuneration Committee	G. Lawrie (Lead)
J-2	Dual	Responsibility for providing for and oversight of the internal audit function, where this function is outsourced to an external third-party provided by a non-significant firms.	Chair of Audit Committee	R. Coates (Lead)
N	Dual	Responsibility for oversight of the independence, autonomy and effectiveness of the whistleblowing polices and procedures, including those for the protection of staff raising concerns. Responsibility for Whistleblowing (The whistleblowers' champion's allocated responsibilities are set out in SYSC 18.4.4R).	Senior Independent Director	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.	Chief Finance Officer	A. Kirkwood (Lead)
Z	FCA	Overall responsibility for the firm's compliance with CASS.	N/A	N/A
H	PRA	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm.	CEO Chair of Governing Body	R. Sankaran (Lead) 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 CEO	D. Black (Lead) R. Sankaran (Support)
O	PRA	Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity.	Chief Finance Officer	A. Kirkwood (Lead)
Q	PRA	Responsibility for the production and integrity of the firm's financial information and its regulatory reporting.	Chief Finance Officer	A. Kirkwood (Lead)
T	PRA	Responsibility for the development and maintenance of the firm's business model by the governing body.	CEO	R. Sankaran (Lead)
T-2	PRA	Responsibility for the performance of the firm's Own Risk and Solvency Assessment (ORSA).	Chief Finance Officer General Counsel and Company Secretary	A. Kirkwood (Lead) 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 General Counsel and Company Secretary	D. Black (Lead) R. Sankaran (Support) 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

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

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

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

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

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

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

2. Fit and proper

The Board is responsible for the appointment of roles requiring Approved Persons, as well as other key roles and the Society's policy on this is set out in the Approved Persons Policy 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 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 compliance and 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 Operations Teams.
- **2nd Line of Defence** - Risk and Compliance, 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 regular 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 strategic review will be reflected in the risk appetite statements as necessary over the planning period.

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

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

Own Risk and Solvency Assessment (ORSA)

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

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

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

1. The Executive Committee reviews and updates the Risk Register throughout the year, to evaluate whether the Society's risk profile will change as a result of the implementation of the business strategy or other external factors impacting the business during the planning period. The RCC reports on the risk profile to the Board.
2. The business strategy and risk appetite are annually agreed by the Board and monitored by Executive throughout the year. The position of the risk profile against the defined risk appetite metrics is evaluated and any deviations outside the agreed risk appetite are highlighted for review and action.
3. The Executive Committee performs stress 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 retained or risk exposures reduced by the utilisation of risk transfer strategies. All these conclusions are documented in the ORSA report.

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

Role of the Board

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

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

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

Risk Register

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

The risk register documents all material risks, causes and consequences, together with relevant mitigating controls and risk assessments. Each risk identified is assessed and, so far as is possible, quantified, in terms of frequency and severity, and scored using a standard matrix on an inherent and residual basis (i.e., before and after the effect of controls). The Society continues to develop and embed its risk management policies and procedures with a view to improving controls. Based on the frequency and severity scores, risks are then classified as Fully Effective, Strong, Effective, Needs Improvement, or Ineffective.

Throughout 2022, the Society had a stable risk profile with the key risks remaining relatively unchanged. Risk appetite has been set regarding key risk exposures and emerging risks. (Further information is provided in section C).

Risk ownership and accountability

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

Risk policies

As part of the Society risk management framework, the Risk and Compliance Function, in conjunction with 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 the Three Lines of Defence 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 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 the risks to which the Society is or may be exposed. The function works with Executive and the Board in developing policies and procedures with the aim of providing reasonable assurance that the Society achieves its financial, operational, and strategic objectives in a manner consistent with its risk tolerances and appetites agreed with the Board.

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

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

B. Actuarial

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

C. Data Protection

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

Third line: Internal and External Audit

The third line of defence is given by external auditors and 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. They operate a rolling 3-year strategic audit plan, the terms of which are reviewed and approved annually by the Audit Committee (AC). Throughout the year, the work of RSM is co-ordinated by the Internal Audit and Compliance Manager who reports to the General Counsel and Company Secretary and Chief Financial Officer and reports directly to the Chair of the AC in respect of internal audit matters.

The current three-year audit programme covers reviews in the areas of Product Governance and Pricing, Underwriting Processes, Operational Resilience, Regulatory Reporting, Financial Crime, IT programme implementation and Conduct Risk.

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

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

Specifically, the internal audit's main objectives are:

- Provide an independent and objective opinion to the Society's 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 third 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 the year previous
- A roll-forward of the net results of the reserve study which contemplates additional data through year-end, including a specific review of emerged losses during the final quarter of the year. This analysis sets forth the actuarial net point estimate for the held reserves as of year-end and is used as input in the determination of the 4^{th} quarter change in IBNR. An analysis of the reserves is performed at the close of the 4th quarter on a contract-by-contract basis which is used to check the development patterns in the rolled forward analysis above; and
- KPMG LLP provides support to the Society with the preparation of Solvency II technical provisions and Solvency Capital Requirements (SCR).

