Solvency and Financial Condition Report

For the year ending 31 December 2016

The Veterinary Defence Society Limited Registered Office: 4 Haig Court, Parkgate Industrial Estate, Knutsford, Cheshire, WA16 8XZ
Email: admin@thevds.co.uk **Web:** www.thevds.co.uk **Tel:** +44 (0) 1565 652737 **Fax:** +44 (0) 1565 751079

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Executive summary

This document fulfils the requirements for the submission of information to national competent authorities in the relevant EIOPA Guidelines on Submission of Information to National Competent Authorities (EIOPA CP 13/010).

The 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.

There have been no material changes that have occurred in the company's business and performance, system of governance, risk profile and capital management, please refer to the financial statements for further information.

A. Business and Performance

1. Company information

The Veterinary Defence Society Limited	4 Haig Court Parkgate Estate Knutsford Cheshire WA16 8XZ
External auditors	PricewaterhouseCoopers LLP 101 Barbirolli Square Lower Moseley Street Manchester M2 3PW
Regulators	Prudential Regulatory Authority Bank of England Threadneedle St London EC2R 8AH Financial Conduct Authority 25 The North Colonnade London E14 5HS
Actuarial advisers	Mazars LLP Tower Bridge House St Katharine's Way London E1W 1DD

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, and its principal purpose was and still is to provide professional indemnity insurance to Veterinary Surgeons in the United Kingdom and the Republic of Ireland against claims arising from allegations of professional negligence and the costs of disciplinary hearings.

The Society had no subsidiaries as at 31 December 2016.

As an insurance mutual, the Society has no shareholders and no individual controlling party. Profit is not distributed other than by way of returns of premium to premium payers where appropriate. The 2016 financial statements show a total return of premiums of £750,000, which will be returned to premium payers in proportion to the premium they have paid for the year.

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

There have been no significant business or other events that have occurred over the reporting period that have had a material impact on the Society in terms of risk management.

The Society underwrites only one class of business. The Society's functional and presentation currency is pound sterling. The Society's business strategy is centred on the themes of "Defend, Protect and Develop" which applies to both the business and the membership and is described through the business model shown below. This illustrates how strong business foundations and values support the business objectives in delivering the Society's Vision.

At its meeting on 1 December 2016, the Board approved strategic objectives proposed by the Executive which included the following:

- Consolidate the existing Professional Indemnity Insurance (PI) proposition and existing Communication Training with particular reference to multi-channel online/digital delivery and management; and
- Include a full review of the Society's technology capabilities to ensure the appropriate systems and processes are in place to support the Business Strategy.

3. Performance from underwriting activities

Gross written premiums in the year to 31 December 2016 amounted to £11.5 million before Return of Premium, and £10.8 million after the Return of Premium of £750,000.

The Return of Premium was introduced during 2015 to enable the Society to distribute a share of surplus to premium payers in years when there is a positive insurance result. For further information please read the Annual Report and Financial Statements for the year ended 31 December 2016.

The Society purchases reinsurance to mitigate the impact of large value claims and against the impact of a large number of lower value claims.

The costs of claims incurred net of reinsurance and net of claims handling costs was £2.7 million.

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

Expenses incurred in 2016, which includes the cost of handling claims and claims advice, totalled £8.0 million. Further information on the Society's expenditure can be found in the Annual Report and Financial Statements for the year ended 31 December 2016.

The Society remains in a strong financial position at the end of 2016 with almost £29 million of other financial investments. These financial investments underpin both the technical insurance reserves and the retained reserves, and provide the Society with an excellent foundation from which to deliver its strategy.

Key Performance Indicators (extract from Financial Statements)

	2016	2015
	£000	£000
Gross written Premiums before Return of Premium	11,527	10,934
Return of Premium	750	650
Balance on Technical Account[1]	276	1,863
Employee retention[2]	89%	90%

Note:

1. The decrease is as a result of two key factors: 2015 results benefitted from a provision release following the change in policy basis from occurrence to claims made, and 2016 has seen negative run-off deviations particularly for Disciplinary cases as a result of more cases than expected going to Disciplinary Hearings and consequently incurring increased costs.

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

4. Performance from investment activities

The Society has £28.8 million of investments which it considers to be its long term assets. These assets support the Society's Retained Surplus and the technical reserves (on a UK GAAP basis). These investments (excluding Deposits with credit institutions) are managed externally by Barclays Wealth and Quilter Cheviot. The external cost of managing these investments in 2016 was £75k.

The Society is exposed to short term market value fluctuations as a result of these investments being traded on active markets. Unrealised gains on the Debt securities and Shares and other variable-yield securities and units in unit trusts during 2016 totalled £828k and can be split as set out below.

Other funds (that is, cash and cash equivalents) are used to fund current liabilities and cash flow during the forthcoming year.

Market value of investments

	2016	2015
	£000	£000
Debt securities	17,183	15,526
Shares and other variable-yield securities and units in unit trusts	3,079	2,836
Deposits with credit institutions	8,531	8,500
Total	**28,793**	**26,862**

Investment return

	2016
	£000
Income from investments	
Debt securities	594
Shares and other variable-yield securities and units in unit trusts	134
Deposits with credit institutions and cash	139
Income on investments	**867**
Unrealised gains from investments	
Debt securities	556
Shares and other variable-yield securities and units in unit trusts	272
Subtotal	**828**
Property	229
Unrealised gains on investments	**1,057**
Realised gains from investments	
Debt securities	148
Shares and other variable-yield securities and units in unit trusts	25
Realised gains on investments	**173**

The Society considers the long term return on these investment to be an important measure due to the long term nature of the liabilities (and capital) which these assets are supporting. The Society's total return on its investments in 2016 was £2.0 million (2015: £42k). The significant difference between total return in 2015 and 2016 illustrates the impact of the short term fluctuations described above. The Society estimates the long term rate of return of its investments in 2016 to be £1,070k (2015: £891k). Therefore, over a two year period the actual total return of £2,065k differs by only £104K from the long term estimated return of £1,968k.

5. Performance of other activities

The Society has no other activities.

