The Veterinary Defence Society Limited

Annual Report & Financial Statements

For the year ended 31 December 2022

Contents

Board and Professional Staff

BOARD OF DIRECTORS

Non-Executive Directors

D H Black BVM&S DVetMed DBR FRCVS - **Chair**

B M H Bussell BSc (Hons) FIA

J R Coates BSc (Econ) FCA

G J Lawrie BVMS CertEP MRCVS

A R J Davies BVetMed CertCHP FRCVS

G Ravetz BVSc GDL MRCVS

R Clapham

M Stewart BVM&S, MRCVS

Executive Directors

R Sankaran BA PgDip FIDM - **Chief Executive Officer**

A Kirkwood BA MBA CA - **Chief Financial Officer**

General Counsel and Company Secretary

C M Gannon LLB (Hons)

BOARD COMMITTEES

Audit Committee

J R Coates - **Chair**

A R J Davies

B M H Bussell

G Ravetz

R Clapham

Remuneration Committee

G J Lawrie - **Chair**

A R J Davies

D H Black

R Clapham

Nominations Committee

D H Black - **Chair**

A Kirkwood

G Lawrie

G Ravetz

R Sankaran

Risk and Compliance Committee

B M H Bussell - **Chair**

A R J Davies

G Ravetz

J R Coates

R Clapham

R Sankaran

PROFESSIONAL ADVISERS

Reinsurance brokers

Gallagher Re

Insurance brokers

Arthur J Gallagher (UK) Limited

Investment managers

Legal and General Investment Management (Holdings) Limited

Investment advisors

Redington Limited

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Internal auditors

RSM Risk Assurance Services LLP

Accountants and Business Advisers

Bankers

Barclays Bank plc

The Royal Bank of Scotland plc

Ulster Bank plc

Virgin Money UK plc

Solicitors

A & L Goodbody

BLM

Brabners LLP

Clyde and Co

Hayes & Sons

Hill Dickinson LLP

Johns Elliot

Keoghs LLP

Poe Kiely Hogan Lanigan

Sheridan & Leonard

Hayes & Sons

Walther A Smithwick & Son, Kilkenny

William Fry

Actuaries

KPMG LLP

Consultancy and Actuarial Services

Registered Office

4 Haig Court
Parkgate Estate
Knutsford
Cheshire
WA16 8XZ

Registered number: 02159441

Chair of the Board Statement

There can be no doubt that the last 12 months have been a period of uncertainty, pressure and challenge for the veterinary profession and not least in the areas of recruitment, retention and return to work – the new three "R"s! The increasing trend in domestic pet and equine ownership through the COVID-19 pandemic seems to have eased slightly but the volume and nature of work undertaken by our members reflects directly on the number of advice calls we undertake. There is also evidence from the wider insurance industry that during periods of economic stress individuals are more likely to try to make a claim. Many of these advice calls do not lead on to a claim being made, and if they do, many claims are settled at no payment cost to the Society but it does add to the workload of all our teams. We are continuing to see corporate consolidation and acquisition, including in Ireland and we note that the Competitions and Markets Authority is taking an increased interest in some of these. Furthermore, there are external risks to be assessed such as the socio-economic fallout from the ongoing war in Ukraine and the current and future forecast economic conditions including the impacts of inflation and the effects of climate change on our members and our investments. Our business strategy is built upon our vision and purpose -

> "We want to be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them, enabling them to focus on animal health and welfare".

So, not losing sight of this, we as a Board have revised our Business Plan to cover the period from 2023 to 2025 taking into account the changing economic, market and business environments.

We are proud to be a veterinary association. However, we are fundamentally an insurance company and so anything that changes the range of risks being experienced by our members is critical, particularly in shaping how we can support our ever-increasing number of veterinary surgeon and veterinary nursing members. We see ourselves as so much more than simply a Professional Indemnity and Legal Representation Costs insurer – we continue to build and develop a suite of tools and services to help members avoid and mitigate risks. A central theme of our strategic plan is to strengthen our capability and proposition to become the most trusted provider of risk management, quality improvement and patient safety services. This will be achieved through:

- The further development of member services including the Professional Indemnity policy cover.
- The development of VDSNet, our core legacy operating platform, and of our VetSafe digital platforms to strengthen our data and insights capability supporting our quality improvement and patient safety goals. This may open up the opportunity for extension into other international markets for our non-insurance services.
- The ongoing development of our people and ways of working framework to strengthen our capability in the areas of identified strategic development and overall levels of engagement.

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

In my report last year, I promised an increased focus on sustainability, climate change, and on all ESG aspects of the business. These areas are ever-evolving and Raman Sankaran with his Executive Team have led on these, with one example being the achievement of the Investors in the Environment Silver Award, with further progress already made towards the highest Green Award.

INVESTORS IN THE ENVIRONMENT BRONZE 2021

INVESTORS IN THE ENVIRONMENT SILVER 2022

In 2022 we maintained our commitment and supported **VetLife** with a donation of **£70,000**. From members' proxy voting returns and other internal fundraising activities we donated a further £2,132 and members have also donated an additional £14,365 during the renewal process. Similarly, we donated **€9,000** to the **Irish Veterinary Benevolent Fund** with a further €3 being raised from proxy voting returns and €4,010 from members' donations. However, in light of the current uncertainty and pressure on the increasing number of colleagues seeking support, VDS has committed to increase these donations to £100,000 and €15,000 respectively in 2023.

We have also engaged with Vet Sustain and BVA to actively support members through advocacy and training.

Similarly, our investment strategy continues to be developed towards a much more sustainable, climate-friendly portfolio while at the same time aiming to deliver above-market returns. For example, our investment advisors have been tasked with integrating animal welfare and environmental concerns into our portfolio management which, as a veterinary organisation, we believe is very important to our members. There has been keen focus on our people plans, ensuring they are robust and effective, flexible and adaptable to home-working where appropriate and developing their capabilities with a key focus on EDI. Being regulated by the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and more recently, due to the Irish Branch, the Central Bank of Ireland (CBI) the Society's regulatory activity is largely driven by those institutions.

At the same time, work is ongoing around Operational Resilience and providing evidence that the new Consumer Duty is fully embedded. This has seen a change in emphasis from the previous approach of treating customers fairly (TCF) to a requirement on firms to not only avoid foreseeable harm to customers but to actively ensure a good outcome for them, by putting their needs first.

This year there has been a particular focus on ensuring an understanding of problems encountered by potentially vulnerable customers and in providing flexibility where appropriate.

Chair of the Board Statement continued...

Raman, as CEO has continued to lead the VDS, with the support of an excellent Executive Team and colleagues based both at Knutsford and further afield, adapting the VDS to remote and home-working. Looking at the Society's ways of working has been high on his agenda this year and the VDS has worked to maintain high quality communications and engagement which supports morale and performance.

There will be some changes at Board level soon with Richard Clapham resigning for personal reasons and Brian Bussell retiring. Both have been engaged and active Independent Non-Executive Directors (INEDs) and have brought great value from their experience outside the veterinary profession. Brian has been a huge support to me as Senior Independent Director, and as Chair of the Risk & Compliance Committee, playing a key role over his years as an INED in embedding risk management in our culture. I will also be retiring at the 2023 AGM having served 11 years as a veterinary NED and the last 3 years as Chair

I am delighted to say that Mary Stewart, a vet with wide ranging experience across practice and industry has been recently co-opted to the Board as Chair Elect and will be offering herself for election at the 2023 AGM.

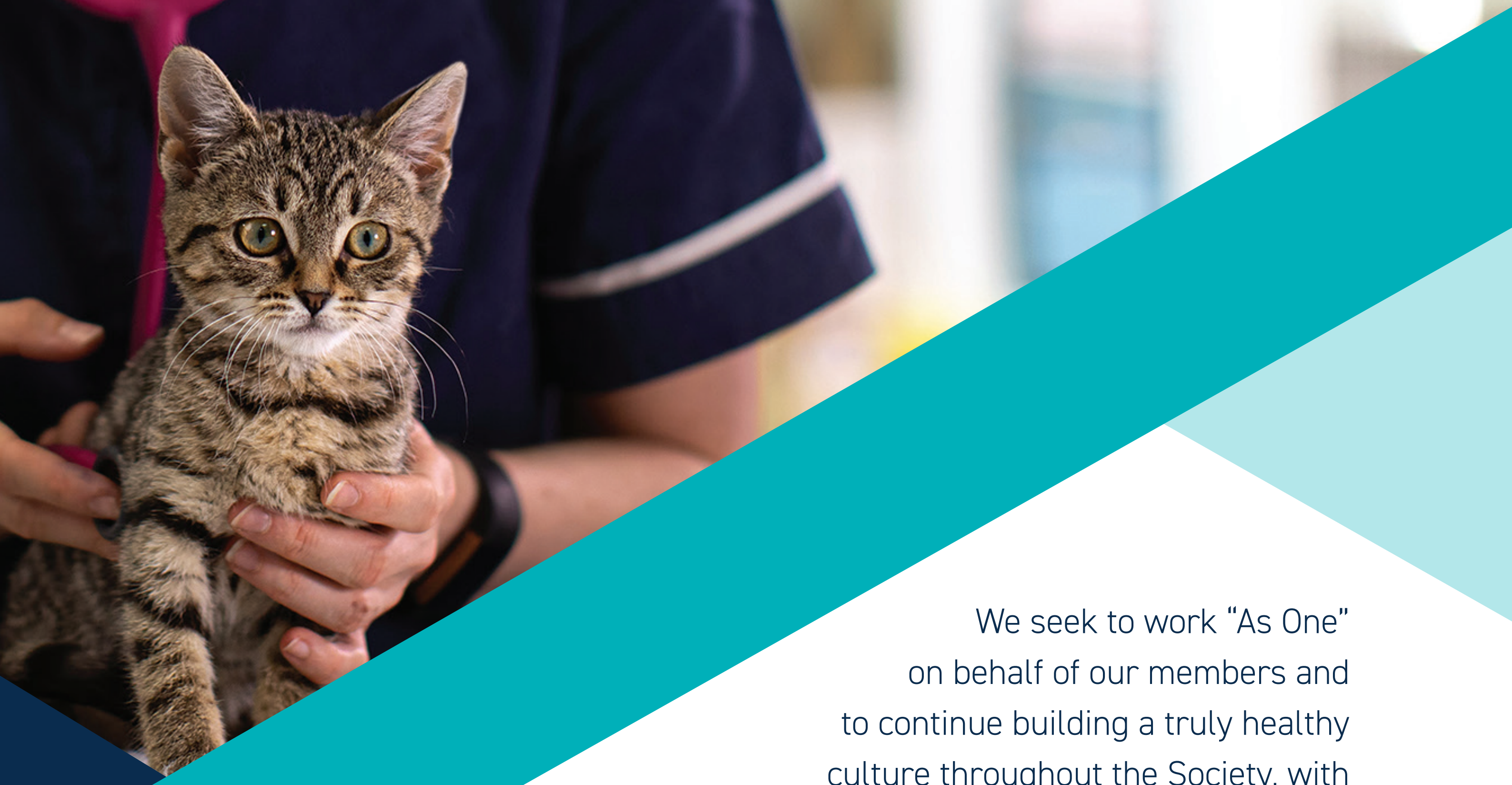
From the Financial Statements it can be seen that 2022 was a reasonably strong year for VDS operationally, although we saw significant fluctuations in performance through the year. Additional members meant increased premium income while our claims costs were well managed. However, as with so many others, our investment portfolio performance has been very volatile, ending the year significantly down in value. We monitor this very closely and have management actions agreed and in place to manage further fluctuations. Nevertheless the VDS still holds healthy reserves on your behalf and the investment losses, which we hope will be recovered in due course, are still within our risk appetite and regulatory solvency ratio requirements. Given this overall performance, particularly on the technical account, we still felt comfortable offering a "Mutual Bonus" by way of a discount on the 2023 premiums.

A recent VetLife report showed that in the last year, all three VetLife services experienced an increase in demand, especially Financial Support which saw a 236% rise in applications. Similar trends are being seen by the Irish Veterinary Benevolent Fund. Donating to these two charities is consistent with our vision and mission. The Society is committed to taking care of its vulnerable customers and commonly refers members with ongoing claims or hearings and subsequent emotional and psychological issues to the two charities. In 2022 we maintained our commitment and supported VetLife with a donation of £70,000. From members' proxy voting returns and other internal fundraising activities we donated a further £2,132 and members have also donated an additional £14,365 during the renewal process. Similarly, we donated €9,000 to the Irish Veterinary Benevolent Fund with a further €3 being raised from proxy voting returns and €4,010 from members' donations. However, in light of the current uncertainty and pressure on the increasing number of colleagues seeking support, VDS has committed to increase these donations to £100,000 and €15,000 respectively in 2023.

As outgoing Chair, I have been reflecting on the many changes that we have seen at VDS in my time and no doubt the Society will continue to be "light on its feet" and adapt effectively to the needs of our members. However, there are three aspects of VDS that I have become ever more aware of the importance of:

- **Culture -** this is key and will always be an ongoing journey but I believe that significant progress has been made in recent years in identifying what we mean by a "healthy culture" and putting in place plans and actions to support and develop this, so that we live our values day by day and our behaviours reflect our culture.

The Society is committed to taking care of its vulnerable customers and commonly refers members with ongoing claims or hearings and subsequent emotional and psychological issues to the two charities.