7. Outsourcing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Any Other Information

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.

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

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

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

1. Underwriting Risk

Principal areas of risk considered in this category are:

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

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

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

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

Gross written premiums by region (£000's)	UK	ROI	Total
2022	15,012	1,757	16,769
2021	14,162	1,658	15,820
2020	13,272	1,475	14,747
2019	12,922	1,457	14,379
2018	11,895	1,348	13,243

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

The Society provides one line of business (professional indemnity) and insures most veterinary professionals, practices and businesses in the UK and Ireland and therefore industry concentration risk is inherent. However, by maintaining this large base the Society 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. In the most recent ORSA, the Society modelled the impact of a reduction in GWP as a result of a prolonged recession / loss of some large customers through to a 35% reduction in premium income as a result of the potential risks. The Society also performs a reverse stress test through an increase in gross loss ratio such that the excess above the SCR reduced to NIL (that is, a Solvency Ratio of 100%), in 2022 this was an increase of 92% (2021: 59%). This exercise illustrates the robustness of the Society's capital position since the risk of such growth in the gross loss ratio is very remote.

2. Strategic/Investment performance risk

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

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

Investment portfolio asset allocation					
Asset class	**Investment product**	**Valuation @ December 2022**	**Allocation @ December 2022**	**Benchmark**	**Allowed movement (control ranges)**
PAIF (property authorised investment funds)	UK property fund	£3.8m	13.6%	15%	5%
Unit trusts	Sterling corporate bond index	£13.9m	49.6%	50%	5%
	All stocks index linked gilt index	£2.2m	7.9%	10%	5%
	Future world climate change equity index fund	£3.2m	11.4%	10%	5%
OEIC (open ended investment company)	Sterling liquidity fund	£4.7m	16.8%	15%	5%
Northern Trust cash accounts / income accruals		£0.2m	0.7%		
Total		**£28.0m**	**100%**	**100%**	

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

Strategic / investment performance - stress and scenario tests

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

3. Credit risk

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

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

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

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

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

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

Credit risk by class of financial instrument at December 2022 (£000's)

	AAA	AA	A	Other	Total
Debt securities	4,655	5,327	6,128		**16,110**
Shares and variable yield securities and units in unit trusts				6,861	**6,861**
Deposits with credit institutions	381	1,120	3,147		**4,648**
Cash at bank and on hand	136		11,685		**11,821**
Other debtors				1,509	**1,509**
Debtors arising out of reinsurance operations		2	17		**19**
Total	**5,172**	**6,449**	**20,977**	**8,470**	**41,068**

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 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 2022 (£000's)		
Description	**Solvency ll**	**UK GAAP**
Intangible assets[1]	-	891
Property, plant & equipment held for own use	1,437	1,437
Total investments[2]	26,629	27,719
Reinsurance recoverables	73	192
Insurance and intermediaries' receivables	114	114
Cash and cash equivalents[2]	12,652	11,448
Deferred tax asset[3]	-	508
Any other assets not shown elsewhere[4]	2,022	2,136
Total assets	**42,927**	**44,445**

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

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

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

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

Property, plant & equipment held for own use

Property, plant and equipment are valued for Solvency II purposes on 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 £1.25m as at December 2022 (2021: £1.225m).

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.