6. Any other information

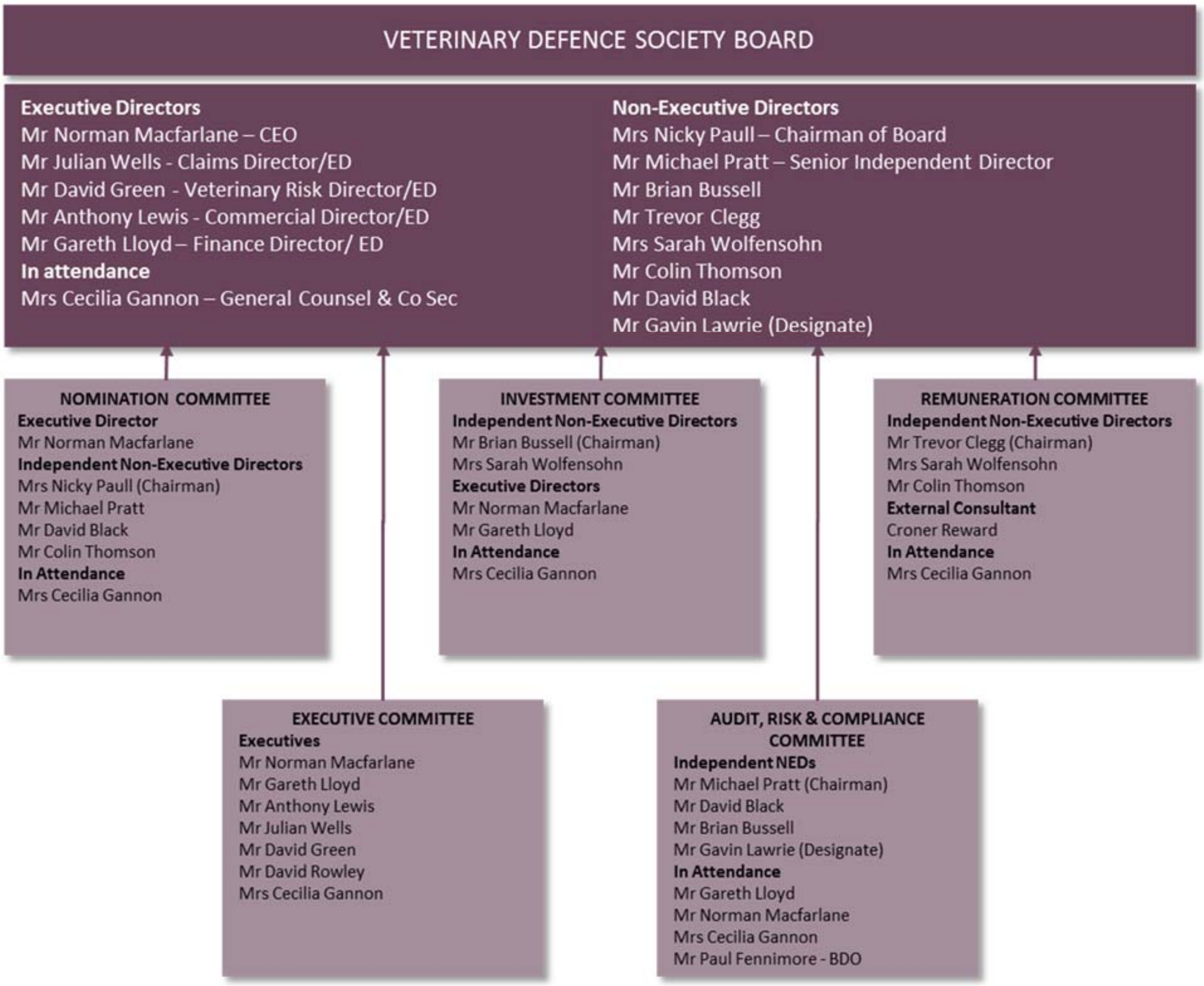
The Society has no other information to disclose.

B. 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 Annotated Combined Code on Corporate Governance for mutual insurers ("the Code").

There have been no material changes in the Society's system of governance during the year. The Board composition and committee structures and members are shown below as at 31 December 2016.



Dr Chris May, Chairman of the Board retired at the Society's annual general meeting on 27 July 2016 and was replaced by Mrs Nicky Paull. Mrs Paull also replaced Dr Chris May as Chairman of the Nominations Committee. Mr Gavin Lawrie was co-opted to the Board on 27 July 2016 and is due for election by members at the AGM on 26 July 2017.

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

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

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

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

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

In addition to the Remuneration Committee, Nominations Committee and Audit, Risk and Compliance Committee, ("ARCC") which were set up by the Board to consider specific areas in more detail than would be possible within Board meetings, the Board set up an Investment Committee in July 2016. This new Board committee has oversight of the Society's Investment Strategy. It provides challenge to the Society's investment managers by reviewing annual performance and reports to the Board.

Each of the Board committees has Board approved terms of reference. The composition and terms of reference of each committee are reviewed in July each year by the Chairman and any changes are approved by the Board.

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

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

- The development of strategy, risk appetite, operational plans and objectives, policies, procedures and budgets for Board approval;
- Following Board approval, the implementation of such strategy, operational plans, policies, procedures and budgets;
- Monitoring and reporting progress to the Board against strategic and operational plans, budgets and financial performance, risk appetite and highlighting exceptions and mitigating actions;
- Identifying business opportunities outside the strategic plan and implementing them if and when appropriate;
- Ensuring compliance with relevant legislation, regulation and policies including managing the regulatory reporting processes;
- The implementation of appropriate systems for monitoring, management and mitigation of risk including setting the risk management culture;
- The prioritisation and allocation of resources whilst ensuring appropriate delegation of authority;

- Reviewing the organisational structure of the Society; and
- Ensuring the provision of adequate personal development and remuneration structures.

The Board has delegated responsibility for overseeing the Society's risk management to the ARCC. The externally provided, Internal Audit function (currently BDO LLP), provides independent assurance to the Board on the effectiveness of the systems of internal control through their reporting to, and attendance at, the ARCC. For further information please see section B5.

The information received and considered by the ARCC provided assurance that during the financial year there were no material breaches of control or regulatory standards.

Audit, Risk and Compliance Committee

The committee consists of its chairman, Non-Executive Director, Michael Pratt, a chartered accountant and two other Non-Executive Directors, David Black and Brian Bussell.

This committee monitors internal controls, financial reporting, risk management and regulatory compliance matters. It reviews the work of the Internal Audit, Compliance and Risk Management functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditor, and reviews and monitors the external auditor's independence, objectivity and the effectiveness of the audit process. It also has responsibility for ensuring that effective whistle-blowing arrangements are in place, which enables any concerns to be raised by employees in confidence.

Nominations Committee

This consists of its Chairman, Nicky Paull (who is also Non-Executive Chairman of the Board) and Non-Executive Directors, Michael Pratt, David Black and Colin Thomson. The Society's Chief Executive Officer, Norman Macfarlane, is also a member of the Nominations Committee. The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive succession planning, the appointment of new Directors and the election and re-election of Directors. The Society operates an Equal Opportunities and Diversity Policy.

Remuneration Committee

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

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

Investment Committee

This committee consists of its Chairman, Non-Executive Director, Brian Bussell and Non-Executive Director, Professor Sarah Wolfensohn. The Society's Chief Executive and Finance Director are also members of the committee.

The Investment Committee provides challenge to the Society's investment managers by reviewing annual performance and reporting to the Board.