We seek to work "As One" on behalf of our members and to continue building a truly healthy culture throughout the Society, with our members always front and centre.

- **Risk -** this is now embedded within the Society, it is seen as a positive aspect of what we do. Risk management is there to support the Business Plan, not to block it. Understanding, measuring and mitigating risk is actually what we do, and we do it very well.

- **Mutuality -** mutual insurers have been around for a very long time and were an original type of social network, where groups of people contributed to a mutual fund, to be able to receive benefits at a time of need. By the late 1800s (VDS was founded in 1865) there were around 27,000 registered mutual societies. As recently as 1995 over half the UK insurance industry was still in mutual ownership, but large-scale demutualisation has meant that today there are fewer than two hundred left, accounting for only about 9% of the UK insurance sector. To quote the Association of Financial Mutuals (AFM) "the ethos of those remaining societies remains consistent with their origins: to help people take better control of their finances, within an organisation run for, and owned by, their members." So, I am proud that the VDS stands true to our founding principles.

As I leave the Chair and the Society after 11 fantastic years, I feel privileged and humbled to have made a small contribution on the journey. I will leave the VDS in great hands, in good health, ready to face the challenges ahead and with a clear vision to be the most trusted partner of veterinary professionals, practices and businesses. I would like to take this opportunity to thank everyone over my years at the VDS for their continual commitment and support. From those who took me under their wing as a fresh impatient INED, to the current Directors with their ongoing governance and strategic insights, to the Executive who lead and deliver on the strategy and business plan, and to all our colleagues in their many varied and important roles. We seek to work "As One" on behalf of our members and to continue building a truly healthy culture throughout the Society, with our members always front and centre.

Finally, and most importantly I thank you, our members on behalf of everyone at the VDS for your support and trust in us. I am confident that this very special Mutual Society will continue working hard on your behalf and supporting you through 2023 and into the future.

David H. Black

D H Black BVM&S DVetMed DBR FRCVS

Chair of the Board
29th March 2023

2022 - the big picture...

Our vision

To be the most trusted partner of veterinary professionals, practices and businesses.

Our purpose

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

Protecting against these risks takes pressure, time and cost away to allow veterinary professionals and practices to focus more on where they make the biggest difference - improving animal health and welfare.

Our mission

We protect and support veterinary professionals, practices and businesses.

The veterinary professional, practice and business world is becoming more complex, facing increasing and new risks on a continual basis. Our role is to support them to be aware of and manage these risks to leave a more robust, resilient and sustainable service or business. These risks might come from, for example, clinical work, clients, regulation, technology, communication, finances, employees or lifestyle.

Member support

MORE THAN
19,000
CONTACTS FROM MEMBERS SEEKING CLAIMS ADVICE

SUPPORTED MEMBERS IN OVER
100,000
SERVICE CONTACTS THROUGH THE YEAR

SUPPORTED MEMBERS IN CLOSING
1,800
CLAIMS

TOTAL COST OF CLAIMS INCREASED BY OVER
8%

TEAM DELIVERED TRAINING TO MORE THAN
1,500
PRACTICES
+
8,500
DELEGATES

INDIVIDUAL MEMBER NUMBERS GREW BY OVER
5%

THE OVERALL NUMBER OF VETSAFE REPORTS GREW BY
32%
IN THE YEAR

mutuality

We put our members' needs first and our sole focus is to deliver value to them in an efficient, flexible and relevant way.

integrity

For us, integrity, honesty and fairness come before anything else.

excellence

We strive for the highest quality in all we do.

After achieving Bronze accreditation from Investors in the Environment (iiE) in 2021 and Silver in 2022, the VDS is proud to have now achieved iiE's highest level of accreditation, Green.

In 2022, we:

Measured and reduced resource use...

Electricity
▼ **34%** compared to 2019

Paper & printing
▼ **70%** compared to 2019

Water usage
▼ **59%** compared to 2019

Introduced waste audits, a Waste Management Plan and new recycling bins

Calculated our carbon footprint and set reduction targets

Introduced an Environmental Policy

Set UN Sustainable Development Goal targets

Set up a tree planting initiative for members

Introduced a Travel Plan, Car Share Scheme and Cycle to Work Scheme

Introduced a Food Procurement Policy so we only stock and source Fair Trade and high animal welfare products

Took part in volunteering days, planting trees and gardening in local communities

Partnered with BVA and Vet Sustain to run the popular "Greener Veterinary Practice" webinar series

Partnered with Vet Sustain to survey the veterinary professions about green issues and the support they need to make progress in this area

passion

We are proud of our heritage, whilst evolving to meet the needs of the 21st century veterinary profession.

teamwork

Everyone is equally important and when we work well and have fun together, success follows.

dependability

You can rely on us to do what we say we are going to do.

Strategic Report

Introduction

Much has been said in recent years about the increase in the pace and scale of change to all aspects of life, and looking back on 2022, as well as forward into the future, it does feel as if this is the new 'normal'. We have seen some new and different dynamics in 2022 that have further compounded and created more uncertainty from an economic, veterinary market, colleague and employer perspective. David, in his Chair of the Board Statement, has described how these dynamics have created some very specific risks, challenges and pressures on veterinary businesses, practices and professionals. Throughout our 150-plus year history, we have evolved to continue to meet the needs of our members and develop our privileged position as their trusted partner. Our role is to protect and support our members against the risks that they face. With the backdrop of increasing risks, 2022 was another year when this evolution of our services and support accelerated to ensure that we are agile and proactive in our approach in order to provide this support.

Business Review

Demand for our claims services remained at a similar level to 2021, proving that 2021 was not an isolated spike in claims and, whilst the type and volume may vary, the overall level of risk has remained. In fact we saw our overall claims costs increase by 25% in the year. This supports the earlier description of the pressures on the veterinary market and also the relevance and importance of the support that VDS provides.

VetSafe is a service supporting members in quality improvement in patient safety and working environments through the safe recording and review of significant events and near misses in veterinary practice. It is a key component of our broader holistic risk management and quality improvement services. There were many more conversations with members about this during the year and the overall number of reports grew by 32% which demonstrates the interest and demand from members for this. This has been identified as one of our key strategic areas of development and 2022 saw the Board sign off investment to significantly develop the platform and associated services including training. This saw an upgrade launched within the year that incorporated feedback from members in order to increase the value of the tool in practice and enable better collection and interpretation of the data. Further development work is also underway that will see major improvements to the functionality and support with onboarding and the subsequent embedding of improvement plans and activities.

VDS Training Services continued to see increased demand for the delivery of targeted solutions across a broad range of businesses, practices and professionals. The ability to use the evidence and insights from other VDS services to provide highly targeted support is providing real value to members. The training services includes a focus on reducing errors and complaints, managing complaints when they happen, identifying risks and embedding a culture of quality improvement. Over the year the team delivered training to over 1,500 practices, 2,000 members of the profession, including nearly 50 culture surveys, as well as developing over 25 new programmes and workshops.

Our environmental, social and governance plans and activities continued at pace through the year. The VDS Green Team developed an over-arching environmental policy, associated waste management, travel and food procurement plans and policies which were approved and implemented. The use of resources were measured with targets set and monitored. We are delighted to say that we achieved silver accreditation from Investors in the Environment (iiE) and developed and implemented supporting communications plans. We delivered greener practice webinars to support the profession in conjunction with the BVA and Vet Sustain and gained ethical approval for a paper that followed a market survey in partnership with Vet Sustain. David has mentioned some of our charitable activity and donations, we also launched new internal charity and volunteering plans. In 2022, we also conducted an in-depth equity, diversity and inclusion audit supported by an external expert partner and we have used that to develop targeted and relevant plans.

We continue to ensure that we remain compliant with all current and future regulatory requirements. There were two particular regulatory requirements that due to their scale and importance were identified as specific projects with the associated plans and oversight. Operational Resilience is aimed at ensuring we understand and mitigate any vulnerabilities in our important business services to members to ensure the ongoing delivery of services to all members. The plan and self-assessment were approved by the Board and the teams are progressing with implementation. Consumer Duty is a regulatory initiative designed to ensure good outcomes for members. The project plan was approved by the Board at the end of October and the implementation plan supports the delivery required by 31st July 2023.

One of the main areas of focus during the year was on our people - colleague engagement, health and wellbeing, a focus on culture and maximising the opportunity to learn from new methods, processes and ways of working which had been adopted during and since the period of COVID restrictions, these were all reviewed in order to further build and embed our culture. The plans were also supplemented through a Colleague Survey that showed an overall increased level of engagement and was supported by our Colleague Group. We have adopted a more flexible, agile and hybrid way of working but recognising the need for colleagues and teams to come together to create strong connections, understand, create, learn and develop together through a supporting framework including important social aspects.

Our benefits programme was enhanced and relaunched, a training needs analysis undertaken to inform our learning and development plans and we have started a review of our office estate requirements to ensure that these remain fit for purpose. We have seen our team and capability grow to support both the increase in demand for our services and the investment in our strategic plans. The recruitment market has been challenging and we have seen the need to move far quicker through selection processes although we have also seen a good ability to attract new talent to join our team.

Our financial performance for the year is distinctly split between the technical account or operating performance and investment returns. There was a £915,266 surplus at technical or operating account level. This saw our income grow by 6% to £16,769k with membership growth being a primary driver. Our total claims costs increased by 25% to £8,040k. This movement includes claims paid but also changes to reserves and provisions for ongoing and future claims. This increase reflects the overall trend of an increasing volume of claims but also taking account of the impact of inflation.

Our operating costs grew to £6,158k, reflecting the investment in strategic areas but also the increasing demand for services over recent years.

It was in our investment portfolio performance that we saw a very different level of performance, with a £4,025k loss in value in the year, primarily due to the rise in interest rates in 2022. This result was closely monitored through the year and at year-end this remained within the Board's risk appetite. These losses reflect the broader market and we take a medium-term view of performance, over which we expect to see performance remain within expected thresholds. Some changes to the make-up of our portfolio were approved at the end of 2022 looking to maintain the real value of the portfolio in the medium term. This investment return loss led to an overall loss for the financial year of £2,679k. The ongoing, positive technical account performance, together with explainable short term investment losses, leaves the Board in a position of confidence. However, we are not complacent and ensure close monitoring with action trigger points in place for identified risks.

Whilst David's retirement from the Board becomes effective in 2023 and will therefore be referenced in our 2023 Annual Report and Financial Statements, I wanted to thank him for all he has done for VDS over the years whilst he is still here. He has provided great leadership of the Board and his support will be missed.

The Key Performance Indicators used were as follows:

Strategic Report KPIs	2022	2021
Gross written premium before return of premium (£)	16,769,287	15,820,037
Return of premium (£)	600,000	1,200,000
Gross claims paid (£)	7,013,992	6,747,153
Deferred income (£)	5,510,112	6,310,733
Net operating expenses (£)	6,158,451	5,263,325
Balance on technical account (£)	915,266	2,647,602
(Deficit)/surplus for year	(2,679,475)	2,276,798
Net increase in cash (£)	893,565	1,851,498
Investment portfolio (£)	27,719,281	31,744,493
Combined ratio[1]	94%	86%
Employee retention[2]	90%	89%

[1] *The Combined Ratio is calculated as Claims incurred net of reinsurance plus Net operating expenses as a percentage of Gross written premiums after return of premium, net of reinsurance.*

[2] *Employee retention is the percentage of employees remaining at the end of the year compared with those there at the start of the year.*

Our Business Environment

As referenced earlier, the veterinary market is currently facing an increasing number and type of risks. The focus on and importance of health and wellbeing, is set to continue with significant challenges of recruitment and retention with VetLife reporting record contacts through their helpline and also increased use of their health and financial support. The volumes and value of pet ownership are reducing after their peak during the COVID restriction period. The increase in corporate acquisition is continuing alongside a few new 'phoenix' practices starting. We have seen a small number of claims associated with export health certificates. The economic environment including the current levels of inflation and cost of living pressures are having an impact on the veterinary market, for example the early signs of reducing levels of routine treatments. These dynamics are also impacting VDS more generally, for example the performance of the investment portfolio in 2022. Identified risks have been factored into our plans and forecasts.

Strategy and Business Plan

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

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

Our Business Model

Ultimately, we believe our mutual model, which means we do not have to pay dividends or profits to shareholders, remains just as relevant today as throughout our history. This allows us to take decisions that are right for our members for the long term. Our model also blends together an in-depth and practical understanding of the veterinary market through highly experienced and connected veterinary professionals with extensive risk management and financial services knowledge and expertise.

Risk and Risk Management

Effectively identifying and managing the risks in line with our agreed risk appetite is essential for our continued sustainability and success and to meet our purpose, deliver our strategy, plans and value to members. It also helps us to make better decisions throughout the Society, continually learning, reviewing and improving how we work.

Risk Management Framework

An effective risk management framework ensures that an understanding of risks and controls is embedded at every level of the organisation.

At VDS, we have:

- Risk policies that outline the nature of the risk, accountabilities and controls.
- A risk appetite that defines the amount of risk the Society is prepared to accept.
- Controls built into our processes.
- Processes for identifying, monitoring and recording risks and issues, with regular reviews by senior management and the Board.

The table on the next page summarises some of the risks and uncertainties currently faced by VDS.