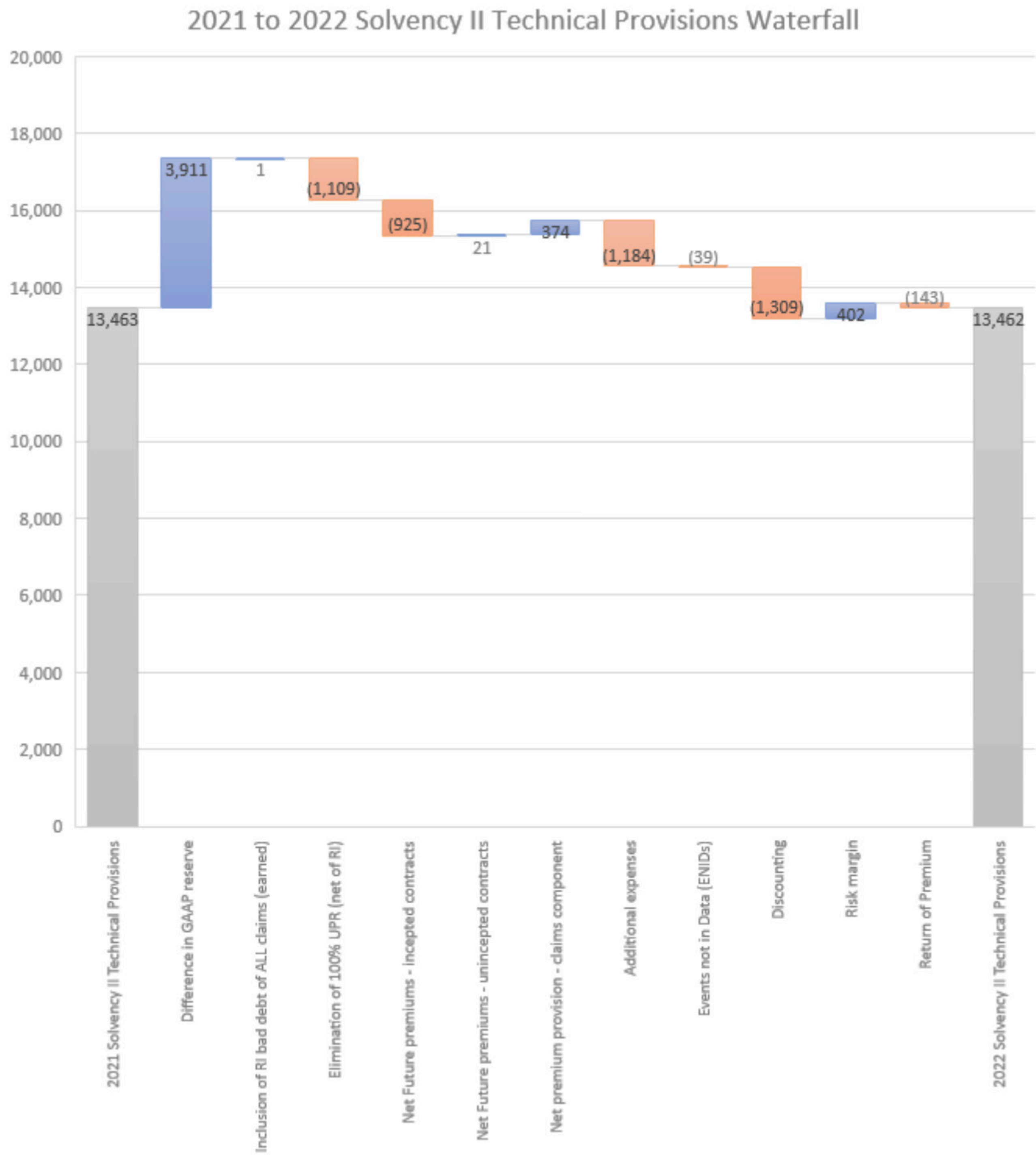
Premium provisions

Best estimate of premium provision is recognised in respect of claims expected to be incurred on contracts bound before 31 December 2022. 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)	2022	2021
Discounted total provision (best estimate)	12,262	12,762
Reinsurers' share of claims provisions	(72)	(169)
Risk margin	1,273	870
Technical provisions	**13,462**	**13,463**

The below waterfall chart provides a visual representation of the 2021 to 2022 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.