Remuneration policy and practices

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

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

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

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

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

Senior Insurance Manager Responsibilities

The table below shows the allocation of principal responsibilities to the members of the Board/Committees and the Company Secretary as required under the PRA's Senior Insurance Managers' Regime.

SIMR	Allocation of 11 Prescribed Responsibilities to SIMF	Names
PR1	Responsibility for ensuring that the firm has complied with its obligations - Fitness & Propriety 2.1 to ensure that every person who performs a key function (including those in respect of whom an application under section 59 of FSMA is made) is a fit and proper person.	N.MacFarlane (lead) C.Gannon
PR2	Responsibility for leading the development of the firm's culture by the governing body as a whole.	N.MacFarlane (lead) N.Paull
PR3	Responsibility for overseeing the adoption of the firm's culture in the day to day management of the firm.	N.MacFarlane (lead) N.Paull
PR4	Responsibility for production and integrity of the firm's financial information and regulatory reporting.	G.Lloyd
PR5	Responsibility for management of the allocation and maintenance of the firm's capital and liquidity.	G.Lloyd (lead) N.MacFarlane
PR6	Responsibility for the development and maintenance of the firm's business model by the governing body.	N.MacFarlane (lead) N.Paull A.Lewis D.Green
PR7	Responsibility for performance of the firm's Own Risk and Solvency Assessment (ORSA).	C.Gannon (lead) N.MacFarlane G.Lloyd
PR8	Responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body.	N.MacFarlane (lead) C.Gannon N.Paull
PR9	Responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all the firm's key function holders (other than members of the firms governing body).	N.MacFarlane (lead) C Gannon
PR10	Responsibility for oversight of the independence, autonomy and effectiveness of the whistleblowing policies and procedures, including those for the protection of staff raising concerns.	M.Pratt - as chair of ARCC & SID
PR11	Responsibility for oversight of the firm's remuneration policies and practices.	T.Clegg - as Chair of RemCo

The following tables summarise the division of responsibilities between the individuals for the Senior Insurance Management functions and FCA Controlled Functions.

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

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

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

	SENIOR INSURANCE MANAGEMENT FUNCTIONS										
	Chief Executive Function	Chief Finance Function	Chief Risk Function	Head of Internal Audit Function	Chairman	Chair of the Risk Committee	Chair of the Audit Committee	Chair of the Remuneration Committee	Senior Independent Director	Chief Actuary Function	Chief Underwriting Officer Function
APPROVED PERSONS	**SIMF1**	**SIMF2**	**SIMF4**	**SIMF5**	**SIMF9**	**SIMF10**	**SIMF11**	**SIMF12**	**SIMF14**	**SIMF20**	**SIMF22**
N.Paull					✓						
N Macfarlane	✓									✔	
M Pratt						✓	✓		✓		
T Clegg								✓			
A Lewis											✔
D Green											✓
C Gannon			✓	✓							
G Lloyd		✓	✔	✔						✓	
✓	Lead										
✔	Support										

	SIGNIFICANT INFLUENCE FUNCTION			
	Director	Chair of the Nominations Committee	Compliance Oversight	Money Laundering Reporting
APPROVED PERSONS	**CF1**	**CF2a**	**CF10**	**CF11**
J Wells	✓			
C Gannon			✓	
N.Paull		✓		
A McCloskey				✓

2. Fit and proper

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

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

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

The qualifications, experience and knowledge of the VDS Board members are scrutinised by the Nominations Committee during the recruitment process. References are taken up, criminal records checks are carried out and the Company Secretary and HR function retain files recording this information.

Members of the Board attend professional development events both external and provided internally by the Society.

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

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

Currently, the Society does not outsource any Controlled Function or Key Function.

Any breaches of the Fit and Proper requirements are internally reported to the ARCC. 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 VDS Board (shown in B1 above) 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 also whether the individual has demonstrated due skill, care, diligence and compliance with relevant standards in the area that he/she has been working in. The individual should also be of good repute, and the assessment includes taking relevant references.

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

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

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

Overall the Board has a conservative approach to risk and is satisfied with keeping the Society as a relatively low risk and stable return operation that does not require an excessive amount of Board intervention. The Society's Risk Management Policy is a fundamental means by which the Society can maintain effective internal systems of control and governance. The Board, which regularly reviews the Risk Management Policy, has delegated responsibility for day to-day management and reporting of risk to the Executive Committee and ARCC in accordance with the Policy. Executive review the Risk Register on a regular basis and update the register where appropriate throughout the year, including an assessment of emerging risks. An Executive report on risk management within the Society is provided to ARCC in May each year and throughout the year, where necessary.

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

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

The Board has agreed that the tolerance value be defined as the limit that would trigger management review and action as appropriate. The tolerance values are defined for a 12 month period. The Board recently reviewed the risk appetite statements and confirmed the tolerance limits. As at December 2016 there were no defined tolerance limits that were breached and therefore required Board attention.

ORSA

The Society has embraced the ORSA and continues to develop and embed a risk management framework which is appropriate to its business so that it can evaluate its strategy and measure this against its risk profile to determine the Society's overall solvency needs. The ORSA is viewed as a positive change and 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 needs are met at all times.

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

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

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

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

   During 2016, as part of its continued embedding of risk management, the Society established a Risk Management Group ("RMG") comprising members of staff who are representative of key operational areas of the business. This group, which meets three times a year, is responsible for identifying, monitoring, managing and reporting risks to senior management and Executive. This enables the Society to improve information available to Executive which in turn can be factored into the Risk Register as appropriate. The RMG has its own terms of reference, approved by the Board.

2. The business strategy and risk appetite are agreed annually by the Board and monitored 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 management 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 Finance Director with the support of external actuarial consultants. The Executive Committee review the Solvency Capital Requirement and solvency projection against the conclusions of the stress and scenario analysis to identify whether any capital adjustments are required for non-quantifiable risks, risks that have been overstated by the Standard Formula and risks that have not been included in the Standard Formula.

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

Role of the Board

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

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

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

Risk Register

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

All material risks, causes and consequences, together with relevant mitigating controls and risk assessments are documented within the risk register. 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.

In 2016, 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.

Risk ownership and accountability

To ensure risk is managed responsibly, the Society assigns key risk categories and risks to 'owners' based on their functional areas and level of seniority.

Risk owners are accountable for the risk areas they oversee and they are expected to raise and escalate issues promptly to the Risk and Compliance Function.