RISK	CONTROLS AND DRIVERS
Strategic / Solvency Risk: A failure to hold sufficient capital to meet our ongoing obligations. Affected by a reduction in our investment portfolio, increasing costs and claims or reduction in premiums.	The Society reviews its investment strategy annually and the Executive Team reviews performance monthly. Fluctuations in the financial markets, inflation and wider socio-economic events all impacted the Society's investment returns during 2022. The Board receives advice from Redington's on the optimum shape of the investment portfolio for this kind of volatility and took appropriate steps to preserve the Society's capital. Options regarding investments designed to meet the environmental, social and governance aspects of climate change were introduced during 2021 and will be reviewed again in 2023. Costs and claims are monitored at senior management and Board level. Underwriting and pricing are regularly reviewed and closely monitored with an Underwriting Group providing information and recommendations to the Executive Team and Board.
Credit / Counterparty Risk: Failure of organisations that hold our investments, deposits, bank balances or reinsurance risk leading to insufficient capital or liquidity to meet our obligations.	The Society has a policy of spreading its exposure over a number of counterparties in order to reduce any significant concentration of risk. The Society maintains an appropriate reinsurance strategy ensuring all reinsurers are appropriately capitalised and that claims scenarios would be met. Reinsurance institutions with at least an 'A' credit rating are used, reducing the risk exposure to within the Board's appetite.
Market / Earnings Risk: Loss of market share and membership through competitor activity or a perceived loss of value of our solutions with members which leads to a less sustainable market position.	The business model employed is designed to ensure close affinity and relationships in the market. The business plan includes activities designed to improve the value of our proposition and improve awareness and relationships. This is reviewed by senior management and the Board regularly and supported by robust management of member relationships.
Strategic Risk / Corporate: Strategy failure leading to loss of membership and a less sustainable business model.	The business strategy and plan has been refreshed and agreed at the end of 2022 based on market and member needs. This is reviewed by senior management and the Board regularly.
IT / Cyber Risk: Failure to implement effective changes in technology and to maintain robust defences of our platform may lead to loss of commercially sensitive data, and loss of service standards, leading to increased costs and adversely affecting members.	The Society has an established governance framework for managing IT projects and operational resilience matters, ensuring ongoing review at team, senior management, and Board level, with regular contingency planning.

In addition to some of our principal risks above, the Board is very mindful of current key emerging risks:

- The long-term effects of Covid-19, Brexit and potential changes to the regulatory environment have created an element of uncertainty for the Society's business, members and staff. The Executive and Board keep this under constant review.
- The Society remains alert to any risks that it may face as a result of further volatility in financial markets, inflation and the impact on our business of the cost-of-living crisis. These risks could impact the operating cost base or claims costs and these risks have been factored into the financial plans with an awareness of the sensitivities in changes to these risks and the resulting actions required.
- The financial, physical and transition risks from the impact of climate change on the environment we operate in and society at large.

The uncertainties generated by these important developments underlie many of the current risk management discussions and will no doubt continue to do so for some time to come.

This framework is increasingly integrated into our business planning and strategy development, and the production of the Own Risk and Solvency Assessment (ORSA) includes the assessment of the levels of capital we need to hold to cover the risks we face.

Section 172 Statement

The directors of The Veterinary Defence Society Limited are required to act in accordance with a set of duties as detailed in section 172 ("s.172") of the Companies Act 2006 ("the Act"). The Act provides that a director must act in the way that they consider, in good faith, would be most likely to promote the success of the Society for the benefit of its members as a whole, having regard to s.172 of the Act. Details of how Directors had regard to s.172 are set out below.

At appointment, directors are briefed on directors' duties, including s.172, with regular reminders throughout the year, particularly when making key or strategic decisions. Each year, after the AGM, the Board renew their commitment to those duties at the first post AGM board meeting and resolve that "In taking all decisions they continue to take account of those duties and bear in mind the interests of all of the Society's stakeholders."

The Society is a mutual insurance company registered in the UK. There is open and regular engagement with the membership from sole practitioners to large corporate businesses with the interest of all our membership being the focal point of our corporate strategy. There are five veterinary professionals on the Board who are eligible for membership and are connected to the veterinary market (as listed on page 2). Annually, there are two formal Board strategy sessions, the last being in November 2022 when a new three-year business plan was approved.

A significant amount of Board time is allocated to the consideration of the Society's strategy, both in formal Board meetings and at dedicated strategy planning days. The Board is provided with detailed market and regulatory context from the Executive Team to enable an assessment to be made of the risks, challenges and opportunities facing the business and for the Society's strategy to be agreed. The latest plan has reviewed the current business environment including trends and scenarios in the veterinary market and member needs, the political and regulatory landscape and economy. A significant amount of focus was placed on supporting colleagues during the pandemic, safely and securely working from home with increased communication and more contact channels. These plans will continue into 2023 as we develop our future ways of working and further build our foundations for an engaged team.

Directors assess their training and development needs during their annual appraisals and sessions on relevant topics are arranged. On 6 September 2022, the Society's external investment advisers Redington attended the meeting of the RCC to recommend options for a review of the Society's investment portfolio. The external auditors, PricewaterhouseCoopers LLP attended the March Audit Committee meeting to present their annual audit report. Regular updates are provided by the Executive Team on product and business development activities and the software development project.

The key strategic decisions of the Board in the year are reflected in its approval of the business plan. The plan covers a three-year period and is designed to achieve the Society's principal purpose – to protect and support veterinary professionals, practices and businesses, enabling them to focus on animal health and welfare.

The Board receives reports on employee engagement and non-executive directors are given the opportunity to engage with a wider range of employees other than executive directors and members of the Executive Team. In 2022 this included attendance by non-executive directors at the Society's claims meetings. We undertook an external review by our internal auditors, RSM LLP, of the arrangements we have in place to ensure appropriate oversight of our executives. We were pleased to report that they were satisfied that our governance arrangements are in line with those expected of a regulated entity in our position. There have been focus groups with different segments of our membership, outcomes of which are reported to the Board. Internal Audit reported to the Board on its review of the Society's culture within the annual internal audit review report.

The Board has implemented a suite of policies underpinning the Society's approach and standards in relation to ethics, risk and employee matters. A whistle-blowing policy is in place to support individuals in raising concerns about risk, wrongdoing or malpractice witnessed at work. A report on the effectiveness of the whistle-blowing policy is reviewed by the Audit Committee and approved by the Board annually.

Sustainability and the environment have become more prominent issues at Board level with activity from an internal company perspective and now the start of discussions of how we can support activity in the market. Our response to the challenges set by the PRA has led to a Board approved plan and recent accreditation by an external body as highlighted in the Chair's Statement.

Customer experience is monitored closely by both the Risk & Compliance Committee and the Board in terms of both their fair treatment and satisfaction with the Society's products and services. The Society is actively implementing the principles and practices underpinning regulatory initiatives in respect of Operational Resilience and the new Consumer Duty. Our aim always being to maintain our operational integrity and ensure good outcomes for our members. The Board monitors material outsourcing arrangements and relationships with key suppliers through regular updates from the Executive Team. Oversight of the software development project is provided by the Risk & Compliance Committee which is chaired by an independent non-executive director. At its July meeting, the Board confirmed its intention to continue to support the Society's charitable and community activities. Further details of the Society's charitable activities are provided in the Directors' Report.

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

R Sankaran
Chief Executive Officer
29th March 2023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PRO-DRI
Breathable
VDS

Directors' Report

Directors' Report for the year ended 31 December 2022

The directors present their report and audited financial statements of the group and company for the year ended 31 December 2022.

Future developments

Although in its later stages, the directors are continually monitoring the implications of the Covid-19 pandemic and its economic impact on the business and its environment. The Society will continue to grow its services to members in the areas where demand has been increasing, principally advice, risk management and training services, as highlighted in the Strategic Report.

The war in Ukraine and the associated economic impact of the energy price shock and supply chain dislocation it created, have had a profound effect on the world economy. Inflation increased rapidly throughout 2022 and has persisted into 2023. Central banks around the world have increased interest rates as a policy response to bring inflation under control and it is now expected to reduce significantly by the end of 2023, albeit at the expense of reduced economic growth. There is a significant ongoing impact on our members and their businesses of the deterioration in the UK and Irish economies as a result.

The economic impact of the conflict has been assessed by the Board. The impact of inflation on claims and operating costs has been manageable so far but will remain under close review. The associated volatility within the financial markets, while significant, has remained within Board risk appetite.

Going concern

Having continually assessed the principal risks and in particular the impact of inflation, particularly on claims reserves, it is not expected that there will be any significant impact on the operating result of the Society. The directors have determined that the largest exposure continues to relate to the investment portfolio and the material uncertainty and volatility from market risks to the valuation of the investments. These risks are actively managed should an event occur of this nature through the Society's investment policy. There is no material uncertainty on the entity's ability to continue as a going concern. The directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the financial position of the Society.

Subsequent events

There have been no material post balance sheet events other than market volatility within the investment portfolio as a result of rising inflation and the Bank of England's policy response of increasing interest rates. At the time of approval of the Annual Report & Financial Statements there continues to be an ongoing, but manageable, financial impact from the economic consequences of the war in Ukraine on the Society's core business and the resulting volatility on the investment performance remains within the Board's risk appetite.

Climate change impact

The Board and Committees continually reflect on the future financial risks from climate related impact on the insurance sector. This involves managing those risks with forward planning rather than reacting to changes in our environment as part of our business strategy. Developing the capacity to cope with climate change risks requires sound risk management and strengthening business resilience.

In collaboration with the Society's investment advisors and following the Board's directive to increase the Society's commitment to an enhanced ESG footprint, the Society disposed of its UK and international equity holdings and reinvested those proceeds into the LGIM Future World Equity fund in December 2021. This was the first 'climate-tilted' change made to the investment portfolio and during 2023 the Board will continue to monitor this with the intention to further enhance the ESG profile of the investment portfolio at an appropriate point.

Directors and their interests

Present directors of the Society are shown on page 1.
Directors during the year and changes since the year-end were:

- R Sankaran
- A Kirkwood
- D H Black
- B M H Bussell
- G J Lawrie
- J R Coates
- A R J Davies
- G Ravetz
- R Clapham
- M Stewart (Appointed 30 November 2022)

The below directors have service agreements terminable by the directors or the Society on not more than 26 weeks written notice.

Executive directors

- R Sankaran
- A Kirkwood

Charitable donations

Charitable donations of £72,132 (2021: £70,030) were made to Vetlife and €9,003 (2021: €9,002) to the Irish Veterinary Benevolent Fund (IVBF) in the year. Other donations included £3,778 to Ukraine DEC and £100 to the BEVA Trust.

Viability statement

The Strategic Report sets out the Society's business model, financial performance and strategy in the context of its business environment and principal risks. The Society's business model and strategy has been reviewed and is based on a stable and low risk appetite whereby the Society underwrites only one class of business and focusses on high quality claims handling and risk mitigation services. Whilst the Society will continue to underwrite only one class of business, it offers access to other complementary (insurance and non-insurance based) products and services through a variety of delivery models. The business model has proven to be strong in the long term with the Society insuring over 90% of the veterinary profession in the UK and Ireland. The new activities are intended to broaden and deepen the relationship with members in order to protect our market share through the provision of a more comprehensive offering.

The Society's business objectives are assessed through the strategic planning process, the output of which is a series of strategic initiatives and deliverables covering the planning period of 2023 to 2025, this includes a full financial forecast for this period. Our financial forecasts assume that the initial economic impact of the ongoing war in Ukraine on the Society's premiums has now abated, and the worst is now behind us which has been borne out by the financial performance in 2022. Having said this we have assumed that inflation will remain higher than the Bank of England's target throughout the plan period. This Plan is used as the baseline in the production of the Society's ORSA. Within the ORSA we considered an analysis of risks that could prevent the plan being delivered and through stress test scenarios we assessed the financial and non-financial impact of non-delivery over the plan period.

The market risk associated with our investment portfolio remains a key risk and in conjunction with our investment advisors, the Board has reviewed the impact of severe but plausible economic scenarios on the value of the portfolio. We have made a series of assumptions in developing a view of the impacts, these include the extent to which investment values reduce during the period, the length of time over which this persists and the speed of recovery in the investment portfolio value.

The liquidity position of the Society is supported by the very strong cash position and the liquid nature of the investment portfolio which allows for immediate access to funds to provide adequate cash through any plausible liquidity crisis. The financial impact of the above scenarios remains within risk appetite and results in a Solvency Capital Ratio within the acceptable range of outcomes. On this basis, the directors remain confident of the resilience of the Society's business model and the viability of the Society in the period of three years to 31 December 2025.

Corporate Governance Review

The Society is a member of the Association of Financial Mutuals (AFM) and is committed to good corporate governance. The Society has operated in accordance with the AFM Corporate Governance Code ("the Code").

The Code took effect from 1 January 2019 and sets out a series of principles of good corporate governance that AFM members apply within their businesses. The Code draws on a range of sources, including relevant legislation, rules set by regulators in the financial services industry and internationally recognised standards.

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

Principle One – Purpose and Leadership

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

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

The Board meets every two months, with a two-day Board meeting at least twice a year to allow time for detailed strategic planning, a review of policies and Board training.

There is a formal Schedule of Matters reserved for the Board and the Board has full and timely access to all relevant information to enable it to discharge its duties effectively.