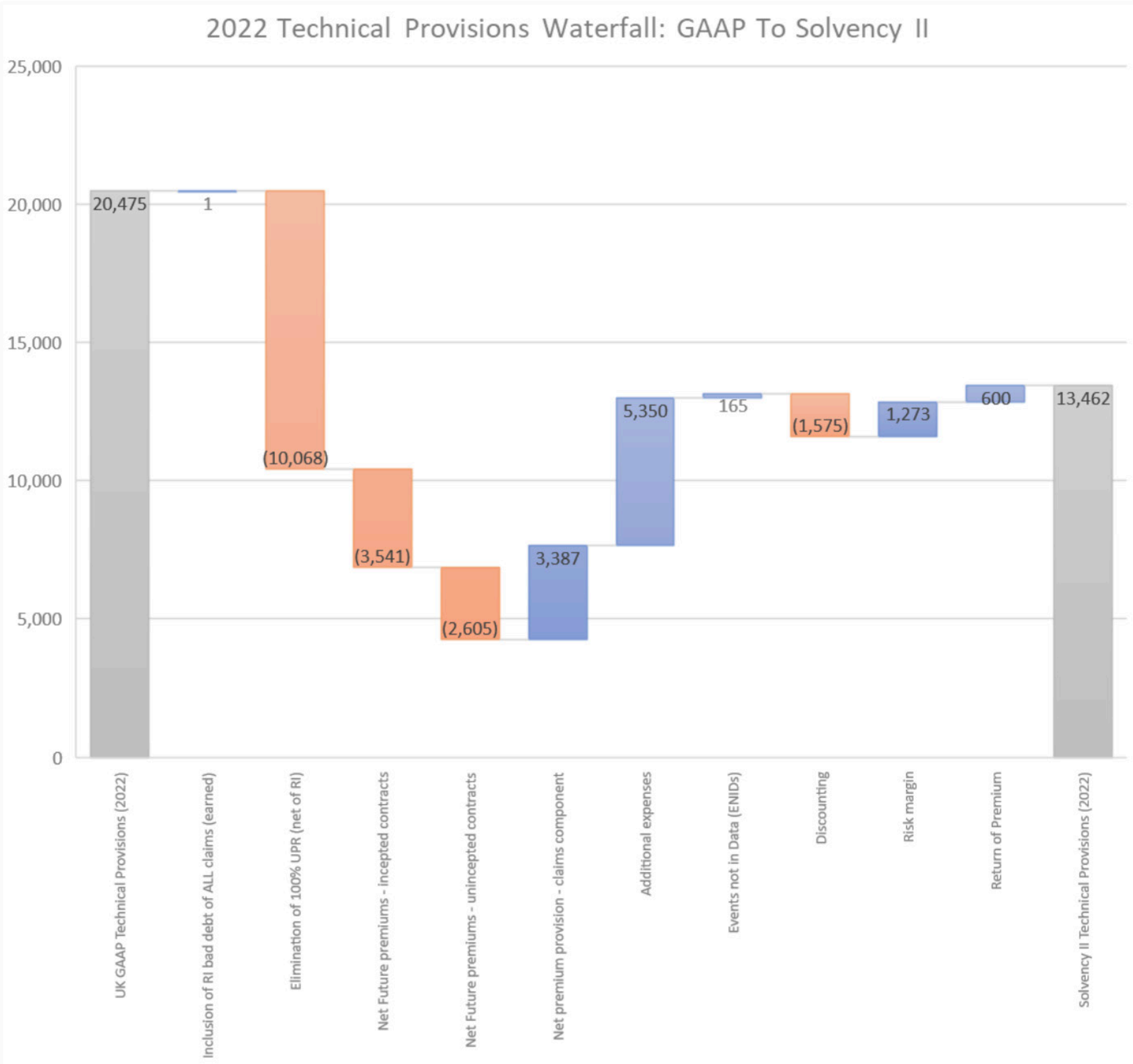
Events not in data ('ENID loading') – There is considerable uncertainty in estimating a provision for events that have not been observed before.

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 9.5% of the total Technical Provisions (2021: 6.4%).

Reconciliation between UK GAAP and Solvency II Technical provisions

The below waterfall chart provides a visual representation of the 2022 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 2022 and relates to 2023 policies, the valuation method is different under Solvency II actuarial techniques
- Net future premiums (incepted contracts) - This relates to 2023 policies committed to paying by direct debit by the end of 2022
- Net future premiums (unincepted contracts) - Essentially this relates to 2023 policies invoiced in 2022 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 2023 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 2023 polices bound at December 2022

- 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 2022 and will be settled in 2023.

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

Description (£000's)	2022	2021
UK GAAP claims provisions	7,564	6,352
Claims handling expenses and unallocated loss adjustment expenses for earned business	1,852	1,920
Deferred income	5,450	6,249
Statutory reserve (UK GAAP)	**14,866**	**14,521**

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 2023 in order to support its business strategy as set out earlier in this report.

Changes since the last reporting period

The reserving for 2022 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 2:1 for both the UK & 1:1 for ROI (2021: 3:1 for both UK & ROI), the reduction of one C&D per geography was a recommendation from the Society's actuaries and more representative of the underlying data set. This level of prudence enables the Society to cover additional large claims should they arise.

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.

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

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

3. Other liabilities

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

Description (£000's)	2022	2021
Derivative liabilities	-	-
Other creditors (including taxation and social security)	995	1,192
Accruals	679	378
Pension scheme	68	61
Statutory reserve (UK GAAP)	**1,742**	**1,631**

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)	2022	2021
Assets	42,927	46,413
Liabilities	(15,277)	(15,263)
Total own funds	**27,649**	**31,150**

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 £27,649k (2021 £31,150k) 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.