Risk policies

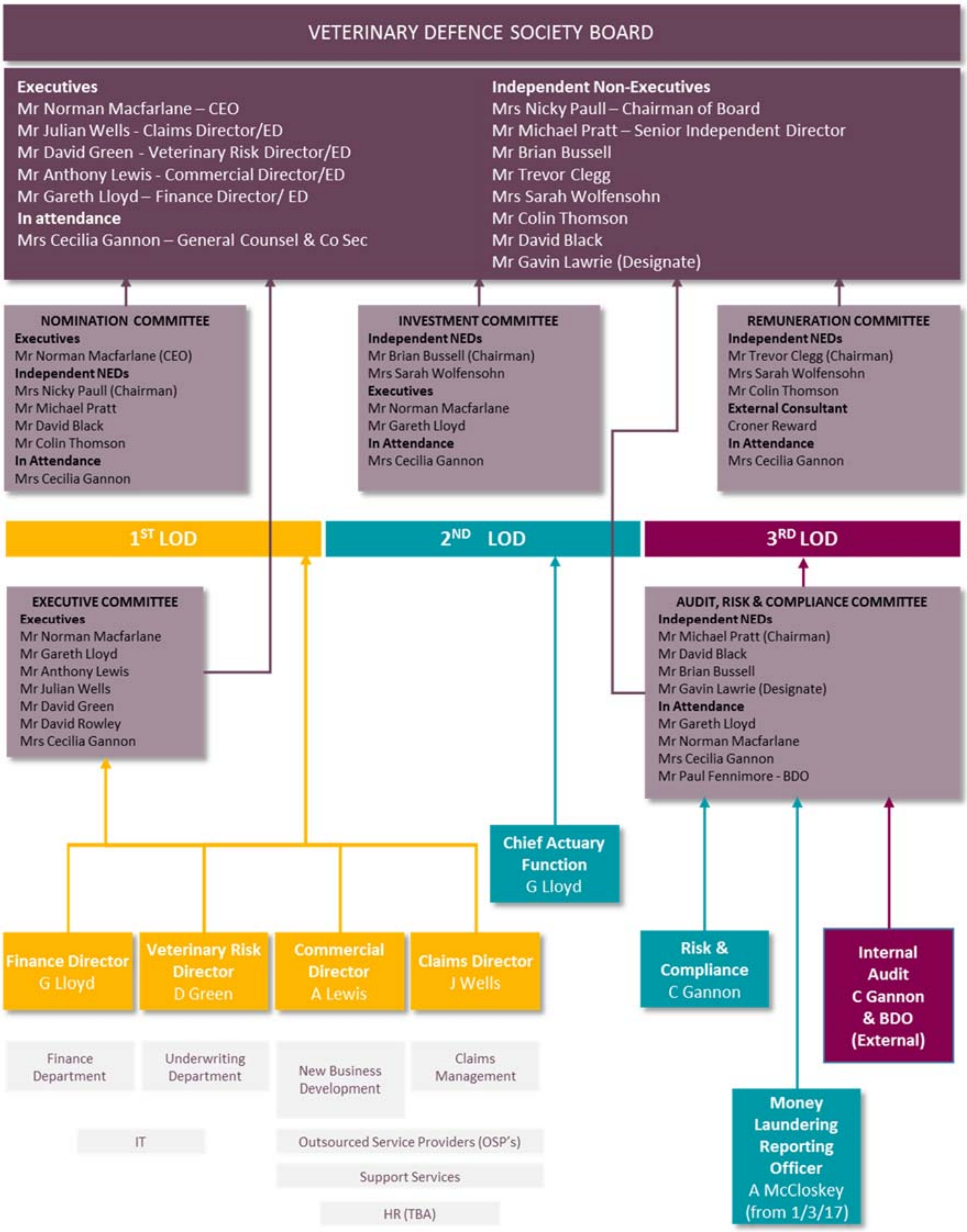
As part of the Society risk management framework, the Risk and Compliance Function, in conjunction with Executive Committee has developed a suite of risk policies. The policies are aligned with the commonly used risk category definitions and incorporate the key risks identified and assessed, together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

4. Internal control

The Society adopts the 'three lines of defence' model as its risk governance operating model. This framework is well established in the insurance and broader financial services industry.

The Society has an established a 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 ARCC provides an oversight mechanism and is an integral part of the internal control framework.

The internal control system is embedded in the three lines of defence model and particularly the work of the second and third line functions, which support the control assurance processes and ensure that the system of internal controls operates effectively.



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

First Line: Operational Management and Governance

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

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

Second Line: Key Business Oversight functions

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

A. Risk Management

The Risk and Compliance function is headed by the General Counsel and Company Secretary who holds the Senior Insurance Management Function of Chief Risk Officer ("CRO"). The CRO is responsible for the overall management and day-to-day leadership of the risk management framework and reports directly to the chair of ARCC in respect of risk matters.

The purpose of Risk and Compliance function is to provide the management of 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. To fulfil this role, the function sets standards and develops policies and procedures that provide 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. All business units are deemed to be within the scope of the risk management function and the successful execution of its responsibilities.

The Risk and Compliance function ensures that escalation procedures are correctly defined and it is working with the Executive Committee to ensure that it is formally linked to the overall risk appetite. In addition it provides on-going monitoring of exposures which could exceed appetite limits and ensures clear escalation criteria to report these exposures to the ARCC.

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. Mazars LLP provides actuarial support to the Society on reserving, capital modelling, regulatory filings and reporting. The work of Mazars is overseen by the Finance Director, who holds Senior Insurance Manager Responsibility as the Chief Actuary Function, and ARCC.

C. *Compliance*

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 compliance function is headed up by the General Counsel and Company Secretary who holds FCA Controlled Function 10 and who has a direct reporting line to the CEO.

The Risk and Compliance function reports on a monthly basis to the Executive Committee and at every meeting of the Board and ARCC.

Third line: Internal Audit

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

5. Internal audit function

At the Society, the internal audit function is currently outsourced to BDO LLP ("BDO"). BDO operate a rolling 3 year strategic audit plan, the terms of which are reviewed and approved annually by the ARCC. Throughout the year, the work of BDO is co-ordinated by the Internal Audit and Compliance Manager who reports directly to the General Counsel and Company Secretary. The latter holds the Senior Insurance Manager Function of Head of Internal Audit and reports directly to the Chair of the ARCC in respect of internal audit matters.

The current three year audit programme covers reviews in the areas of Governance and high level controls, Information Technology, and Business processes and key areas.

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

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

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

In addition to reporting into the ARCC, the internal audit function holds regular meetings with the Society's General Counsel and Company Secretary to evaluate the effectiveness and adequacy of the internal control system and other areas of governance, and 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.

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

- An annual reserve study performed using data through the end of the second quarter, including a specific review of loss reserves. This analysis sets forth a point estimate for the net reserve need as of the close of the third quarter, which is compared to the Company's held net reserves at the same point in time;
- A roll-forward of the net results of the reserve study which contemplates additional data through year-end, including a specific review of emerged losses during the three month period. This analysis sets forth the actuarial net point estimate for the held reserves as of year-end and is used as input in the determination of the 4th quarter change in IBNR. An analysis of the reserves is performed at the close of the 4th quarter on a contract by contract basis. This analysis determines the held reserves at year-end; and
- Mazars 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 also for material and major contracts for any business area. Currently the Society outsources its Internal Audit function (as detailed in Section B6) and its investment management arrangements (as mentioned in Section B2).