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

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

Audit Committee

The Committee is chaired by Non-Executive Director, Richard Coates. Mr Coates is a Chartered Accountant with the required financial experience to carry out this role. He is supported on the Committee by Non-Executive Directors, Brian Bussell, Gudrun Ravetz, Andrew Davies and Richard Clapham.

This Committee monitors internal controls, financial reporting and risk management matters. It reviews the work of the Internal Audit and Risk & Compliance management functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external auditors, and reviews and monitors the external auditors' independence, objectivity and the effectiveness of the audit process. The Committee also has responsibility for ensuring that effective whistle-blowing arrangements are in place, which enable any concerns to be raised by employees in confidence. A separate report on the work of the Audit Committee during 2022 is provided below.

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

Remuneration Committee

The Committee is chaired by Non-Executive Director, Gavin Lawrie. Non-Executive Directors, Richard Clapham, David Black and Andrew Davies are the other members of the Committee. The Committee's main role is to determine and propose to the Board the Society's Remuneration Policy which sets out the criteria for the remuneration of the Chair of the Board, executive directors and senior management falling within the remit of the Remuneration Committee. Notes 8 and 9 provide information relating to remuneration.

Nominations Committee

The Committee is chaired by the Society's Chair of the Board, David Black. The other members of the Committee are Non-Executive Directors, Gudrun Ravetz, Gavin Lawrie, the Society's Chief Executive Officer Raman Sankaran and Chief Financial Officer Alan Kirkwood. The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive team succession planning, the appointment of new directors and the election and re-election of directors. The Society operates an equal opportunities and diversity policy.

Risk & Compliance Committee (RCC)

The Committee is chaired by Non-Executive Director, Brian Bussell. Non-Executive Directors Richard Coates, Gudrun Ravetz, Andrew Davies, Richard Clapham and the Society's Chief Executive Officer form the rest of the RCC. The Society's Chief Risk Officer attends every meeting of the RCC.

The RCC oversees the risk management and compliance functions to ensure the effective operation of risk management policies, systems and documented procedures and other internal controls.

The Committee has special responsibility for overseeing the Society's Investment Policy, including the Society's relationship with its investment managers. As a result of investment market volatility in the third quarter of 2022, a subcommittee of the RCC with specialist knowledge was established by the Board with the delegated authority to take such decisions as may be necessary to protect the Society's investment portfolio from the effects of severe fluctuations in the market.

Directors' attendance at Board and Committee meetings during year ending 31 December 2022

The Chair of the Board reviews membership of Board Committees at the first Board meeting following the AGM. The table below represents attendance at committees. (The figure after the forward slash indicates the number of meetings that the director was eligible to attend during the year).

Director	Board	Remuneration	Nominations	Audit	Risk & Compliance
D H Black	8/8	4/4	5/5	-	-
B Bussell	8/8	-	-	6/6	5/5
G J Lawrie[1]	8/8	4/4	1/2	3/4	1/2
R Coates	7/8	-	-	6/6	5/5
R Sankaran	8/8	4/4	5/5	5/6	5/5
R Clapham[2]	5/8	1/4	1/3	0/2	0/2
A Davies[3]	7/8	3/3	-	6/6	5/5
G Ravetz[4]	8/8	-	2/2	6/6	5/5
A Kirkwood[5]	8/8	-	2/2	6/6	5/5
M Stewart[6]	1/1	-	-	-	-

[1] Left Audit and Risk & Compliance Committee July 2022. Joined NomCo July 2022

[2] Sabbatical from Board, Remuneration Committee, Audit Committee and Risk & Compliance Committee from July to October 2022. Left Nominations Committee July 2022.

[3] Joined Remuneration Committee July 2022

[4] Joined Nominations Committee July 2022

[5] Joined Nominations Committee July 2022

[6] Joined Board November 2022.

Nominations Committee – Nominations held a number of Sub-Committee meetings during 2022 to oversee the recruitment process for the Chair elect, chaired by Brian Bussell.

Division of responsibilities

The roles of Chair of the Board and Chief Executive Officer are held by different individuals, with a clear division of responsibilities. The Chair is responsible for leading the Board and ensuring it acts effectively. The Chief Executive Officer has responsibility for managing the Society and for the implementation of strategies and policies agreed by the Board.

The Chair of the Board

The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors and maintaining constructive relations between executive and non-executive directors. The Chair also ensures that all directors receive accurate, timely and clear information.

Non-Executive Directors

The non-executive directors of the Society are drawn from a wide range of backgrounds to provide the appropriate skills, knowledge and experience to ensure a robust level of challenge and debate. The role requires an understanding of the risks in a financial services business, commercial leadership within a framework of prudent and effective risk management controls and the ability to monitor performance and resources while providing support to the Executive Team in developing the Society.

Purpose

The Society exists for the defence, support and development of the veterinary profession and its vision is to be the most trusted partner of veterinary professionals, practices and businesses. Our purpose is very clear:

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

This purpose is supported by a clearly defined business model and a three-year business plan. The Society's values of teamwork, passion, dependability, integrity, excellence and mutuality are integral to delivery of our purpose. The Chief Executive Officer has led initiatives aimed at enhancing the Society's culture, specifically by the introduction of staff-led focus groups to discuss ways of improving internal communications and the Society's approach to the challenges of climate change. This work has been particularly meaningful during 2022 during the cost-of-living crisis and as a result of staff continuing to work from home.

Principle Two - Board Composition

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

The Composition of the Board

As of 31 December 2022, the Board comprised two executive directors and eight non-executive directors, three of whom are subject to re-election by the membership at the 2023 AGM. The newly co-opted Chair Elect, Mary Stewart is subject to election by the members at the AGM in 2023. By virtue of the Society's Articles of Association, the Chair of the Board must be a veterinary surgeon. The Board may comprise between 7 and 12 members, at least three of whom must be eligible to be members of the Society.

All the current non-executive directors with the exception of the Chair, have served on the Board for less than nine years. The Chair has served 10 years from his first election at the 2012 AGM and remains in post for a further year from the 2022 AGM pursuant to a Special Resolution of the members.

In the view of the Board, all the non-executive directors are independent in character and judgement and can bring wide and varied commercial experience to Board deliberations.

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

Appointment to the Board

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

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

Commitment

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

During 2022, as part of its longer-term succession planning, the committee oversaw the appointment of a new non-executive Chair. A vigorous and thorough process was followed to ensure that the most appropriate candidates were identified. A subcommittee, formed of members of the Nominations Committee but without the Chair, was established to lead the process and it was chaired by Brian Bussell, the Senior Independent Director. The process considered the current skill sets around the Board, the future strategic business and leadership needs of the Society and the specific requirements of a Chair. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business needs and its stakeholders.

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

Principle Three – Director Responsibilities

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

Development

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

Information and support

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

Performance evaluation

The Society normally undertakes an internal Board evaluation process every year. In addition, the performance of the non-executive directors is evaluated annually by the Chair of the Board. In turn, the Chair of the Board is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors. The Chief Executive is also evaluated by the Chair of the Board. The Chief Executive conducts annual appraisals of the Executive Team. Non-executive directors who have served more than six years on the Board are subject to a particularly rigorous performance evaluation in line with the Code's requirements.

The membership and terms of reference of the Board committees are reviewed and agreed by the Board at the first Board meeting held after the AGM.

Re-election

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

Non-executive directors are subject to re-election at regular intervals according to their terms of appointment. Executive directors appointed after the AGM 2017 are now also required to offer themselves for re-election by the members every three years.

Non-executive directors serving over nine years are subject to re-election annually.

The structure of the Board and Board committees is well defined and the activities and decision making of the Board and its committees are clearly defined. The Chair of the Board and Company Secretary have reviewed current processes and the annual Board timetable of activities was re-approved by the Board at its meeting on 25 January 2023.

Principle Four – Opportunity and Risk

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

Financial and business reporting

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

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

Risk management and internal control

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

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

Principle Five – Remuneration

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

Remuneration

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

Executive remuneration is not currently linked to corporate or individual performance.

No executive director or senior manager has an employment contract with a notice period exceeding 26 weeks.

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

Principle Six – Stakeholder Relationships and Engagement

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

Dialogue with members

As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a variety of ways, including feedback provided directly to the Executive Team, non-executive directors and senior managers throughout the year at conferences and seminars. Non-executive directors attend meetings of the Claims Group on an ad-hoc basis throughout the year and there is a schedule for non-executive directors attendance at other key team meetings moving forwards. The Society's subsidiary company, VDS Training Services Limited also serves to enhance communication with members.

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

Constructive use of the Annual General Meeting

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

All members of the Board are present at the AGM each year unless there are exceptional circumstances. The Chair and chairs of its respective Committees are available to answer questions. The 2022 AGM was the first AGM to be held in person following the pandemic.

Audit Committee Report

The Committee met six times during 2022.

During 2022, the Committee assisted the Board in discharging its responsibilities for financial reporting, corporate governance, internal controls, internal and external audit and risk management. In carrying out its role, the Committee took steps to ensure that it could, where necessary, make recommendations to the Board following the output of the internal and external audit functions and the Committee apprised the Board throughout the year of their respective reports. In doing so, the Committee was able to assure the Board of the effectiveness of the Society's audit programme and of the independence and objectivity of the internal and external auditors. The Society's internal audit programme is outsourced to RSM LLP. The risk-based audit programme ensures that the committee is provided with internal audit reports aligned to the Society's strategy. During 2022 the following internal audits were carried out:

- Climate Change - Managing the financial risks of climate change
- Data Governance
- VDSNet 4 (IT policy administration project)
- Compliance Framework Follow-up
- Cyber Risk Management
- Vulnerable Customers
- Financial Risk Management

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

PricewaterhouseCoopers LLP (PwC) are the Society's external auditors and the Committee worked with them in agreeing an appropriate audit plan for the year ending 31 December 2022. The plan set out PwC's approach to the audit of the Society's Annual Report & Financial Statements 2022. The plan also highlighted key areas of audit risk. The Committee took note of a number of audit risks and other key areas of focus identified by PwC which would inform their audit activities.

During 2022, the Audit Committee discharged its responsibilities by:

- Reviewing the Society's Annual Report & Financial Statements prior to Board approval and reviewing the external auditors' detailed reports thereon, in respect of the year ended 31 December 2022.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2022 audit fee in conjunction with an assessment of external auditors' performance.
- Reviewing the plan for the audit of the Society's financial statements, including an assessment of key risks, the committee requested from the external auditors their assessment of any threats to independence, which the committee reviewed and determined.
- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.

- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Society's policies relating to fraud, whistleblowing and conflicts of interest.
- Reviewing and overseeing the Society's Own Risk and Solvency Assessment in accordance with the requirements of Solvency II.
- Reviewing the provision of internal audit services and approving a revised three-year internal audit programme.

The Committee were pleased to be able to evidence to the Board that suitable accounting policies had been implemented, appropriate judgements had been made by management and that all relevant financial reporting requirements had been completed.

The Committee has reviewed and considered the Annual Report & Financial Statements 2022 and presented the same to the Board. Each of the directors has agreed that, taken as a whole, the Annual Report & Financial Statements are fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.

Own Risk and Solvency Assessment 2022

On 25 January 2023, the Board approved the Society's Own Risk and Solvency Assessment (ORSA) report in accordance with the requirements of Solvency II. The report and policy, which were submitted to the Prudential Regulation Authority, were developed by the Executive Team and the Board throughout the year, with specific input given by the Risk & Compliance Committee at its meeting on 20 January 2023. The ORSA ensures that the Society takes a forward-looking approach to its solvency requirements bringing together business strategy, risk appetite and risk profile to help determine future capital requirement. The Committee will continue to take an active part in the ORSA process during 2023.

Independent auditors

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

PwC have expressed their willingness to continue in office as auditors and a resolution to reappoint them may be proposed at the forthcoming Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report & Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements.
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

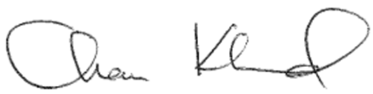
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.



Alan Kirkwood
Chief Financial Officer
29th March 2023

Independent auditors' report to the members of The Veterinary Defence Society Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Veterinary Defence Society Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2022; the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the audit committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

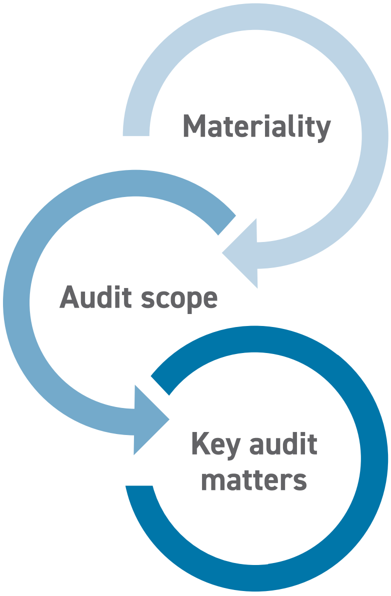
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview



Audit scope

- Our audit was scoped by updating our understanding of the Group and its environment, including internal control, and assessing the risks of material misstatement. The Group is made up of the parent company, being an insurance entity, which is based in a single location, offers one product, which is professional indemnity insurance to veterinary practices across the UK and Republic of Ireland, and two wholly owned subsidiaries providing training and support services. At the year-end, both subsidiaries were immaterial components of the Group, and consequently only the parent company was in scope for the group audit.

