



VDS

The Veterinary Defence Society Limited

Annual Report & Financial Statements

31 December 2021

ANNUAL REPORT & FINANCIAL STATEMENTS 2021

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

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**

B M H Bussell

G J Lawrie

G Ravetz

A R J Davies

Remuneration Committee

G J Lawrie - **Chair**

D H Black

R Clapham

Nominations Committee

D H Black - **Chair**

R Sankaran

R Clapham

G Ravetz

Risk and Compliance Committee

B M H Bussell - **Chair**

J R Coates

G J Lawrie

R Sankaran

G Ravetz

A R J Davies

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

Solicitors

Hill Dickinson LLP
Keoghs LLP
A & L Goodbody
Hayes & Sons
William Fry
BLM
Johns Elliot
Sheridan & Leonard
Clyde and Co
Walther A Smithwick & Son, Kilkenny
Poe Kiely Hogan Lanigan
Brabners LLP

Actuaries

KPMG LLP
Consultancy and Actuarial Services

Bankers

The Royal Bank of Scotland plc
Barclays Bank plc
Ulster Bank plc

Registered Office

4 Haig Court
Parkgate Estate
Knutsford
Cheshire
WA16 8XZ

Registered number: 2159441

Chair of the Board Statement

When the 'Veterinary Mutual Defence Society' was formed back in 1865, the foundation stones of our mutuality and benevolence were laid. Although the word 'mutual' was subsequently dropped from the name, in current times these principles and spirit stand us in good stead to continue serving our members. Technology and systems are increasingly dictating how financial services businesses interact with their customers and drive efficiency, yet the ethos and priorities of mutual organisations support a member focus where digital solutions enhance a value-added customer experience. VDS is purpose-led, and our mutuality is well aligned to the societal trends toward more conscious consumer choice and higher ethical values, and we know that our members seek more than a simple transactional relationship. A recent review reported by The Association of Financial Mutuals (AFM) – of which VDS is a member – has reiterated that our strategy is aligned with other mutual organisations. The report suggests that the five key themes are: promoting mutual ethos, strategic focus for growth, adoption of digital technology, non-combative collaboration, and embracing Environmental, Social and Governance (ESG); VDS is active in all these areas as well as many others.

For my second year as Chair the unwelcome and ongoing challenges of Covid-19 have remained, although we may now be seeing the beginning of the end and the likelihood that we will continue to learn to live with an endemic level of Covid-19 and its impacts. Most of our board meetings in 2021 were held virtually, with us moving recently to a hybrid style. There is no doubt in my mind that the subtleties and nuances of human face to face interactions are largely lost on virtual platforms, but the VDS Board has worked hard to ensure a continuing level of healthy challenge and support to the Executive Team as we strive to maintain an effective level of oversight and governance.

As an insurer, VDS operates in a regulatory environment that has undergone turbulent times during the pandemic and still faces potential uncertainty as we come out of it. We must respond to increased regulatory changes around ESG, ways of working, people risk, operational and financial resilience and transformation. We must be prepared at all levels across the business to evolve in an increasingly data driven and digitalised world and at VDS, we are well positioned to meet these challenges and opportunities effectively and efficiently.

To a great extent, the fortunes of VDS follow those of the profession, and we are aware how challenging it has been for veterinary professionals working through Covid-19. We have seen a considerable increase in advice calls and claims being handled by the VDS team through 2021, which we believe is due to several factors and has not been consistent with historic trends. The level of farm work has been maintained despite concerns about Brexit, while there has been increasing pet and equine ownership. The additional complexities of Animal Health Certificates (AHCs) and Export Health Certificates (EHCs) have added to the pressure and the risks practices have faced, and VDS has been on hand to support with these. This additional physical workload, coupled with staff absence, reduced working efficiency and increased general fatigue from the restrictions Covid-19 imposed upon our members highlighted, more than ever before, the importance of having a non-judgemental, supportive colleague on the other end of the phone, or of an e-mail, when things may be going wrong.

As well as advice and claims activity, VDS has flexed its training provision to suit the requirements of our members, innovating both the training course content and delivery methods. This has resulted in a significant increase in delegates trained, members coached and supported, and practices utilising tools such as DISC Profiling or Culture Surveys. Our innovative VetSafe service has similarly grown significantly in reach and usage. This confidential 'significant event' reporting tool facilitates quality improvement and risk management in veterinary practice, by capturing information about incidents and near misses which could result in patient harm or other losses. This information gives VDS a unique insight into the risk profile of the veterinary profession and where intervention might best mitigate those risks.

We have successfully concluded our first year of running a branch in Ireland. There is additional work and costs involved with the Central Bank of Ireland, but the transition has gone smoothly and we continue to support our colleagues based in Ireland with the same level of commitment as before Brexit.

Raman Sankaran, as CEO, has continued to build the team, both in Knutsford and further afield, adapting VDS to remote and home working, and we have seen morale and performance maintained and enhanced throughout the year. A refreshed Executive Team led by Raman is bringing new skills, ideas and energy and with a solid business plan fully supported by the Board, we are in good shape to drive forward. It was also important for me as Chair to build stability after a period of significant change. David (Scrym) Green retired in the summer as Technical Director, after many dedicated years at VDS – serving initially as a Claims Consultant, particularly on the equine side before taking a role on the Executive Team and Board. Scrym has an intimate knowledge of VDS and we are delighted he remains a member of the VDS team in his capacity as Underwriting and Claims Consultant. There was one further change at Board level, we said goodbye to Howard Jones as Financial Director, with Alan Kirkwood joining the business as Chief Financial Officer. Alan was co-opted to the Board in November 2021 and he will offer himself for election at the 2022 AGM.