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

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

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

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

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

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

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

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

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

- materially impair the quality of the Society's system of governance;
- unduly increase the Society's operational risk;
- impair the ability of the PRA or FCA to monitor the compliance of the Society with their respective obligations; or
- undermine continuous and satisfactory service to the Society's members.

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

Where a key function is outsourced, the Society has named individuals who have responsibility for that outsourced function;

The General Counsel and Company Secretary has Senior Insurance Manager Responsibility and is Head of Internal Audit. She manages the outsourced Internal Audit Function.

The Chief Executive is the Key Function holder for Investments and he manages the outsourced Investment Management function.

The Finance Director holds Senior Insurance Manager Responsibility for managing the provision of actuarial services by Mazars 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.

8. Any other information

The Society has no other information to disclose.

C. Risk Profile

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

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

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

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

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

The Society's risk strategy is focused on mitigating the risks of not meeting strategic objectives which are captured and monitored through the Society's Risk Register.

The Risk Register examines each of the Society's risk areas in turn compared to the risk appetite for each and assesses the material exposures in each category, the severity and impact of each and the mitigation factors in place. A scoring notation (Fully Effective, Strong, Effective, Needs Improvement, or Ineffective) is used to easily identify which areas need further attention. The Risk Register also identifies the owner of each risk as well as allocating likelihood and impact scores for each risk, which are multiplied together to give a severity score (on the scoring notation above). Scores are calculated pre- and post-mitigation to gauge the effectiveness of controls.

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

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.

The Board has agreed that the tolerance value be defined as the limit that would trigger management review and action as appropriate. The tolerance values are defined for a 12 month period. The Board recently reviewed the risk appetite statements and confirmed the tolerance limits. As at November 2016 there were no defined tolerance limits that were breached and therefore required Board attention.

1. Underwriting Risk

Principal areas of risk considered in this category are:

- Inaccurate claims reserves
- Large or high frequency of claims
- Inappropriate reinsurance strategy

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

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

GWP (before Return of Premium) has been stable over the past 3 years and our Member retention is high which provides a high level of comfort about the risks being underwritten.

	Gross written Premiums before Return of Premium
	£000
2014	10,835
2015	10,934
2016	11,527

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

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

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

Stress and scenario tests

The Society models certain stresses and scenarios through its SCR financial model. The Society models the impact of a reduction in GWP, a deterioration of its gross loss ratio, and the one credit rating downgrade of its' reinsurers. Under each of the stresses the Solvency Ratio remains within the Society's risk appetite.

2. Market risk

The Board reviewed the Investment Strategy in May 2016 and approved a transfer from short term deposits to the investment portfolio of £8.5m on their maturity between May to August 2017.

During 2016, the Board established an Investment Committee which will meet at least twice a year to monitor the activities and performance of the investment managers. The Investment Committee, a subcommittee of the Board, reviews and applies the Investment Policy, subject to ultimate approval by the Board. This latter document sets down in some detail the Society's appetite for different categories of investment, which is conservative both in counterparty and concentration risk.

In previous years the Board decided to reduce its exposure to volatility in investment markets by holding assets as either fixed income securities or cash deposits. The main objective of this strategy was to protect capital rather than focus on profitability. The investment strategy was revised and approved by the Board in March 2015. The strategy is to continue to reduce the risk of significant capital value movements and to improve return on investment through investment in longer term, higher return securities. It was decided that the Society would invest an additional £15.25m of Cash deposits into Government Gilts, Corporate Bonds and Other Investments such as Equities, Property and Utilities and that the Society's overall investment portfolio of £20m would be allocated equally between Barclays Wealth and Quilter Cheviot.

The following is a summary of the Society's investments:

	2016	2015
	£000	£000
Debt securities	17,183	15,526
Shares and other variable-yield securities and units in unit trusts	3,079	2,836
Deposits with credit institutions	8,531	8,500
Total	28,793	26,862

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

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

Based on the current asset portfolio, market risk arises due to fluctuations in interest rates, spread risk and currency risk. The market risk exposure will increase with the changes in asset allocations due the new Investment Strategy described above, which will impact the SCR. Overall the Society operates a reasonably risk-averse investment strategy which is closely monitored, and evaluated by the Board and the Investment Committee, with external professional advice.

Stress and scenario tests

The Society models the impact of a market shock through its SCR model. The shock models the following asset value reductions: 20% of corporate bonds; 15% government bonds; and 40% for equities and property. As expected, this stress has a large impact on the Solvency Ratio. However, even under this stress the Solvency Ratio remains above 200%.

The Society has also developed reverse stress tests which illustrate the stresses which, when combined, would reduce the Society's Own Funds to be equal to its SCR (that is, a Solvency Ratio of 100%). This exercise illustrates the robustness of the Society's capital position.

3. Credit risk

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

- Counterparty risk of failure of a financial institution holding investments
- Illiquidity risk – delayed payments from members or reinsurers affecting cash flow

Due to the size of its assets the Society is exposed to default risk and has a policy for spreading its exposure over a number of counterparties in order to avoid any significant concentration of credit risk. Deposits are only placed in high credit rating banks to minimise default risk and similarly reinsurance credit risk is minimised by using a panel of reinsurers with a minimum rating of A+.

Credit risk by class of financial instrument at 31 December 2016 (UK GAAP valuation basis)

	AAA	AA	A	BBB	BB	Other/ Not Rated	Total
	£000	£000	£000	£000	£000	£000	£000
Debt Securities	1,281	6,378	3,062	5,239	-	1,222	**17,183**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	3,079	**3,079**
Deposits held with credit institutions	-	-	8,531	-	-	-	**8,531**
Cash at bank and on hand	-	-	4,921	3,613	-	662	**9,196**
Debtors arising out of reinsurance operations	-	16	25	-	-	-	**41**
Total	**1,281**	**6,395**	**16,539**	**8,852**	**-**	**4,963**	**38,030**

Other / Not Rated includes assets which do not have credit ratings provided by the three major credit rating agencies.

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 100-120% of projected annual expenditure and technical provisions (based on the agreed annual budget) to be held at bank in current and deposit accounts respectively. The Investment Policy then specifies how the invested funds should be held, primarily in UK Gilts and corporate bonds.

Expected profit included in future premiums ("EPIFP") is another liquidity measure. This measure intends to illustrate the impact if cash inflows included in Technical Provisions (to reduce the liability) were not received by the Society. EPIFP is calculated as £988k as at 31 December 2016.

5. Operational risk

Operational risk for the Society covers the risks arising from the failure of internal processes, people or systems or from external events, for example, a disruption to the business as a result of a catastrophe. Due to their potential impact, particular focus is placed on such risks by the Board and mechanisms are in place within the Society to identify, analyse and mitigate their effects.