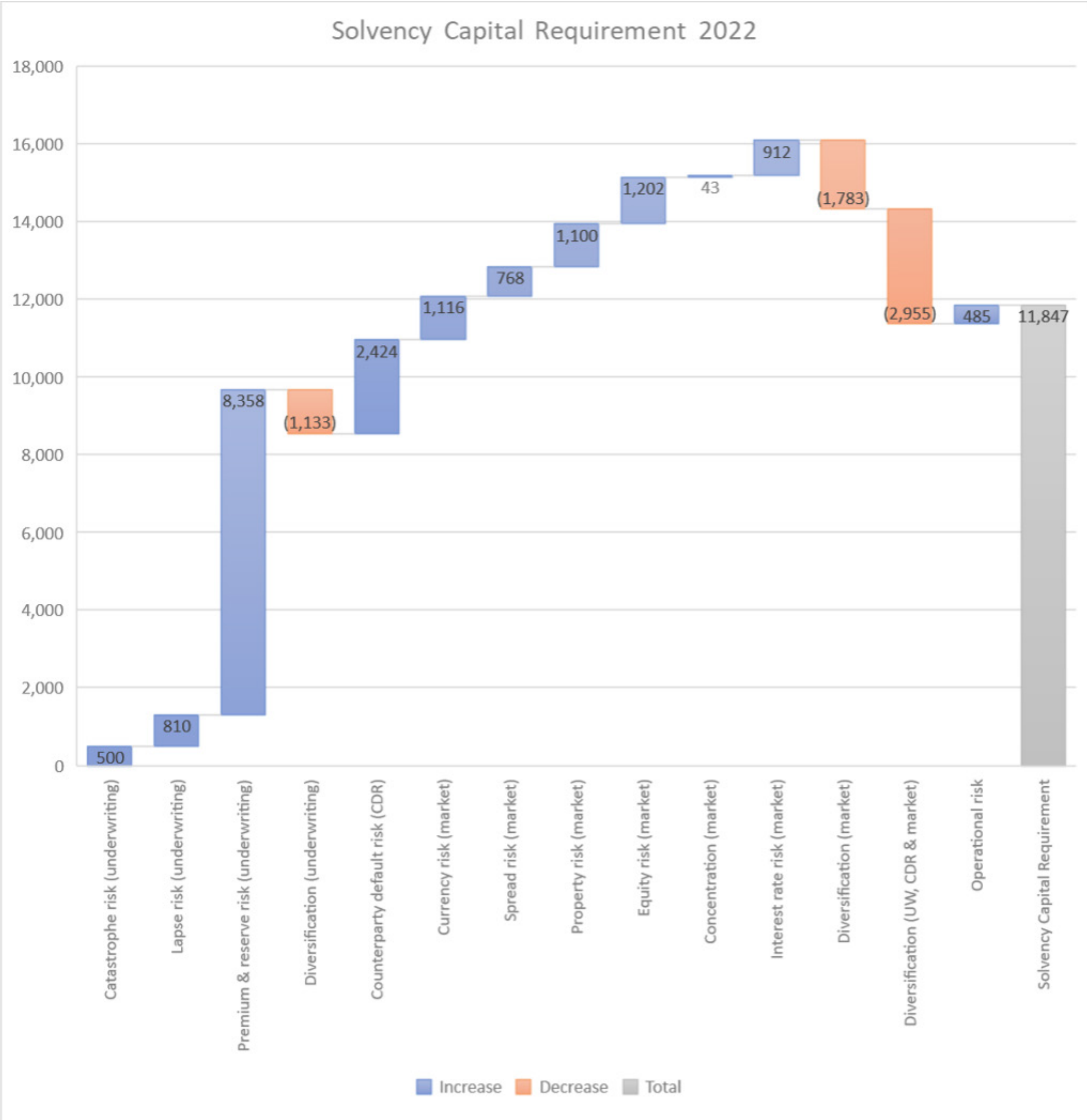
Description (£000's)	2022	2021
UK GAAP reserves (including property revaluations)	26,818	29,596
Difference in the valuation of assets (predominantly intangible & deferred tax assets)	(1,004)	(678)
Difference in the valuation of technical provisions	(4,632)	(5,360)
Difference in the valuation of other liabilities (predominantly deferred income & mutual bonus accruals)	6,467	7,592
Own funds	**27,649**	**31,150**

2. Solvency Capital Requirement and Minimum Capital Requirement

Set out below is a summary of Own Funds, the Society's Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). The ratio of eligible own funds to the SCR has reduced from 258% in 2021 to 233% in 2022 as a result of volatility in the investment markets and the losses incurred in the year resulting in a lower gross asset base, however the Society continues to remain in a strong capital position with the ability to meet its liabilities and accommodate stresses to valuations of its assets as required under the Solvency II regime. The Society continues to take a conservative approach to risk, prioritising the financial security, adherence to regulatory requirements and protection and support of its members as demonstrated by the strength of the SCR ratio.

Description (£000's)	2022	2021
Own funds	27,649	31,150
Minimum capital requirement	3,445	3,126
Solvency capital requirement	11,847	12,096
Solvency ratio (Own funds / SCR)	**233%**	**258%**

December 2022 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)	2022	2021
Underwriting risk pre diversification	9,668	10,440
Diversification (underwriting)	(1,133)	(2,294)
Net underwriting risk	**8,535**	**8,146**
Counterparty default risk (CDR)	**2,424**	**2,236**
Market risk	5,141	7,059
Diversification (market)	(1,783)	(2,371)
Net market risk	**3,358**	**4,688**
Diversification (UW, CDR & market)	(2,955)	(3,413)
Operational risk	**485**	**439**
Solvency Capital Requirement	**11,847**	**12,096**

The movement in the SCR in the period predominantly arises from higher CDR and changes 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 €4 million (or £3.445m) at 31 December 2022. The Society's MCR as at 2022 is equal to the Absolute floor because the Combined MCR falls below this level.