Key audit matters

- Valuation of technical provisions - Actuarial assumptions may be inappropriate (group and parent)
- Valuation of technical provisions - Case estimates may be inappropriate (group and parent)

Materiality

- Overall group materiality: £445,470 (2021: £470,946) based on 1% of total assets.
- Overall company materiality: £423,196 (2021: £447,398) based on 1% of total assets.
- Performance materiality: £334,102 (2021: £353,208) (group) and £317,397 (2021: £335,549) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters on the next page are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions The financial statements include liabilities for the estimated cost of settling claims relating to events that occurred prior to the year-end. As at 31 December 2022, technical provisions total £9.4m (£8.3m at 31 December 2021). Refer to page 42 (Accounting policies) and page 53 (note 17) for further information.	
Valuation of technical provisions - Actuarial assumptions may be inappropriate (group and parent) The financial statements include liabilities for the estimated cost of settling claims relating to events that occurred prior to the year-end. The valuation of incurred but not reported ("IBNR") and incurred but not enough reported ("IBNER") provisions at the balance sheet date is performed by an external actuarial expert and requires significant judgement in the selection of the actuarial assumptions, which are applied to the company's policy data to estimate the total liability that will be incurred. IBNR and IBNER reserves are significant in the context of the overall balance sheet, representing £3.6m of the technical provision balance as at 31 December 2022 (2021: £2.7m). In the context of our audit, this is also an area of significant audit effort. Areas of particular focus include: • consistency of approach to the methodologies used to calculate the technical provisions year to year taking into account any claims activity in the year; • key judgements and assumptions made by management's externally appointed actuaries in the reserving process in respect of IBNR and IBNER; and • consideration of the treatment of inflation on the technical provision in the current year relating to settling claims in the future.	Our approach consisted of review and testing of the methodologies and assumptions used by the Group's actuaries in determining the estimate. To address this risk we: • Tested the completeness and accuracy of data used by management's external actuarial expert on behalf of management in the calculation of the total technical provisions by agreeing data used to the policy administration system; • Used PwC actuarial specialists to evaluate the judgements made by the external actuarial expert in setting the IBNR and IBNER assumptions by reviewing the reasonableness of the methodology, including any changes to the methodology in the year; • Performed sensitivity analyses to assess the adequacy of liabilities in the event of reasonably possible adverse deviations in key assumptions with a particular focus on slower development or reporting lags; • Assessed any judgements applied, including margins, understanding the impact and rationale for the application, comparing with our expectations; • Evaluated the competency, capability and objectivity of the external actuarial expert; and • Reviewed the disclosures made by management in the financial statements to ensure these were reasonable and appropriate and captured any methodology changes during the year. Based on the results of our testing, we concluded that the assumptions used were appropriately supported based on the evidence obtained and the relevant disclosures included within the financial statements are appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of technical provisions - Case estimates may be inappropriate (group and parent) Case reserves are significant in the context of the overall balance sheet, representing £3.9m of the technical provision balance as at 31 December 2022 (2021: £3.7m). Case reserves are the most significant component of the overall claims reserves and are established where a claim has been notified but that claim has not been settled by the balance sheet date. In this situation, financial claim settlement remains uncertain and thus requires judgement from the group of internal Claims Consultants ('the Claims Group'). Third party legal advice is obtained when deemed required by the Claims Group.	To gain the necessary audit comfort that the case estimates reserves are appropriate we performed the following procedures: • Attended the year end Claims Group meeting, to observe the challenge and review processes in place; • Reviewed the minutes of other Claims Group meetings held during the year to obtain evidence of completeness of large or complex cases requiring specific audit focus; • Considered the historical accuracy of the case estimate assumptions by comparing a sample of the historical year-end case estimates to the final paid amounts; • For a sample of claims, we tested the specific estimate which included reviewing evidence available to support the reserve recorded; • Reviewed a sample of the case estimates to determine that the appropriate review and sign-off of the year-end reserve had been performed and that the underlying evidence used for this review is complete and accurate; • Obtained confirmation over the best estimate of claims outstanding from third party lawyers for those claims where legal advice has been obtained by Management; • Obtained comfort over the accuracy of the case estimate recorded on the policy administration system by agreeing a sample of claims flagged as requiring legal input per the policy administration system report to the confirmation responses received; and • Reviewed relevant documentation supporting a sample of claims not indicated as being subject to review by external legal advice to confirm that there was no indication that legal advice should be sought. We have determined, based on the results of our testing, that the judgements applied were supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Based on the output of our risk assessment, along with our understanding of the Group, we performed full scope audit over the parent company as we have limited procedures over other components to auditing the group consolidation and valuation of the entities within the financial statements of the parent company.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£445,470 (2021: £470,946)	£423,196 (2021: £447,398)
How we determined it	1% of total assets	1% of total assets
Rationale for benchmark applied	We have determined that total assets is the most applicable measure to use given the Group is not considered to be a profit oriented entity and therefore a balance sheet measure is appropriate. Total assets recognises the significance of the balance sheet and in particular the financial investments which support the liabilities of the Group.	We have determined that total assets is the most applicable measure to use given the Company is not considered to be a profit oriented entity and therefore a balance sheet measure is appropriate. Total assets recognises the significance of the balance sheet and in particular the financial investments which support the liabilities of the Company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £423,196.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £334,102 (2021: £353,208) for the group financial statements and £317,397 (2021: £335,549) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £15,000 (group audit) (2021: £15,000) and £15,000 (company audit) (2021: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding and evaluating the group's financial forecasts and the group's stress testing of regulatory capital, including the severity of the stress scenarios that were used;
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern;
- Consideration as to whether our audit procedures have identified events or conditions which may impact the going concern of the company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements as shown in our "Key Audit Matters" and the posting of inappropriate journals. Audit procedures performed by the engagement team included:

- enquiring of management and those charged with governance around actual and potential litigation claims;
- enquiring of management and those charged with governance to identify any instances of non-compliance with laws and regulations;
- reviewing relevant meeting minutes of those charged with governance;
- reading key correspondence in relation to compliance with laws and regulations;
- procedures relating to the valuation of the technical provisions described in the related key audit matters section above;
- performing testing over the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness and testing material accounting estimates (because of the risk of management bias); and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 29 July 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2015 to 31 December 2022.

James Wilkinson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
30 March 2023

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

Technical account	Notes	2022 £	2021 £
Gross written premiums before return of premium	5	16,769,287	15,820,037
Return of premium		(600,000)	(1,200,000)
Gross written premiums		**16,169,287**	**14,620,037**
Outward reinsurance premiums		(1,055,363)	(1,040,336)
Net premiums written and earned premiums net of reinsurance		**15,113,924**	**13,579,701**
Allocated investment income transferred from the non-technical account	10	-	743,309
Total technical income		**15,113,924**	**14,323,010**
Claims incurred, net of reinsurance			
Gross claims paid	6	(7,013,992)	(6,747,153)
Reinsurers' share of gross claims paid	6	58,973	543,487
Net claims paid		**(6,955,019)**	**(6,203,666)**
Change in gross provisions for claims	6,17	(1,144,846)	(60,757)
Change in reinsurers' share	6,17	59,658	(147,660)
Change in net provisions for claims		**(1,085,188)**	**(208,417)**
Claims incurred, net of reinsurance		**(8,040,207)**	**(6,412,083)**
Net operating expenses	7	(6,158,451)	(5,263,325)
Total technical charges		**(14,198,658)**	**(11,675,408)**
Balance on technical account		**915,266**	**2,647,602**
Non-technical account			
Balance on technical account		915,266	2,647,602
Other income	3	575,074	569,521
Other expenses	3	(445,236)	(895,088)
Investment income	10	489,627	435,982
Net gains on realisation of investments	10	40,840	493,707
Unrealised losses on investments	10	(4,846,291)	(11,893)
Investment expenses and charges	10	(68,768)	(29,882)
Allocated investment income transferred to the technical account	10	-	(743,309)
(Deficit) / surplus on ordinary activities before tax		**(3,339,488)**	**2,466,640**
Tax on deficit / (surplus) on ordinary activities	11	660,013	(189,842)
(Deficit) / surplus for the financial year		**(2,679,475)**	**2,276,798**
Other comprehensive income/(expense):			
Revaluation of land and buildings	13	25,000	(50,000)
Total comprehensive (loss) / income for the year		**(2,654,475)**	**2,226,798**

All of the operations of the Group are continuing.

Consolidated and Company Balance Sheets

As at 31 December 2022

		Group		Company	
		2022	2021	2022	2021
	Notes	£	£	£	£
Assets					
Intangible assets					
Intangible assets	12	890,661	700,757	890,661	699,388
Investments					
Land and buildings	13	1,250,000	1,225,000	1,250,000	1,225,000
Other financial investments	14	27,719,281	31,744,493	27,719,283	31,744,495
		28,969,281	**32,969,493**	**28,969,283**	**32,969,495**
Reinsurers' share of technical provisions		173,324	113,666	173,324	113,666
Debtors					
Debtors arising out of direct insurance operations - Policyholders	15	113,824	503,117	113,824	503,117
Debtors arising out of reinsurance operations	15	18,583	10,766	18,583	10,766
Amounts receivable from group companies	15	-	-	308,060	396,326
Other debtors	15	1,508,517	1,235,339	1,486,111	1,193,853
		1,640,924	**1,749,222**	**1,926,578**	**2,104,062**
Other Assets					
Tangible assets	16	186,764	250,592	186,655	227,426
Deferred tax assets	11	516,960	-	507,845	-
Cash at bank and in hand		11,821,177	10,927,612	11,448,285	10,605,299
		12,524,901	**11,178,204**	**12,142,785**	**10,832,725**
Prepayments and accrued income		348,148	383,232	342,293	372,145
TOTAL ASSETS		**44,547,239**	**47,094,574**	**44,444,924**	**47,091,481**
Reserves and Liabilities					
Revaluation reserve					
At 1 January		212,247	262,247	212,247	262,247
Revaluation in year		25,000	(50,000)	25,000	(50,000)
		237,247	212,247	237,247	212,247
Income and expenditure reserve					
At 1 January		29,208,317	26,931,519	29,367,678	26,720,076
(Deficit) / Surplus for the financial year		(2,679,475)	2,276,798	(2,786,942)	2,647,602
		26,528,842	29,208,317	26,580,736	29,367,678
Technical provision - claims outstanding	17	9,416,663	8,271,817	9,416,663	8,271,817
Creditors: amounts falling due within one year	18	1,139,095	1,362,479	1,062,959	1,269,487
Accruals and deferred income	19	7,225,392	8,039,714	7,147,319	7,970,252
TOTAL LIABILITIES AND RESERVES		**44,547,239**	**47,094,574**	**44,444,924**	**47,091,481**

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to include a Company statement of Comprehensive income. The Company result is shown within the balance sheet above. The notes on pages 36 to 65 are an integral part of these financial statements.

The financial statements on pages 32 to 65 were approved by the Board of Directors and signed on its behalf on the Board 29th March 2023.

Alan Kirkwood, Chief Financial Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Income and expenditure reserve	Revaluation reserve	Total
	£	£	£
Balance as at 1 January 2021	26,931,519	262,247	27,193,766
Profit for the year	2,276,798	-	2,276,798
Revaluation of land and buildings	-	(50,000)	(50,000)
Total comprehensive income	2,276,798	(50,000)	2,226,798
Balance as at 31 December 2021	**29,208,317**	**212,247**	**29,420,564**
Balance as at 1 January 2022	29,208,317	212,247	29,420,564
Loss for the year	(2,679,475)	-	(2,679,475)
Revaluation of land and buildings	-	25,000	25,000
Total comprehensive income	(2,679,475)	25,000	(2,654,475)
Balance as at 31 December 2022	**26,528,842**	**237,247**	**26,766,089**

Company Statement of Changes in Equity

Year ended 31 December 2022

	Income and expenditure reserve	Revaluation reserve	Total
	£	£	£
Balance as at 1 January 2021	26,720,076	262,247	26,982,323
Profit for the year	2,647,602	-	2,647,602
Revaluation of land and buildings	-	(50,000)	(50,000)
Total comprehensive income	2,647,602	(50,000)	2,597,602
Balance as at 31 December 2021	**29,367,678**	**212,247**	**29,579,925**
Balance as at 1 January 2022	29,367,678	212,247	29,579,925
Loss for the year	(2,786,942)	-	(2,786,942)
Revaluation of land and buildings	-	25,000	25,000
Total comprehensive income	(2,786,942)	25,000	(2,761,942)
Balance as at 31 December 2022	**26,580,736**	**237,247**	**26,817,983**

Consolidated Cash Flow Statement

Year ended 31 December 2022

	Notes	2022	2021
		£	£
Operating Activities			
Net cash inflow from operating activities	21	1,574,919	1,853,019
Tax paid		(62,817)	(171,562)
Interest and dividends received		462,518	436,679
Net cash generated from operating activities		**1,974,620**	**2,118,136**
Investing Activities			
Purchase of tangible assets		(33,018)	(74,922)
Capitalisation of intangible assets		(199,093)	(206,465)
Other investment management fees paid		(68,706)	(28,932)
Sale of debt securities and shares and other variable-yield units in unit trusts		821,301	3,538,718
Purchase of debt securities and shares and other variable-yield units in unit trusts		(1,616,752)	(3,495,000)
Net payments from/(to) deposits with credit institutions		15,213	(37)
Net cash used in investing activities		**(1,081,055)**	**(266,638)**
Net increase in cash at bank and in hand		**893,565**	**1,851,498**
Cash and cash equivalents at the beginning of the year		10,927,612	9,076,114
Cash and cash equivalents at the end of the year		**11,821,177**	**10,927,612**
Cash and cash equivalents consist of:			
Cash at bank and in hand		11,821,177	10,927,612
Cash and cash equivalents at the end of the year		**11,821,177**	**10,927,612**

The Company is a qualifying entity for the purposes of FRS 102 and has elected to take the exemption under FRS 102, para 1.12 (b) not to present the Company statement of cash flows.