Details of how such mechanisms operate are provided in Section B "System of Governance."

6. Other material risks

Other material risks identified by the Society, which are not included in the previous categories, include a series of strategic risks such as:

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

7. Any other information

The nature of material risk concentrations

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

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

Risk mitigation practices

The Society has reinsurance arrangements in place via its appointed reinsurance brokers, Capsicum Re to reduce the impact on the Society's financial performance and capital reserves of a poor underwriting year with a significant deterioration of the loss ratio or one or more large single losses.

The Reinsurance Policy is set by the Board and is reviewed in conjunction with the Society's Capital Policy, Investment Policy, Cash and Deposit Policy and Reserving Policy. The review in conjunction with the Reserving Policy is particularly important to ensure that both reflect changes in claims movements and trends and that the Reinsurance Policy supports the Reserving Policy.

D. Valuation for Solvency Purposes

1. Assets

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

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

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

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

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

The material classes of assets shown on the Solvency II Balance Sheet, their Solvency II values and corresponding values shown in the financial statements (all in GBP) are summarised in the table below.

Description	Solvency II	UK GAAP
	£000	£000
Intangible assets[1]	-	45
Property, plant & equipment held for own use	1,654	1,654
Total investments[2]	29,043	28,793
Reinsurance recoverables	50	50
Insurance and intermediaries receivables	786	786
Reinsurance receivables	41	41
Cash and cash equivalents	9,196	9,196
Any other assets, not elsewhere shown	407	656
Total Assets	**41,177**	**41,222**

Note 1 – Intangible assets are not recognised under Solvency II because the asset could not be realized for solvency purposes.

Note 2 – Total Investments in the table above aggregates index-linked and not index-linked assets in order to aid comparability to the UK GAAP position. The table below split Total investments between the relevant Solvency II descriptions.

Description	Solvency II
	£000
Investments (other than assets held for index-linked and unit-linked contracts)	28,186
Assets held for index-linked and unit-linked contracts	857
Total investments	**29,043**

Property, plant & equipment held for own use

Property, plant and equipment are valued for Solvency II purposes on the fair value basis. The Society believes the fair value of plant and equipment is materially the same as the carrying value in the financial statements and therefore no adjustment has been made. The Society's head office, which makes up £1.25 million of the fair value was valued in January 2017 by independent, professionally qualified valuers. The next valuation is due to take place in January 2019.

Investments

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

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

Solvency II requires a hierarchy of valuation methods to be applied to value assets and liabilities on the Solvency II balance sheet.

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

Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand and demand deposits with banks.

(Re) Insurance Receivables and Reinsurance recoverables

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

The presentation of (re)insurance receivables and payables on the Solvency II balance sheet differs from the Society's statutory financial statements, since (re)insurance receivables and payables for financial reporting purposes include premiums and claims which are included in Technical Provisions in the Solvency II Balance Sheet.

Lease Assets

The Society has a 15 year operating lease over an office space adjacent to the owned and occupied property. The operating lease has a break clause at 5 years which falls in 2020.

Other Assets

All other assets are valued for Solvency II purposes on the same basis as the financial statements. There were no changes to the recognition criteria during the year.

2. Technical provisions

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

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

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

- Best estimate of claims provisions being claims incurred on the reporting date;
- Best estimate of premium provision being claims expected to be incurred after the reporting date on contracts bound before that date; 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 are projected in line with the methodologies used for statutory financial reporting and include the Bornhuetter-Ferguson and Chain Ladder methods with an overlay of actuarial judgement. The historic claims payment patterns are stable and these are used to project future expected cash flows of the ultimate claims. These cash flow are then discounted back to give the value of the current liability.

Premium provisions

Best estimate of premium provision is recognised in respect of claims expected to be incurred on contracts bound before 31 December 2016. 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	£
Gross Best Estimate Liabilities	12,223,379
Risk margin	786,759
Gross Technical Provisions	13,010,138

Technical provisions by line of business and risk group

The Society writes only one lines of business and uses one homogenous risk group for calculating its technical provisions.

Areas of uncertainty around technical provisions

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

Estimation of outstanding loss reserves (OSLR) – Estimating how much a claim will settle for is a process that will inherently carry uncertainty. However, the Society's historic claims data demonstrates a high level of stability particularly with low value 'attritional' 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 reduced as a result of the change in policy basis in on 1 January 2014 from an Occurrence to Claims Made basis.

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

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

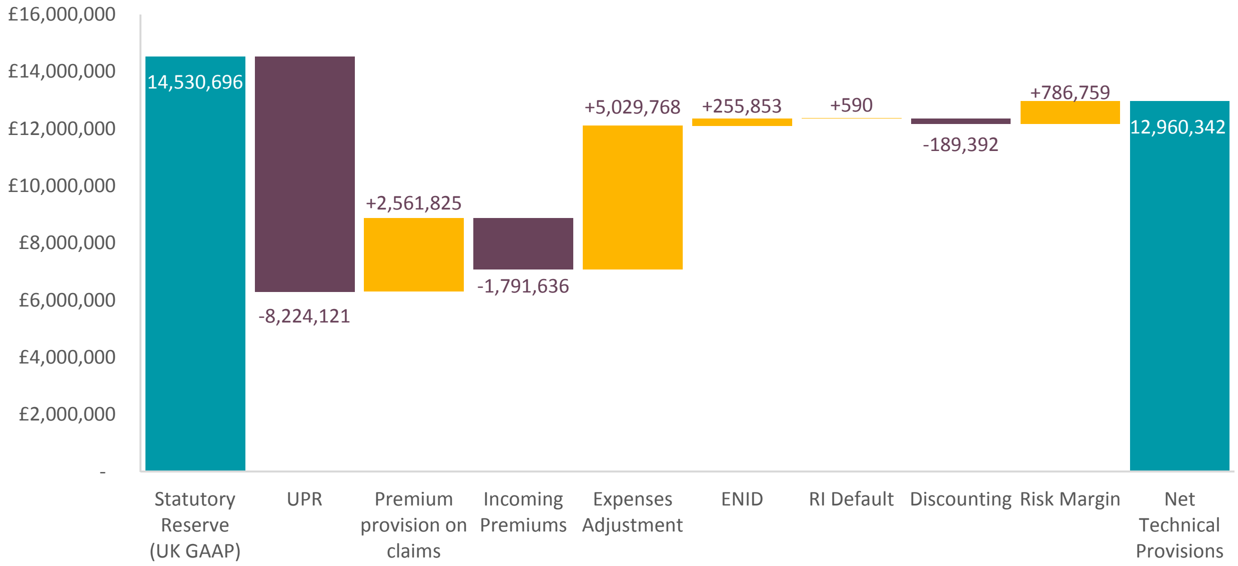
Events not in data ('ENID loading') – there is considerable uncertainty in estimating a provision for events that have not been observed before;

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

Risk margin – There is significant uncertainty in estimating the risk margin as a result of the challenge in forecasting the SCR over a period of run-off. However, the Society's claims have a short tail and therefore the capital impact arising from this uncertainty is expected to be low. The Risk margin makes up only 6% of the total Technical Provisions.