The table below illustrates this computation:

Minimum capital requirements inputs (£000's)	2022	2021
Solvency II technical provisions	13,462	13,463
Net (of reinsurance) written premiums over last 12 months	15,114	13,579
Linear MCR	**3,235**	**3,076**
SCR	**11,847**	**12,096**
MCR Cap (at 45% of SCR)	5,331	5,443
MCR floor (at 25% of SCR)	2,962	3,024
Combined MCR	**3,235**	**3,076**
Absolute floor (based on €3.7m)	3,445	3,126
Minimum capital requirement (higher of combined MCR & absolute floor)	**3,445**	**3,126**

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)	2022	2021
Interest rate risk	912	1,497
Spread risk	768	1,463
Equity risk	1,202	1,534
Currency risk	1,116	1,245
Property risk	1,100	1,320
Market concentration risk	43	-
Diversification	(1,783)	(2,371)
Market risk contribution to solvency capital requirement	**3,358**	**4,688**

The property portfolio holds a large balance containing multiple assets within one financial instrument, this was stressed under property risk in both 2022 and 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)	2022	2021
Cash at bank	11,448	10,605
Reinsurance recoveries (Solvency II)	587	169
Gross type 1 risks pre-stress	**12,035**	**10,774**
Debtors arising out of direct insurance operations - policyholders	114	503
Group debtor balances	308	396
Other debtors	1,714	1,194
Gross type 2 risk pre-stress	**2,136**	**2,093**
CDR contribution to solvency capital requirement (post stress)	**2,424**	**2,236**

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)	2022	2021
Premium and reserve risk	8,358	7,689
Lapse risk	810	2,251
Catastrophe risk	500	500
Diversification	(1,133)	(2,294)
Underwriting risk contribution to solvency capital requirement	**8,535**	**8,146**

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 economic fallout from the ongoing war in Ukraine through higher inflation and rising interest rates. This has had a significant impact on the value of the investment portfolio and is feeding through into claims and premium inflation. We have considered forecasts of how this impact will develop and factored this into the underlying assumptions for our strategic plan. We have stress tested our claims reserves, in light of this emerging risk, and on the basis of this modelling remain comfortable that our reserving remains adequate to cover any likely impact of rising costs on our claims. We continue to monitor this impact and will revise our plans accordingly if the underpinning assumption proves to be materially inaccurate.

Our direct fund exposure to Russian investments is NIL (2021: c£3.5k). Our portfolio could potentially have indirect exposure to investment in Russia however this is closely monitored by LGIM, the fund managers.

The Society is committed to enhancing its ESG compliance and migrated its equity holdings into the LGIM Future World fund in 2021. The Society, at the November 2022 Board meeting approved a further increase in weighting towards ESG slanted equity from 10% to 15% and will continue to consult with its investment advisors (Redington) in 2023 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 NIL (2021: c£3.5k). Our portfolio could potentially have indirect exposure to investment in Russia however this is closely monitored by LGIM the fund managers.

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 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 2022, 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