Notes to the Consolidated Financial Statements

1. Constitution and general information

The Veterinary Defence Society Limited ("the Company") was incorporated and domiciled in England and Wales on 31 August 1987 as a company limited by guarantee and without share capital. The address of the Company's registered office is 4 Haig Court, Parkgate Industrial Estate, Knutsford, Cheshire, WA16 8XZ. In 2017 The Veterinary Defence Society Limited incorporated VDS Training Services Limited and in 2018 VDS Support Limited (together "the Group").

Every member of the Society undertakes to contribute such amount as may be required, not exceeding £5 to the Society's assets if it should be wound up while they are a member, or within one year after they cease to be a member, for payment of the Society's debts and liabilities contracted before they ceased to be a member, and of the costs, charges and expenses of winding up, and for the adjustment of the rights of the contributories among themselves. In the event of the winding up of the Society, after its liabilities have been discharged, the remaining assets shall be distributed to the members in the manner set out in Article 85 of the Articles of Association.

2. Statement of compliance

The Group consolidated and Company financial statements of the Society have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102''), Financial Reporting Standard 103, "Insurance contracts" ("FRS 103") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410) relating to insurance companies.

3. Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These accounting policies have been applied consistently in both the current and the preceding year in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

These consolidated financial statements are prepared under the historical cost convention as modified by the recognition of certain assets and liabilities measured at fair value and in conformity with FRS 102 and FRS 103 and they require the use of certain critical accounting estimates. FRS 102 and FRS 103 also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 from presenting its individual profit and loss account. The Company has also taken advantage of the exemption in its individual financial statements to not prepare a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cashflows, included in these financial statements, includes the Company cashflows.

Going concern

The directors have determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. They expect that the ongoing war in Ukraine will have some impact in relation to future investment portfolio valuations and the resulting spike in inflation, driven in part, by higher energy costs as a result of the war will impact on claims costs and operating costs, but while unwelcome, the effects are not sufficiently material to raise concerns over the Society's solvency. The directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the financial position of the Society, as further described in the viability statement.

Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and of its subsidiary undertakings.
The Company incorporated VDS Training Services Limited in 2017 and VDS Support Limited in 2018, both are wholly owned subsidiaries.
All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Premiums

Gross written premiums before the return of premium represents amounts received for business incepted during the financial year excluding insurance premium tax. Premiums received in the year relating to contracts incepted in subsequent periods are treated as deferred income and are not included in gross written premiums until inception of that contract. Contracts are written on a calendar year basis and therefore at 31 December there is no unearned premium recognised in the balance sheet for that underwriting year. Reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business. The return of premium is a mutual bonus granted to policyholders which in principle is dependent on operating and investment performance, however, it is ultimately at the Board's discretion. In 2022, there was a charge of £600,000 (2021: £1,200,000) which was Board approved. The return of premium for 2023 renewals was £600,000, £600,000 is deferred and the decision on how this will be returned to members will be subject to future performance.

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses together with any other adjustments to claims from previous years. Provision is made at the year-end for the estimated cost of claims incurred but not settled, including the costs of claims incurred but not yet reported. The cost of claims includes expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claim's exposures.

However, given the inevitable uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share of the provision.

Land and buildings

Land and buildings are valued at open market valuation. Full valuations are made by independent, professionally qualified external valuers. Revaluation gains or losses on land and buildings are taken to other comprehensive income except to the extent that those gains reverse a revaluation loss on the same property that was previously recognised as expense.

Tangible fixed assets and depreciation

All assets are shown at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation is calculated to write off the cost of fixed assets, which includes purchase cost together with any incidental cost of acquisition, over the useful life of the asset. Depreciation is charged from the date of acquisition to the date of disposal. The annual rates of depreciation, which are consistent with prior years, are:

Computer hardware	25% per annum on cost, straight line basis
Fixtures and fittings	between 8% and 20% per annum on cost, straight line basis

Subsequent costs, including major inspections, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Website and software	Between 20% and 33.33% per annum on cost, straight line basis
Goodwill	33.33% per annum on cost, straight line basis

Where factors such as technological advancement or changes in market price indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired. Costs associated with maintenance of computer software are recognised as an expense as incurred.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Dividend income is recognised when the right to receive payment is established and interest income is recognised using the effective interest rate method. Other investment income is included on an accruals basis.

Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Movements in unrealised gains and losses in investments are included in the statement of comprehensive income.

In years when there is an investment surplus, the Group makes transfers from the non-technical account to the technical account. The Group transfers 100% of the actual after-tax investment return to the technical account. The reason for this is that the directors take the view that using the actual investment return provides a more reliable and relevant reflection of the actual activity in the period. The accounting policy is wholly presentational and has no impact on the group result, either favourable or adverse, and results in Allocated investment income transferred from the non-technical account to the technical account line within the Consolidated Statement of Comprehensive Income in the financial statements.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit's) continued use. These cash flows are discounted using pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the statement of comprehensive income.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Investments in subsidiaries

There are two investments in subsidiary companies held by the Company. These are held at cost less impairment as approved by the Board.

Leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Financial instruments

The Group has chosen to adopt Section 11 FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including Deposits with credit institutions, Debtors arising out of direct insurance operations –policyholders, Debtors arising out of reinsurance operations, Cash and cash equivalents, and Other debtors, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Other financial assets, including investments in equity instruments, are initially measured at fair value, which is normally the transaction price.

Debt securities and shares and other variable-yield securities and units in unit trusts are included in the balance sheet at market value. The market value of the investments represents quoted securities at bid price. Any surplus or deficit on any revaluation is recognised in the non-technical account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, other creditors including taxation and social security that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset, and the net amounts presented in the financial statements when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash at bank and in hand

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Foreign currency

(i) Functional and presentation currency

The Group’s functional and presentation currency is pound sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Taxation

The Company is a mutual insurance company and is therefore not liable to corporation tax on dealings with its members. The taxation shown in the financial statements represents the corporation tax liability on capital gains and investment income. VDS Training profits are liable to corporation tax as they accrue.

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income.

(i) Current tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and accounting profits and capital gains and investment income. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans

The Group participates in a group defined contribution pension scheme. As an alternative the Group contributes to personal pension schemes of qualifying employees and qualifying directors. Contributions are charged to the statement of comprehensive income.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities. The incorporation of the VDS Training Services Limited in 2017 led to goodwill of £30,000 in the consolidated financial statements. The investment is recognised at its fair value which is £1 in the separate financial statements as a result of goodwill being fully amortised in 2020. On acquisition, goodwill is allocated to Cash Generating Units ("CGUs") that are expected to benefit from the combination. Goodwill is amortised over its expected useful life of three years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment are recognised.

Acquisition costs

Acquisition costs incurred in writing the business are recognised in the period in which the related premiums are earned.

Other income and other expenses

Due to the Subsidiary companies within the Group not operating within the insurance sector, their trading activities are not reported within the technical account result. The trading result for these business units are reported within other income and other expenses within the Consolidated Statement of Comprehensive Income.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Sources of judgement and estimation uncertainty

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Valuation of insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The Group's technical provisions at year-end total £9,416,663 (2021: £8,271,817) and consist of four components: claims incurred but not reported ("IBNR"); claims incurred but not enough reported ("IBNER"); case reserves and a claims handling provision.

Case reserves are estimated on a case-by-case basis by claims consultants and where deemed necessary and appropriate, further opinion sought from third party solicitors. Individual claims are based on all available information at the balance sheet date, requiring significant judgement which increases the inherent risk of estimation uncertainty. The ultimate liability will vary as a result of subsequent information and events and may result in adjustments to the amounts provided.

External actuaries estimate IBNR and IBNER using standard actuarial claims projection techniques. Such methods extrapolate the development of paid claims, recoveries from third parties, average cost per claim and expected loss ratios. The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than assumed, the surplus or deficit will be credited or charged to the statement of comprehensive income in future years. Management assesses and may make further adjustments in relation to environmental uncertainty which may not be captured in the historic data.

Capitalisation of software development costs

Development expenditures on software projects are recognised as an intangible asset where the Society can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for internal use
- The intention to complete and the ability for the software to be used in an operational capability
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Impairment indicators

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is any such indication the recoverable amount of the asset is compared to the carrying amount of the asset. The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of future cashflows before interest and tax obtainable as a result of the assets continued use.

5. Earned premiums

Analysis of earned premiums written by the Group	Group	
	2022	**2021**
United Kingdom	**£**	**£**
Gross written premiums before return of premium	16,769,287	15,820,037
Return of premium	(600,000)	(1,200,000)
Gross written premiums	**16,169,287**	**14,620,037**

The Group has one class of insurance business, third party liability insurance.

Premiums are written in the United Kingdom and the Republic of Ireland (ROI). Insurance premiums paid by members in the ROI were £1,757,408 (2021: £1,658,434).

6. Claims incurred

	Group	
	2022	**2021**
	£	**£**
Gross claims paid	7,013,992	6,747,153
Reinsurers' share of gross claims paid	(58,973)	(543,487)
Net claims paid	**6,955,019**	**6,203,666**
Change in gross provisions for claims	1,144,846	60,757
Change in reinsurers' share	(59,658)	147,660
Change in net provisions for claims	**1,085,188**	**208,417**
Claims incurred, net of reinsurance	**8,040,207**	**6,412,083**

A negative run-off deviation of £592,514 (2021: negative £719,394) arose on prior years' claims. Run-off deviations arise from changes in claims status as further particulars are received.

7. Net operating expenses

	Group	
	2022	2021
	£	£
Acquisition costs	1,121,316	1,013,466
Administration expenses	5,037,135	4,249,859
	6,158,451	**5,263,325**
Administration expenses include:		
Depreciation and amortisation	106,035	128,412
Exchange rate (gain) / loss	(44,766)	306,466
Professional fees	180,012	151,238
Consultancy fees	234,124	147,376
Fees payable to the group's auditors for the audit of the Company and the Group's consolidated financial statements	144,150	121,500

Auditors remuneration is stated exclusive of VAT. No other services were provided by the Group's auditors.

8. Employees

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Wages and salaries	6,710,325	6,032,788	6,442,103	5,866,957
Social security costs	787,958	682,632	758,187	662,861
Pension and other costs	674,694	611,419	648,413	594,303
	8,172,977	**7,326,839**	**7,848,703**	**7,124,121**
	No.	No.	No.	No.
Average number of persons employed (including directors), all of whom were involved in administration for the group	95	86	89	84

9. Directors' remuneration

This analysis includes the remuneration of executive and non-executive directors

	Group	
	2022	2021
	£	£
Remuneration	609,650	610,615

Remuneration includes salaries and benefits of executive directors (excluding company pension contributions) and fees paid to non-executive directors.

Number of directors who were members of the defined contribution pension scheme	1	3
The pension contributions to defined contribution pension schemes for the year	19,704	37,033
Remuneration of highest paid director	202,994	195,394
Pension contributions to the defined contribution pension scheme of the highest paid director	19,704	18,947

Payments for loss of office (not included in the above Directors' remuneration)

No compensation for loss of office was paid in 2022.

Compensation payment		
Salary	-	107,834
Pension benefit	-	9,300
	-	117,134

10. Investment return

	Group	
	2022	2021
	£	£
Investment Income		
Income on financial assets at fair value through profit and loss	467,670	435,393
Income on financial assets not at fair value through profit and loss	21,957	589
Total income from other financial assets	489,627	435,982
Net gains on the realisation of investments	40,840	493,707
	530,467	**929,689**
Investment expenses and charges		
Other investment management fees	(68,768)	(29,882)
Net unrealised losses on investments	(4,846,291)	(11,893)
Total investment return	**(4,384,592)**	**887,914**
Investment return is analysed between:		
Allocated investment return transferred to the technical account	-	743,309
Net investment (losses) / return included in the non-technical account	(4,384,592)	144,605
Total investment return	**(4,384,592)**	**887,914**

A 1% increase / decrease in the investment portfolio valuation would result in an increase / decrease in longer-term investment return of £277,193 (2021: £317,445).