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

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



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

Description	£
UK GAAP Technical Provisions (Claims provisions + claims handling reserve)	6,357,055
Reinsurers' share of claims provisions	(50,480)
Deferred income	8,224,121
Statutory Reserve (UK GAAP)	14,530,696

- Unearned Premium Reserve ("UPR") is deducted from the Statutory Reserve because this balance is valued differently for Solvency II purposes. The £8.2 million relates to premiums paid for the 2017 year of cover received by the Society on or prior to 31 December 2016. Under UK GAAP accounting these premiums are classified as liabilities until the related policy incepts (which would be the 1 January 2017).
- Premium Provision on claims of £2.6 million relates to the claims expected to be incurred on business which the Society was bound to write in 2017 as at 31 December 2016. That is, these are the claims on policies which will incept on 1 January 2017 for which proposal forms had been received on or before 31 December 2016.
- Incoming Premiums of £1.7 million reduces the Technical Provision liability because these monies will flow to the Society during the 2017 calendar year. These monies relate to policies which were bound but not incepted and not paid on 31 December 2016. That is, the Society had received completed proposal forms but no premium had been received as at 31 December 2016.
- The Expenses adjustment of £5.0 million increases the Technical Provision liability because these are monies the Society will incur in the future as a result of the policies which were bound but not incepted at 31 December 2016.

- Events not in data loading – this is an allowance for events that have not been seen in the historic dataset and have therefore not been valued within the UK GAAP claims provision. This allowance has been calculated as an additional liability of £256k.
- Counterparty default provision – This is an allowance for the default of a reinsurer based on the exposure to each individual reinsurer and that reinsurer's credit rating. This allowance has been calculated as £590.
- Discounting – This adjustment reflects the time-value of money and reduces the Technical Provisions by £189k.
- Risk Margin – The risk margin is included to ensure that the value of the Technical Provisions is equivalent to the amount that would need to be held by a third party if they were to assume the Society's liabilities. The risk margin has been calculated as £787k.

Data adjustments and recommendations

There were no data deficiencies for which an adjustment was required. The Society plans to improve its ability to efficiently report accurate data in 2017 and 2018 in order to support its business strategy as set out earlier in this report.

Changes since the last reporting period

This is the first reporting period therefore we have not included a description of the change in Technical Provisions from the previous reporting period.

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	£
Reinsurance creditors	13,282
Trade (not insurance) creditors	1,458,375
Deferred tax liabilities	18,355
Any other liabilities	246,627
Other liabilities	**1,736,638**

Deferred Tax Liabilities

Deferred tax liabilities are recognised where transactions or events have occurred at the reporting date that will result in an obligation to pay tax in the future.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference. The deferred tax liability shown above relates wholly to the unrealised gain on investments.

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.

E. Capital Management

1. Own funds

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

The Society has a simple capital structure; and as a result Own Funds is simply equal to the value of the Excess of Assets over Liabilities.

Description	£
Assets	41,177,144
Liabilities	(14,746,776)
Own Funds	**26,429,366**

The Society manages its capital through a series of policies and processes which have been set out earlier in this document. 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

Description	£
UK GAAP Reserves	**24,154,680**
Intangible assets not recognised under Solvency II	(44,751)
Reduction in Technical Reserves (see section D2 above)	1,571,037
Add 2016 Return of Premium (not considered a liability under Solvency II)	750,000
Other low value differences	(600)
Own Funds	**26,429,366**

2. Solvency Capital Requirement and Minimum Capital Requirement

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

Description	£
Own Funds	26,429,366
MCR	3,331,850
SCR	**8,346,259**
Solvency Ratio[1]	317%

Note 1 – Solvency Ratio = Own Funds / SCR

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 defined by industry guidelines. The Absolute floor applicable to the Society is €3.7 million (or £3,331,850) at 31 December 2016. The Society's MCR as at 2016 is equal to the Absolute floor because the Combined MCR falls below this level.

The table below illustrates this computation

MCR inputs	£
Net value of technical provisions	12,173,583
Net written premiums over the last 12 months	9,906,215
Linear MCR	**2,551,593**
SCR	8,346,259
MCR Cap (at 45% of SCR)	3,755,817
MCR Floor (at 25% of SCR)	2,086,565
Combined MCR	**2,551,593**
Absolute floor	3,331,850
Minimum Capital Requirement	**3,331,850**

The SCR of the Society is made up as follows:

Description	£
Market risk	2,781,408
Counterparty default risk	1,637,052
Underwriting risk	5,784,913
Diversification	(2,223,815)
Basic SCR	7,979,558
Operational Risk	366,701
SCR	**8,346,259**

These risks and values are further analysed on the following pages

Market Risk

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

Description	£
Interest rate risk	1,081,924
Spread risk	755,408
Equity risk	1,657,922
Property risk	280,363
Market concentration risk	136,711
Currency risk	175,183
Diversification	(1,306,103)
Sub module contribution to SCR	**2,781,408**

Counterparty Risk

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

Description	£
Type 1 risk	1,195,383
Type 2 risk	536,912
Diversification	(95,243)
Sub module contribution to SCR	**1,637,052**

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.

Description	£
Premium and reserve risk	5,608,594
Lapse risk	597,284
Catastrophe risk	500,000
Diversification	(920,965)
Sub module contribution to SCR	**5,784,913**

Undertaking specific parameters and simplified calculations

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

3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

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 Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

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

6. Any other information

The Society has no other information to disclose.

Appendix 1 - Directors’ statement in respect of the SFCR

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

We are satisfied that:

a) throughout the financial year in question, 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 future.

Approved by the Board and signed on behalf of the Board

N A Macfarlane
Chief Executive
16 May 2017

Appendix 2 - Solvency II audit opinion

Report of the external independent auditors to the Directors of The Veterinary Defence Society Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit**').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

Chartered Accountants

Manchester

16 May 2017

- The maintenance and integrity of the Veterinary Defence Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix 3 – SFCR templates

General information	
Undertaking name	Veterinary Defence Society Limited
Undertaking identification code	213800HDDOCF4Q2C9561
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses

S.17.01.02 - Non-Life Technical Provisions

S.19.01.21 - Non-Life insurance claims

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

All figures in the following pages are rounded to the nearest £000

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	1,654
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	28,186
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	3,478
R0110	*Equities - listed*	3,478
R0120	*Equities - unlisted*	0
R0130	*Bonds*	16,177
R0140	*Government Bonds*	6,415
R0150	*Corporate Bonds*	9,762
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	8,531
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	857
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:	50
R0280	*Non-life and health similar to non-life*	50
R0290	*Non-life excluding health*	50
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	786
R0370	Reinsurance receivables	41
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	9,196
R0420	Any other assets, not elsewhere shown	407
R0500	**Total assets**	41,177