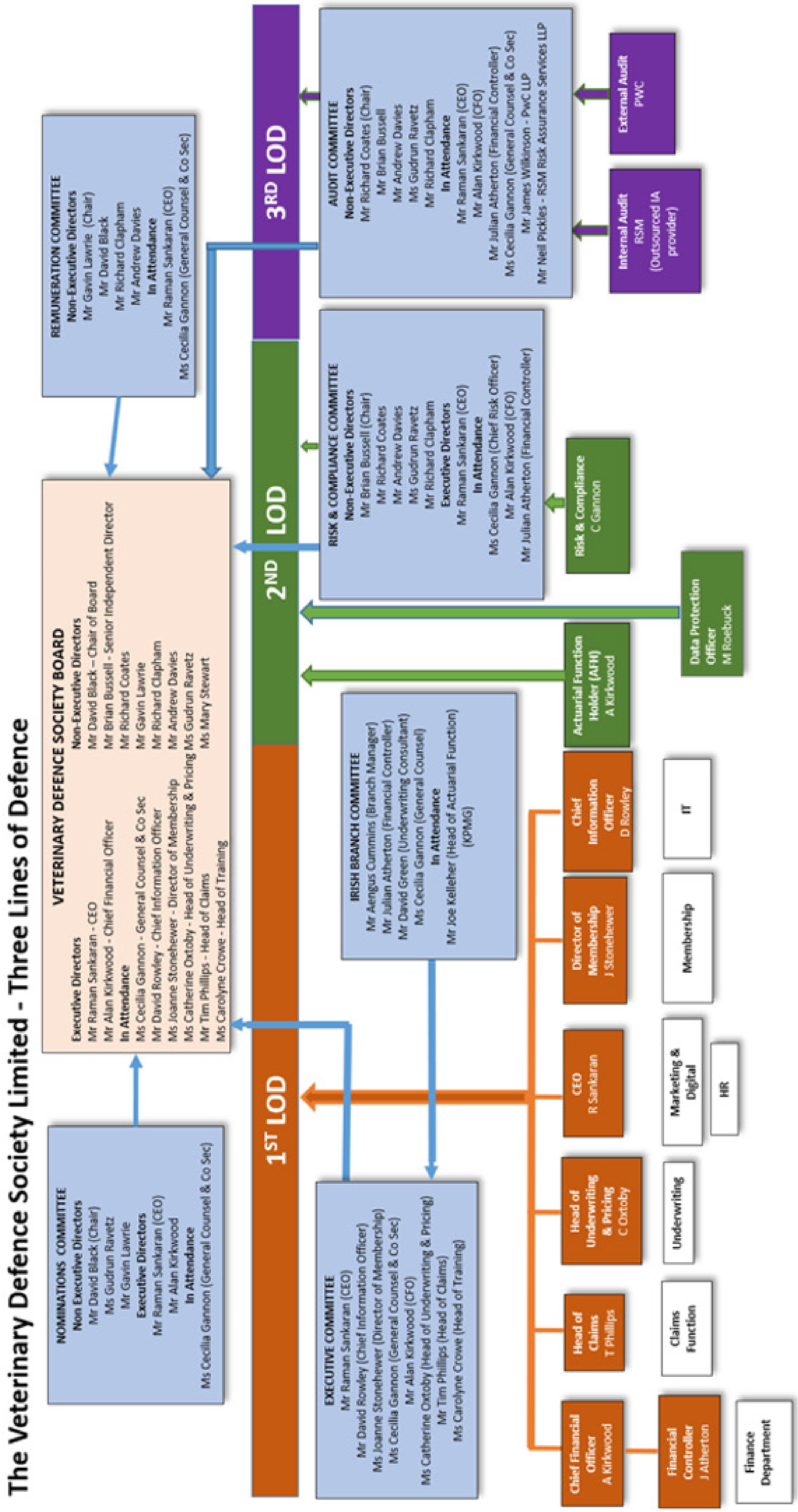
R Sankaran
Chief Executive

29th March 2023

A Kirkwood
Chief Financial Officer

29th March 2023

Appendix 2 - Three Lines of Defence



The Veterinary Defence Society Limited

Solvency and Financial Conditions Report

Disclosures

31 December 2022

(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	2022/12/31
Regular/Ad-hoc submission	Regular reporting
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Use of undertaking specific parameters	Don’t use undertaking specific parameters
Ring-fenced funds	Not reporting activity by RFF
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.02.01.01	Balance sheet
S.05.01.01	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.01	Non-Life Technical Provisions
S.19.01.01	Non-life insurance claims
S.23.01.01	Own funds
S.25.01.01	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	1,437
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	26,629
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	3,342
R0110	*Equities - listed*	3,342
R0120	*Equities - unlisted*	
R0130	*Bonds*	20,114
R0140	*Government Bonds*	8,328
R0150	*Corporate Bonds*	11,560
R0160	*Structured notes*	0
R0170	*Collateralised securities*	225
R0180	*Collective Investments Undertakings*	3,149
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	25
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:	73
R0280	*Non-life and health similar to non-life*	73
R0290	*Non-life excluding health*	73
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	114
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	12,652
R0420	Any other assets, not elsewhere shown	2,023

	Liabilities	Solvency II value
		C0010
R0510	Technical provisions - non-life	13,535
R0520	*Technical provisions - non-life (excluding health)*	13,535
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	12,262
R0550	*Risk margin*	1,273
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	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	1,063
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	679
R0900	**Total liabilities**	15,277
R1000	**Excess of assets over liabilities**	27,649

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 General liability insurance	Total
		C0080	C0200
	Premiums written		
R0110	Gross - Direct Business	16,169	16,169
R0120	Gross - Proportional reinsurance accepted		0
R0130	Gross - Non-proportional reinsurance accepted		0
R0140	Reinsurers' share	1,055	1,055
R0200	Net	15,114	15,114
	Premiums earned		
R0210	Gross - Direct Business	16,169	16,169
R0220	Gross - Proportional reinsurance accepted		0
R0230	Gross - Non-proportional reinsurance accepted		0
R0240	Reinsurers' share	1,055	1,055
R0300	Net	15,114	15,114
	Claims incurred		
R0310	Gross - Direct Business	4,114	4,114
R0320	Gross - Proportional reinsurance accepted		0
R0330	Gross - Non-proportional reinsurance accepted		0
R0340	Reinsurers' share	119	119
R0400	Net	3,995	3,995
	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**	10,272	10,272
R1200	**Other expenses**		
R1300	**Total expenses**		10,272