11. Tax on (deficit)/surplus on ordinary activities

	Group	
	2022	2021
	£	£
Analysis of tax charge for the period		
Current Taxation		
UK Corporation Tax at 19%	31,935	62,817
Adjustment in respect of previous years	-	(27,485)
Total current tax charge	31,935	35,332
Deferred tax		
Origination and reversal of timing differences	(691,948)	148,044
Effect of tax rate change on opening balance	-	6,466
Total deferred tax (credit) / charge	(691,948)	154,510
Tax on (deficit)/profit on ordinary activities	(660,013)	189,842
Provision for deferred tax		
Capital gains	391,815	174,988
Movement in provision		
Provision at the start of period	174,988	20,478
Deferred tax (credited) / charged in the statement of comprehensive income for the year	(691,948)	154,510
Provision at the end of the period	**(516,960)**	**174,988**

11. Tax on (deficit) / surplus on ordinary activities (continued)

The (credit)/charge for the year can be reconciled to the profit per the Consolidated Statement of Comprehensive Income as follows:

	Group	
	2022	2021
	£	£
Surplus on ordinary activities before tax for the year	(3,339,488)	2,466,640
Tax at standard Corporation Tax rate of 19% (2021: 19%)	(634,503)	468,662
Effects of:		
Other permanent differences	2,238	-
Deductible expenses	-	(13,552)
Income not taxable for tax purposes	(8,077)	-
Expenses not deductible for tax purposes	160,377	103,483
Adjustment to tax charge in respect of previous periods	-	(27,485)
Non-taxable dividend income	-	(14,108)
Movement in unrecognised deferred tax	165,127	5,367
Remeasurement of deferred tax for changes in tax rates	(166,066)	41,890
Non-deductible loss of mutual trade	(176,139)	(364,915)
Other permanent differences	(2,970)	(9,500)
Tax (credit)/charge for year	(660,013)	189,842

The tax rate for the current year 19% and has been in effect since 1 April 2017. An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2021: 19%)

12. Intangible assets

	Group				Company			
	Website and Software	Goodwill	Software in progress	Total	Website and Software	Goodwill	Software in progress	Total
	£	£	£	£	£	£	£	£
Cost								
At 1 January 2022	113,522	30,000	677,566	821,088	88,877	-	677,566	766,443
Additions	-	-	199,093	199,093	-	-	199,093	199,093
At 31 December 2022	113,522	30,000	876,659	1,020,181	88,877	-	876,659	965,536
Accumulated amortisation								
At 1 January 2022	90,331	30,000	-	120,331	67,055	-	-	67,055
Charge	9,189	-	-	9,189	7,820	-	-	7,820
At 31 December 2022	99,520	30,000	-	129,520	74,875	-	-	74,875
Net book value								
At 31 December 2022	14,002	-	876,659	890,661	14,002	-	876,659	890,661
At 31 December 2021	23,191	-	677,566	700,757	21,822	-	677,566	699,388

In 2019 the Group began the development of a wholly new software system which will serve the business into the future. This system is an internally generated asset which will be of enduring benefit to the Society. Consequently, we have capitalised attributable labour costs incurred in the year amounting to £199,093 (2021: £206,465). The project is monitored by the Board for impairment and amortisation of the asset will commence once the asset is commissioned, which is planned for 2023.

13. Land and buildings

	Group and Company	
	Freehold Land & Buildings	Total
	£	£
Cost		
At 1 January 2022	1,225,000	1,225,000
Revaluations	25,000	25,000
At 31 December 2022	1,250,000	1,250,000
Net book value		
At 31 December 2022	1,250,000	1,250,000
At 31 December 2021	1,225,000	1,225,000

A valuation of land and buildings as at 31 December 2022 was carried out on 30 December 2022 by Miles Lewis LLP Chartered Surveyor at fair value for existing use. This was valued at £1,250,000 (2021: £1,225,000).

Movements in valuation of land and building are recognised in other comprehensive income and taken to revaluation reserve in the statement of changes in equity. 2022 increase in value of £25,000 (2021: reduction in value £50,000).

On a historical cost basis land and buildings would have been as follows:

	Group and Company	
	2022	2021
	£	£
Cost	1,334,762	1,334,762
Depreciation	(510,598)	(483,903)
Net book value	**824,164**	**850,859**

14. Other financial investments

	Group			
	2022		2021	
	Market value	Cost	Market value	Cost
	£	£	£	£
Debt securities and other fixed income securities	16,110,218	19,677,160	18,476,403	18,041,144
Shares and other variable-yield securities and units in unit trusts	6,960,792	7,332,675	8,604,606	8,043,827
Deposits with credit institutions	4,648,271	4,648,271	4,663,484	4,663,484
Other financial investments	**27,719,281**	**31,658,106**	**31,744,493**	**30,748,455**

	Company			
	2022		2021	
	Market value	Cost	Market value	Cost
	£	£	£	£
Debt securities and other fixed income securities	16,110,218	19,677,160	18,476,403	18,041,144
Shares and other variable-yield securities and units in unit trusts	6,960,794	7,332,675	8,604,608	8,043,829
Deposits with credit institutions	4,648,271	4,648,271	4,663,484	4,663,484
Other financial investments	**27,719,283**	**31,658,106**	**31,744,495**	**30,748,457**

15. Debtors

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Debtors arising out of direct insurance operations – policyholders	113,824	503,117	113,824	503,117
Debtors arising out of reinsurance operations	18,583	10,766	18,583	10,766
Amounts owed by group undertakings	-	-	308,060	396,326
Other debtors	1,508,517	1,235,339	1,486,111	1,193,853
	1,640,924	**1,749,222**	**1,926,578**	**2,104,062**

Within other debtors is a balance of £923,467 (2021: £799,871) which is a liquidity deposit held with the Irish Courts. This was a requirement for regulatory approval by the Central Bank of Ireland for our Irish branch. The Irish branch, which commenced trading in January 2021, is required to allow VDS to service its Irish members following the UK's departure from the European Union. The remaining balances within Other debtors relates to online payments transacted through the Group's website payment services provider (WorldPay) and telephone payments (Capita) which were still to be remitted to the Group at the balance sheet date.

Amounts owed by Group undertakings relate to intercompany loan facilities which are non-interest bearing and could be drawn down by the Borrower as required. Intercompany includes a loan to VDS Training Services Limited of £194,648 (2021: £394,648), repayments were made in the year amounting to £200,000 (2021: £150,000) and an intercompany facility to VDS Support Limited of £100,000 (2021: £nil), no repayments were made during 2022.

16. Tangible assets

	Group		Company	
	Fixtures and fittings	Total	Fixtures and fittings	Total
Cost	£	£	£	£
At 1 January 2022	2,237,143	2,237,143	2,086,918	2,086,918
Additions	33,018	33,018	33,018	33,018
Disposals	(837,810)	(837,810)	(837,810)	(837,810)
At 31 December 2022	1,432,351	1,432,351	1,282,126	1,282,126
Accumulated amortisation				
At 1 January 2022	1,986,551	1,986,551	1,859,492	1,859,492
Charge	96,846	96,846	73,789	73,789
Disposals	(837,810)	(837,810)	(837,810)	(837,810)
At 31 December 2022	1,245,587	1,245,587	1,095,471	1,095,471
Net book value				
At 31 December 2022	186,764	186,764	186,655	186,655
At 31 December 2021	250,592	250,592	227,426	227,426

17. Technical provisions

The reconciliation of opening and closing provision for claims outstanding is as follows:

	Group and Company	
	2022	2021
	£	£
Gross Provision		
At 1 January	8,271,817	8,211,060
Utilised during the year	(2,434,744)	(2,362,274)
Actuarial variations	889,458	(181,657)
Additional provisions	2,690,132	2,604,688
At 31 December	**9,416,663**	**8,271,817**
Represented as:		
Specific case reserves	3,934,802	3,672,838
Claims handling provision	1,852,351	1,920,636
IBNR / IBNER	3,629,510	2,678,343
	9,416,663	**8,271,817**
Reinsurers' Share		
At 1 January	113,666	261,326
Increase/(decrease) in provisions	59,658	(147,660)
At 31 December	**173,324**	**113,666**

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4. A 10% increase or reduction in net case reserves would impact net assets by approximately £393,480 (2021: £367,284).

18. Creditors: amounts falling due within one year

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Pension scheme contributions	69,924	62,710	67,593	61,439
Other creditors	209,551	350,790	200,194	338,138
Taxation and social security	859,620	948,979	795,172	869,910
	1,139,095	**1,362,479**	**1,062,959**	**1,269,487**

19. Accruals and deferred income

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Accruals	696,966	385,818	679,494	378,257
Return of premium	1,018,314	1,343,163	1,018,314	1,343,163
Deferred income	5,510,112	6,310,733	5,449,511	6,248,832
	7,225,392	**8,039,714**	**7,147,319**	**7,970,252**

The directors have committed to make donations during 2023 to the charities Vetlife of £100,000 (2021: £70,000) and the Irish Veterinary Benevolent Fund of €15,000 (2021: €9,000), which is not recognised in the balance sheet.

20. Pensions cost

The Group operates a group defined contribution pension scheme. Employees have the choice to use the Group scheme or opt-out and have contributions paid into a personal pension scheme. The assets of all schemes are held separately from those of the Group in independently administered funds. The pension cost includes £590,424 (2021: £549,524) representing contributions payable by the Group during the year in respect of qualifying employees and £19,704 (2021: £37,033) in respect of directors. Contributions are charged to the statement of comprehensive income as incurred.

Unpaid contributions at the year-end were £69,924 (2021: £62,710).

21. Reconciliation of (deficit)/surplus to net cash inflow from operating activities

	Group	
	2022	2021
	£	£
(Deficit)/surplus for the financial year	(2,679,475)	2,276,798
Adjustments for:		
Tax (credit)/charge	(660,013)	189,842
Investment income	(489,627)	(435,982)
Net gains on realisation of investments	(40,840)	(493,707)
Other investment management fees	68,768	29,882
Unrealised losses on investments	4,846,291	11,893
Depreciation on tangible assets	96,846	112,377
Amortisation of intangible assets	9,189	16,035
Decrease/(increase) in debtors arising out of direct insurance operations	389,293	(247,808)
Increase in debtors arising out of reinsurance operations	(7,817)	(10,766)
(Increase)/decrease in other debtors	(273,178)	116,915
Decrease/(increase) in prepayments and accrued income	62,193	(39,664)
Increase in deferred tax asset	(516,960)	-
Increase in net technical provisions	1,085,188	208,417
(Increase)/decrease in creditors, accruals and deferred income	(314,939)	118,787
Net cash inflow from operating activities	**1,574,919**	**1,853,019**

22. Financial instruments

(i) The categories of financial assets and liabilities, at the reporting date, in total, are as below:

	Group		Company	
	2022	2021	2022	2021
	£	£	£	£
Financial assets at fair value through profit and loss				
Debt securities and other fixed income securities	16,110,218	18,476,403	16,110,218	18,476,403
Shares and other variable-yield securities in unit trusts	6,960,792	8,604,606	6,960,794	8,604,608
	23,071,010	**27,081,009**	**23,071,012**	**27,081,011**
Financial assets that are debt instruments measured at amortised cost				
Debtors arising out of direct insurance operations – policyholders	113,824	503,117	113,824	503,117
Debtors arising out of reinsurance operations	18,583	10,766	18,583	10,766
Other debtors	1,508,517	1,235,339	1,486,111	1,193,853
Intercompany debtors	-	-	308,060	396,326
Deposits with credit institutions	4,648,271	4,663,484	4,648,271	4,663,484
Deferred tax asset	516,960	-	507,845	-
Cash at bank and in hand	11,821,177	10,927,612	11,448,285	10,605,299
	18,627,332	**17,340,318**	**18,530,979**	**17,372,845**
Financial liabilities that are debt instruments measured at amortised cost				
Other creditors including taxation and social security	**1,139,095**	**1,362,479**	**1,062,959**	**1,269,487**

Financial assets at fair value through profit and loss

(a) Classification of financial assets at fair value through profit or loss

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, i.e. are held for trading. The Debt securities and Shares and other variable-yield securities and units in unit trusts are valued at fair value through profit and loss which is determined using observable inputs. The fair values of listed investments are based on current bid price on the balance sheet date.

See accounting policy for financial instruments for the Group's other accounting policies for financial assets.

(b) Amounts recognised in profit or loss

The income, expense and changes in fair values of financial assets at fair value through profit or loss recorded in the statement of comprehensive income is as follows:

	Group	
	2022	**2021**
	£	**£**
Income on financial assets at fair value through profit and loss	467,670	435,393
Other investment management fees	(68,768)	(29,882)
Net gains on the realisation of investments	40,840	493,707
Net unrealised losses on investments	(4,846,291)	(11,893)
	(4,406,549)	**887,325**

(c) Risk exposure and fair value measurements

Information about the methods and assumptions used in determining fair value is provided in note 22 (ii) below. For information about the Group's exposure to price risk please refer to note 22 (iii) below.

Financial assets that are debt instruments measured at amortised cost

(a) Classification of financial assets that are debt instruments measured at amortised cost

Debtors include debtors arising out of direct insurance operations – policyholders and reinsurance debtors include reinsurers' share of technical provisions arising from insurance contracts which are subject to FRS 103.

Other debtors include other short-term receivables (excluding those arising from insurance contracts which are subject to FRS 103). Other debtors generally arise from transactions outside the usual operating activities of the Group. They represent undiscounted amounts of cash expected to be received (within a year).

Cash and cash equivalents include cash in hand, deposits held at call with banks other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, where applicable are shown within borrowings in current liabilities.

Investment in short term deposits - deposits with credit institutions represents cash deposits which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash deposits, under other financial investments, are classified as deposits with credit institutions which are not repayable without notice or financial penalty for early withdrawal. This is considered to reflect these investments more appropriately.

(b) Fair values of financial assets that are debt instruments measured at amortised cost

The carrying amounts of financial assets measured at amortised cost are assumed to be the same as their fair values due to their short-term nature.