	Liabilities	Solvency II value
		C0010
R0510	Technical provisions - non-life	13,010
R0520	*Technical provisions - non-life (excluding health)*	13,010
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	12,223
R0550	*Risk margin*	787
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	18
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	13
R0840	Payables (trade, not insurance)	1,458
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	247
R0900	**Total liabilities**	14,747
R1000	**Excess of assets over liabilities**	26,430

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	*Gross - Direct Business*								10,777									10,777
R0120	*Gross - Proportional reinsurance accepted*																	0
R0130	*Gross - Non-proportional reinsurance accepted*																	0
R0140	*Reinsurers' share*								871									871
R0200	*Net*								9,906									9,906
	Premiums earned																	
R0210	*Gross - Direct Business*								10,777									10,777
R0220	*Gross - Proportional reinsurance accepted*																	0
R0230	*Gross - Non-proportional reinsurance accepted*																	0
R0240	*Reinsurers' share*								871									871
R0300	*Net*								9,906									9,906
	Claims incurred																	
R0310	*Gross - Direct Business*								2,414									2,414
R0320	*Gross - Proportional reinsurance accepted*																	0
R0330	*Gross - Non-proportional reinsurance accepted*																	0
R0340	*Reinsurers' share*								-321									-321
R0400	*Net*								2,735									2,735
	Changes in other technical provisions																	
R0410	*Gross - Direct Business*																	0
R0420	*Gross - Proportional reinsurance accepted*																	0
R0430	*Gross - Non-proportional reinsurance accepted*																	0
R0440	*Reinsurers' share*																	0
R0500	*Net*								0									0
R0550	**Expenses incurred**								8,040									8,040
R1200	**Other expenses**																	
R1300	**Total expenses**																	8,040

S.05.02.01
Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	*Gross - Direct Business*	10,777						10,777
R0120	*Gross - Proportional reinsurance accepted*	0						0
R0130	*Gross - Non-proportional reinsurance accepted*	0						0
R0140	*Reinsurers' share*	871						871
R0200	*Net*	9,906	0	0	0	0	0	9,906
	Premiums earned							
R0210	*Gross - Direct Business*	10,777						10,777
R0220	*Gross - Proportional reinsurance accepted*	0						0
R0230	*Gross - Non-proportional reinsurance accepted*	0						0
R0240	*Reinsurers' share*	871						871
R0300	*Net*	9,906	0	0	0	0	0	9,906
	Claims incurred							
R0310	*Gross - Direct Business*	2,414						2,414
R0320	*Gross - Proportional reinsurance accepted*	0						0
R0330	*Gross - Non-proportional reinsurance accepted*	0						0
R0340	*Reinsurers' share*	-321						-321
R0400	*Net*	2,735	0	0	0	0	0	2,735
	Changes in other technical provisions							
R0410	*Gross - Direct Business*	0						0
R0420	*Gross - Proportional reinsurance accepted*	0						0
R0430	*Gross - Non-proportional reinsurance accepted*	0						0
R0440	*Reinsurers' share*	0						0
R0500	*Net*	0	0	0	0	0	0	0
R0550	**Expenses incurred**	8,040						8,040
R1200	**Other expenses**							
R1300	**Total expenses**							8,040

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Direct business and accepted proportional reinsurance				Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**								0									0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross								4,040									4,040
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								0									0
R0150	**Net Best Estimate of Premium Provisions**								4,040									4,040
	Claims provisions																	
R0160	Gross								8,183									8,183
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								50									50
R0250	**Net Best Estimate of Claims Provisions**								8,133									8,133
R0260	**Total best estimate - gross**								12,223									12,223
R0270	**Total best estimate - net**								12,174									12,174
R0280	**Risk margin**								787									787
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole								0									0
R0300	Best estimate								0									0
R0310	Risk margin								0									0
R0320	**Technical provisions - total**								13,010									13,010
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**								50									50
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**								12,960									12,960

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0010	**Accident year / underwriting year**	Underwriting Year

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

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year					**Development year**							**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											104	104	104
R0160	N-9	206	606	217	181	48	72	49	57	5	3		3	1,443
R0170	N-8	396	947	260	130	92	41	29	114	74			74	2,083
R0180	N-7	237	458	661	402	201	11	1	9				9	1,980
R0190	N-6	261	494	266	287	192	48	13					13	1,561
R0200	N-5	357	625	439	145	92	11						11	1,669
R0210	N-4	240	355	336	99	87							87	1,116
R0220	N-3	451	459	336	192								192	1,439
R0230	N-2	296	407	305									305	1,007
R0240	N-1	487	857										857	1,344
R0250	N	558											558	558
R0260												**Tot**	2,213	14,304

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year					**Development year**							**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											109	109
R0160	N-9	1,536	997	472	221	98	189	94	76	58	55		55
R0170	N-8	2,030	865	427	443	300	140	105	569	66			66
R0180	N-7	2,039	1,452	1,074	489	206	81	74	64				64
R0190	N-6	2,510	1,450	873	565	348	102	114					114
R0200	N-5	2,312	986	758	343	132	114						114
R0210	N-4	1,857	1,571	926	592	508							508
R0220	N-3	2,012	1,574	424	220								220
R0230	N-2	1,501	711	260									260
R0240	N-1	1,606	1,228										1,228
R0250	N	2,079											2,079
R0260												**Total**	4,817

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Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35					
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	26,430	26,430			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
	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					
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				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	**Total basic own funds after deductions**	26,430	26,430	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	26,430	26,430	0	0	0
R0510	Total available own funds to meet the MCR	26,430	26,430	0	0	
R0540	Total eligible own funds to meet the SCR	26,430	26,430	0	0	0
R0550	Total eligible own funds to meet the MCR	26,430	26,430	0	0	
R0580	**SCR**	8,346				
R0600	**MCR**	3,332				
R0620	**Ratio of Eligible own funds to SCR**	316.67%				
R0640	**Ratio of Eligible own funds to MCR**	793.25%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	26,430
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
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**	26,430
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	988
R0790	**Total Expected profits included in future premiums (EPIFP)**	988

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	2,781		
R0020	Counterparty default risk	1,637		
R0030	Life underwriting risk			
R0040	Health underwriting risk			
R0050	Non-life underwriting risk	5,785		
R0060	Diversification	-2,224		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	7,980		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	367
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	
R0200	**Solvency Capital Requirement excluding capital add-on**	8,346
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	8,346

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

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	2,552

		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	12,174	9,906
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

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

	Overall MCR calculation	C0070
R0300	Linear MCR	2,552
R0310	SCR	8,346
R0320	MCR cap	3,756
R0330	MCR floor	2,087
R0340	Combined MCR	2,552
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,332