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	14,472	1,697	16,169
R0120	Gross - Proportional reinsurance accepted			0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share	950	105	1,055
R0200	Net	13,522	1,592	15,114
	Premiums earned			
R0210	Gross - Direct Business	14,472	1,697	16,169
R0220	Gross - Proportional reinsurance accepted			0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share	950	105	1,055
R0300	Net	13,522	1,592	15,114
	Claims incurred			
R0310	Gross - Direct Business	3,068	1,046	4,114
R0320	Gross - Proportional reinsurance accepted			0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share	160	-41	119
R0400	Net	2,909	1,087	3,995
	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**	9,245	1,027	10,272
R1200	**Other expenses**			
R1300	**Total expenses**			10,272

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance – 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	-1,085	-1,085
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**	-1,085	-1,085
	Claims provisions		
R0160	Gross	13,348	13,348
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	73	73
R0250	**Net Best Estimate of Claims Provisions**	13,275	13,275
R0260	**Total best estimate - gross**	12,262	12,262
R0270	**Total best estimate - net**	12,189	12,189
R0280	**Risk margin**	1,273	1,273
	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**	13,535	13,535
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	73	73
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	13,462	13,462

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Underwriting Year

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

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											12	12	12
R0160	2013	451	459	336	192	22	10	75	12	5	-72		-72	1,491
R0170	2014	296	407	305	166	72	17	165	9	17			17	1,452
R0180	2015	487	857	569	373	64	285	162	67				67	2,864
R0190	2016	558	668	401	292	166	20	9					9	2,114
R0200	2017	693	1,018	596	418	789	206						206	3,720
R0210	2018	626	831	445	346	98							98	2,346
R0220	2019	664	519	149	265								265	1,596
R0230	2020	452	702	244									244	1,398
R0240	2021	927	834										834	1,761
R0250	2022	1,385											1,385	1,385
R0260												Total	3,065	20,140

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											109	109
R0160	2013	2,012	1,574	424	220	369	46	198	8	0	0		0
R0170	2014	1,501	711	260	284	100	181	70	63	80			80
R0180	2015	1,606	1,228	1,893	528	308	1,022	246	264				264
R0190	2016	2,079	2,566	763	859	674	35	30					30
R0200	2017	5,821	1,596	2,673	2,847	331	172						172
R0210	2018	2,773	3,356	2,731	333	514							514
R0220	2019	5,036	2,099	512	166								166
R0230	2020	3,441	605	600									600
R0240	2021	1,444	946										946
R0250	2022	1,053											1,053
R0260												Total	3,935

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
		C0010	C0020
R0010	Ordinary share capital (gross of own shares)	0	0
R0030	Share premium account related to ordinary share capital	0	0
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type	0	0
R0050	Subordinated mutual member accounts	0	
R0070	Surplus funds	0	0
R0090	Preference shares	0	
R0110	Share premium account related to preference shares	0	
R0130	Reconciliation reserve	27,649	27,649
R0140	Subordinated liabilities	0	
R0160	An amount equal to the value of net deferred tax assets	0	
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	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**	27,649	27,649
	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	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	0	
R0390	Other ancillary own funds	0	
R0400	**Total ancillary own funds**	0	
	Available and eligible own funds		
R0500	Total available own funds to meet the SCR	27,649	27,649
R0510	Total available own funds to meet the MCR	27,649	27,649
R0540	Total eligible own funds to meet the SCR	27,649	27,649
R0550	Total eligible own funds to meet the MCR	27,649	27,649
R0580	**SCR**	11,847	
R0600	**MCR**	3,445	
R0620	**Ratio of Eligible own funds to SCR**	233.38%	
R0640	**Ratio of Eligible own funds to MCR**	802.68%	

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	27,649
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	27,649
	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	3,359		
R0020	Counterparty default risk	2,424		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	8,535		
R0060	Diversification	-2,956		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	11,362		

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	485
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	11,847
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	11,847
	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	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	
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

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
R0010	MCR_{NL} Result	3,235

		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	12,189	15,114
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	

		C0040
	Linear formula component for life insurance and reinsurance obligations	
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		

		C0070
	Overall MCR calculation	
R0300	Linear MCR	3,235
R0310	SCR	11,847
R0320	MCR cap	5,331
R0330	MCR floor	2,962
R0340	Combined MCR	3,235
R0350	Absolute floor of the MCR	3,445
R0400	**Minimum Capital Requirement**	3,445

The Veterinary Defence Society Limited

Email: admin@thevds.co.uk **Web:** www.thevds.co.uk **Tel:** +44 (0) 1565 652737 **Fax:** +44 (0) 1565 751079
Registered Office: 4 Haig Court, Parkgate Industrial Estate, Knutsford, Cheshire, WA16 8XZ. Registered in England and Wales no. 2159441
Registered Office: 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2. Registered in Ireland no. 909190