(c) Impairment and risk exposure

There were no impaired receivables. Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk can be found in accounting policy note for Financial Instruments and 22 (iii) below.

Financial liabilities measured at amortised cost

The carrying amounts of other creditors including taxation and social security are assumed to be the same as their values due to their short-term nature.

(ii) Fair value methodology

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels. An explanation of each level follows underneath the table.

Investments carried as fair value have been categorised using a fair value hierarchy as detailed below:

Fair value hierarchy:

Level 1 - Quoted market prices in active market

Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an on- going basis. Instruments included in level 1 comprise primarily of FTSE or equivalent listed debt and equity instruments.

Level 2 – Internal models or broker quotes with observable market parameters

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entry specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 – Internal models with significant unobservable market parameters

Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3.

An analysis of investments according to fair value hierarchy is given below:

	£	£
As at 31 December 2022	**Level 1**	**Total**
Debt securities and other fixed income securities	16,110,218	16,110,218
Shares and other variable yield securities and units in unit trusts	6,960,792	6,960,792
	23,071,010	**23,071,010**

Within the Company there is an additional amount of £2 (2021: £2) recognised as a level 3 investment in relation to the investment in the subsidiary companies.

	£	£
As at 31 December 2021	**Level 1**	**Total**
Debt securities and other fixed income securities	18,476,403	18,476,403
Shares and other variable-yield securities and units in unit trusts	8,604,606	8,604,606
	27,081,009	**27,081,009**

(iii) Financial risk management

The Group is exposed to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular the key financial risk is that proceeds from, or the valuation of, financial assets are not sufficient to fund the obligations arising from policies as they fall due. The Group operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and market risk (including price risk and currency risk). Our main aim is to minimise risk to the Group's funds, and our policies towards investment, reinsurance and cash deposits reflect this aim. Our control over these three areas plus close control over premium income and claims costs ensures a sound financial base for the Group's activities.

(a) Credit risk

The Group is principally exposed to credit risk through its bank accounts and term deposits and debt securities. The objective is to minimise these risks by spreading the exposure over a number of counterparties. The Group is also exposed to credit risk through its reinsurance arrangements. The Group utilises a panel of reinsurers and ensures that all have a minimum credit rating approved by the Board. There have been no changes from the previous year.

The carrying amount of all classes of financial instruments represents the maximum exposure to credit risk. The Group does not hold any collateral as security and no derivatives have been used to mitigate credit risk.

None of the financial assets are either past due or impaired.

Credit risk by class of financial instrument

	Group and Company						
As 31 December 2022	**AAA**	**AA**	**A**	**BBB**	**BB**	**Other**	**Total**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Debt securities and other fixed income securities	4,655,372	5,326,432	6,128,414	-	-	-	**16,110,218**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	6,960,792	**6,960,792**
Deposits held with credit institutions	381,159	1,120,233	3,146,879	-	-	-	**4,648,271**
Cash at bank and on hand	136,210	-	11,684,925	-	-	42	**11,821,177**
Other debtors	-	-	-	-	-	1,508,517	**1,508,517**
Debtors arising out of reinsurance operations	-	1,858	16,725	-	-	-	**18,583**
Total	5,172,741	6,448,523	20,976,943	-	-	8,469,351	**41,067,558**

As 31 December 2021	**AAA**	**AA**	**A**	**BBB**	**BB**	**Other**	**Total**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Debt securities and other fixed income securities	4,907,432	6,261,000	7,307,971	-	-	-	**18,476,403**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	8,604,606	**8,604,606**
Deposits held with credit institutions	88,606	1,058,611	3,516,267	-	-	-	**4,663,484**
Cash at bank and on hand	-	-	10,447,708	-	-	479,904	**10,927,612**
Other debtors	-	-	-	-	-	1,235,339	**1,235,339**
Debtors arising out of reinsurance operations	-	1,077	9,689	-	-	-	**10,766**
Total	4,996,038	7,320,688	21,281,635	-	-	10,319,849	**43,918,210**

Financial instruments included in Other as above, do not carry a credit risk assessment and do not therefore carry a credit risk classification.

(b) Liquidity risk

The Group maintains Cash at bank and on hand equal to its forecast annual expenditure in order to minimise liquidity risk. As well as cash assets, the Group holds a significant portion of highly liquid assets such as government bonds within the investment portfolio.

All financial liabilities will mature within 12 months of the balance sheet date.

(c) Market risk

The Group is principally exposed to market risk through its investment portfolio which includes debt securities and shares and other variable yield securities and units in unit trusts which are traded on active markets. The Group's policy is to hold a significant portion of reserves against such assets since the Group's strong capital position allows for short term fluctuations in value whilst maximising returns over the longer term. In acknowledgment of these risks, the Group matches the value of technical reserves with fixed term investments (deposits with credit institutions) which are not exposed to the same level of market risk as the investment portfolio assets.

Price risk

The Group is exposed to equity securities price risk as a result of its holdings in shares and other variable yield securities and units in unit trusts, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes and the Group's own investment policy. The Group is also exposed to price risk from debt securities which are classified as financial assets as fair value through profit or loss. Again, exposures to individual companies are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes and the Group's own investment policy.

The Group has a defined investment policy which sets limits on the Group's exposure to shares and other variable yield securities and unit trusts and debt securities both in aggregate terms and by geography, industry and counterparty and currency. This policy of diversification is used to manage the Group's price risk arising from its investments.

Sensitivity to debt security yields

Increasing assumed yields on index linked securities at 31 December 2022 by 25bp would result in an increase in profit before tax and the fair value of index linked securities by £93,524 (31 December 2021: £179,094).

Increasing assumed yields on fixed interest securities at 31 December 2022 by 25bp would result in an increase in profit before tax and the fair value of fixed interest securities £202,543 (31 December 2021: £312,602).

Decreasing assumed yields on fixed interest securities at 31 December 2022 by 25bp would result in a reduction in profit before tax and the fair value of fixed interest securities by £202,543 (31 December 2021: £312,602).

Interest rate risk

Interest rate risk arises primarily from portfolio investments and deposits with credit institution. The effects of changes in Bank of England base rates on gross interest earned on deposits with credit institutions is insignificant while interest rates remain at historically low levels. Therefore, the interest rate risk to future cash flows from cash deposits is immaterial at the end of the reporting year and no sensitivity analysis is deemed necessary.

Currency risk

Foreign currency risk can only arise on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

Sensitivity to currency

An increase in GBP: EUR exchange rate will reduce the sterling value of assets and liabilities denominated in Euros.

An increase of 10% in the GBP: EUR exchange rate would reduce the net assets as at 31 December 2022 by £259,854 (31 December 2021: £530,836). A 10% decrease in the GBP: EUR exchange rate would increase the net assets at 31 December 2022 by £317,599 (31 December 2021: £648,250).

(d) Insurance risk

Insurance risk is the risk arising from the issuance of insurance contracts. The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts is discussed in Note 4.

Insurance concentration risk

Primarily as a mutual Society operating solely in the veterinary profession, our insurance risks are inherently concentrated. However, our ability to offer tailored indemnity limits via Practice Insurance to the majority of the profession allows us to share and mitigate this risk appropriately.

The table below represents the insurance expenses:

	Group and Company			
	Gross Claims Incurred		Reinsurers' share	
	2022	2021	2022	2021
	£	£	£	£
Claims paid	7,013,992	6,747,153	(58,973)	(543,487)
Gross Provision for claims	1,144,846	60,757	(59,658)	147,660
	8,158,838	**6,807,910**	**(118,631)**	**(395,827)**

Refer to Note 6 and Note 17 on technical provisions for further details regarding the insurance assets, liabilities and its movement.

Sensitivity

The Group's surplus / (loss) and reserves are sensitive to the number of high value claims. These high value claims tend to be equine or farm civil cases, or small animal disciplinary cases. The surplus / (loss) is particularly sensitive to the number of disciplinary cases which progress to disciplinary hearings as a result of which the Group will incur higher external legal costs. A 10% increase or reduction in case reserves, excluding any second order effect on IBNR/IBNER, would impact surplus / (loss) and net assets by approximately £393,480 (2021: £367,284).

Claims development tables

The following tables represents the development on claims on a gross and net basis. The gross basis reflects outward costs and liabilities for claims incurred, whereas the net basis reflects the gross basis less monies from reinsurers.

Claims outstanding (gross)

	Group and Company						
Underwriting year	**2017 and prior[1]**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Estimate of ultimate claims costs:	**£**	**£**	**£**	**£**	**£**	**£**	**£**
- at the end of reporting year		5,556,771	3,508,248	4,441,250	4,477,767	5,104,495	
- one year later		3,655,760	2,503,624	3,336,460	4,044,788		
- two years later		3,476,510	2,240,748	2,962,186			
- three years later		2,981,100	1,980,545				
- four years later		3,385,823					
Current estimate of cumulative claims	28,943,108	3,385,823	1,980,545	2,962,186	4,044,788	5,104,495	
Cumulative claims paid	28,133,921	2,480,147	1,581,517	1,643,082	1,771,856	1,393,759	
Current year gross provision	809,187	905,676	399,028	1,319,104	2,272,932	3,710,736	**9,416,663**

Claims outstanding (net)

Underwriting year	**2017 and prior1**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Estimate of ultimate claims costs:	**£**	**£**	**£**	**£**	**£**	**£**	**£**
- at the end of reporting year		5,310,094	5,030,725	4,478,598	4,496,354	5,117,279	
- one year later		4,990,381	2,518,643	3,316,215	4,053,572		
- two years later		3,352,006	2,241,372	2,910,867			
- three years later		2,816,679	1,975,066				
- four years later		3,166,305					
Current estimate of cumulative claims	27,202,668	3,166,305	1,975,066	2,910,867	4,053,572	5,117,279	
Cumulative claims paid	26,430,122	2,369,969	1,574,517	1,643,082	1,771,856	1,392,872	
Current year net provision	772,546	796,336	400,549	1,267,785	2,281,716	3,724,407	**9,243,339**

Reconciliation to balance sheet:	
Gross technical provisions	9,416,663
Reinsurers' share of technical provisions	(173,324)
Net technical provisions (above)	**9,243,339**

[1]2017 and prior years' cases (back to and including 2005 claims) have been aggregated at their position as at 31 December 2022 on both a gross and net basis.

(iv) Capital Management

The Group is required to hold sufficient capital to meet the PRA's capital requirements for Solvency II from 1 January 2016. The Group has an established process which ensures compliance with the requirements to hold adequate capital.

Under Solvency II, the Group is required to calculate its Solvency Capital Requirement. The Solvency Capital Requirement (SCR) should reflect a level of eligible own funds that enables insurance and reinsurance undertakings to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

The Group holds an excess of assets over liabilities of £27,649,203 (2021: £31,150,153) as calculated under Solvency II and represents our own funds.

The Group has complied with all externally imposed capital requirements throughout the year. There are no changes in the Capital Management Policies between the previous or current year.

The Veterinary Defence Society Limited is a company limited by guarantee and therefore does not have share capital. Capital therefore takes the form of retained reserves only. Group income and expenditure reserves for the purposes of the financial statements as at 31 December 2022 were £26,528,842 (2021: £29,208,317).

The Group has a risk appetite which determines a range of values within which the Retained reserves should be maintained.

23. Operating leases

At 31 December the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group	
	2022	**2021**
	£	**£**
Operating leases which expire		
Within one year	1,588	1,501
Between one year and five years	66,115	96,577
	67,703	**98,078**

The operating lease relates to an office adjacent to the Group's owned and a printer.

24. Controlling party

In the opinion of the directors, the Group has no individual controlling party as the Company is limited by guarantee rather than share capital.

25. Related party transactions

In the ordinary course of business, a number of executive, 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 Group or the related parties.

During the year, related parties paid total premiums of £533,728 (2021: £489,173) and 118 claims (2021: 201 claims) were received from related parties during the financial year. During the year £43,015 (2021: £27,792) was paid on claims involving related parties with £51,637 (2021: £27,324) remaining outstanding as at year end.

In 2017 VDS Training Services Limited was incorporated, a wholly owned subsidiary. Training activities were purchased from VDS Training Services Limited amounting to £nil (2021: £13,800). During the year £200,000 was repaid and the amount outstanding at year end was £194,648 (2021: £394,648) please see note 15 for further details.

During the year the company entered into a loan arrangement with VDS Support Ltd to fund the creation of the VetSafe platform, which is a risk management tool for the veterinary profession both domestically and internationally. An initial working capital injection of £100k was loaned during the year.

Transactions with key management personnel

See Note 9 for disclosure of the salaries and fees paid to non-executive directors.

26. Subsidiaries and related undertakings

The subsidiaries included in the consolidation are as follows:

Name	Company registration number	Address and registered office	Nature of business	Interest
VDS Training Services Limited	10727838	4 Haig Court, Parkgate Industrial Estate, Knutsford, WA16 8XZ	Training Company	100% Ordinary Shares
VDS Support Limited	11610161	4 Haig Court, Parkgate Industrial Estate, Knutsford, WA16 8XZ	Additional products and services to members	100% Ordinary Shares

The above UK subsidiaries will take advantage of the audit exemption by virtue of section 479A of the Companies Act 2006 for the year ended 31 December 2022.

The Veterinary Defence Society Limited

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