> We will be ensuring our people plans are effective and robust with a clear focus on all aspects of diversity and inclusion.

From the Financial Statements it can be seen that 2021 was another strong year for VDS operationally. Additional members combined with a movement towards higher levels of cover meant increased premium income while our investment portfolio proved resilient in a variable market, giving us assurance that the investment strategy and risk appetite VDS established in 2018 is functioning well. As with all regulated insurance companies, we are required to hold reserves to meet potential liabilities from claims and VDS is careful to balance the capital ratios we require to be prudent, against budgeted surplus. This year, with some of the unknowns of Brexit and Covid-19 receding we have also returned another substantial mutual bonus as a discount on the 2022 premiums.

At a time when some members of the veterinary community are increasingly in need of emotional, financial and mental health support VDS continues to provide an annual contribution to Vetlife with a donation of £70,000 this year. Members' proxy voting continued to raise a small sum this year and members have also donated an additional £41,371 during the renewal process. Similarly, we donated €9,000 to the Irish Veterinary Benevolent Fund with a further €6,407 being raised from proxy voting returns and members' donations. Both organisations continue to do exceptional work for the profession.

I am proud and humbled to be part of the VDS team and I would like to take this opportunity to thank everyone at VDS for their ongoing commitment and resilience, with at all times our members being front and centre. From the ongoing governance and strategic insight of our Directors and the clear vision set out and delivered on by our Executive Team, to the vast array of important roles each of our colleagues carries out every day, we seek to work as one on behalf of our members, always striving to uphold a truly healthy culture across the Society.

I am delighted to report that 2022 will see further developments at VDS, such as our increased focus on sustainability, climate change, and on all other ESG aspects of the business. We will continue reviewing our investment strategy to ensure that it is increasingly aligned towards a more sustainable, climate-friendly strategy. We will be ensuring our people plans are effective and robust with a clear focus on all aspects of diversity and inclusion. We will continue developing digital solutions to support and inform, but not dictate our member experiences and importantly continue evolving our training and risk management services.

We are confident that our ethos and principles at VDS are ever more relevant in our current society, meeting the growing expectations of members, as well as our responsibilities as a sustainable, mutual, organisation. We are clear on our vision and purpose to be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them, enabling a focus on improving animal health and welfare. I thank our members on behalf of VDS for your support and trust in us and we look forward to working on your behalf and supporting you through 2022 and beyond.

David H. Black

D H Black BVM&S DVetMed DBR FRCVS
Chair of the Board
30th March 2022

2021 - the big picture...

Our vision

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

Member support

19,000
ADVICE FILES

13,000
TRAINING DELEGATES

1,700
NEW CLAIMS CASES OPENED

76% INCREASE
IN THE NUMBER OF VETSAFE REPORTS GENERATED

Our values

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.

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.

Our purpose

To protect 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.

27% INCREASE
IN CLAIMS

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

20% INCREASE
IN ADVICE REQUESTS

WE ALSO ACHIEVED INVESTORS IN THE ENVIRONMENT BRONZE ACCREDITATION

INVESTORS IN THE ENVIRONMENT BRONZE 2021

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.


VDS

Strategic Report

Introduction

One of the strategic questions facing most companies, but in particular those who have been in existence for a considerable time, is how they can continue to remain relevant when the pace of change and requirements continues to accelerate around them. It is with great pride in the VDS team, and belief in the market as a whole, that I present this Strategic Report on behalf of the directors in a year when the outcomes and activities clearly demonstrated the relevance and value of our services and the importance of the broader market.

The VDS purpose is to protect and support veterinary professionals, practices and businesses, enabling them to focus on animal health and welfare and this role became ever more important in a year where the requirements of members increased and changed due to a range of different dynamics. The number of members that we supported increased through the year and the number of ways that we supported members increased and broadened.

Our approach to protecting members is unique and is built upon our vision to be the most trusted partner of our members, not a supplier or provider, but a true partner. This has enabled us to identify needs where we can add value and develop our products and services for our members. This culture and way of working is supported by our in-depth knowledge of the veterinary market supplemented by our financial services expertise, has produced a broad range of risk management services that reflects the ever changing and escalating range of risks that our members face.

Business Review

The risks, challenges and pressures faced by our members saw increased demand across our full range of services. Claims volumes in 2021 increased by 27% on the prior year, together with an increase of 20% in the number of times our experienced team supported a need for advice from one of our members. This early intervention in a potential issue helps to prevent further escalation and the associated time, cost and stress for our members.

VetSafe is a service which aims to improve veterinary patient safety, quality of care and clinician wellbeing by facilitating the investigation of significant events and errors in veterinary practice, supporting VDS members in quality improvement and sharing trends across the profession. The number of reports generated in 2021 was 76% higher than in 2020 which shows the increased focus in this area and continues to increase our insights and robustness of benchmarking across the profession.

We also experienced an increase in demand for our training services. These aim to reduce areas of identified risk through non-clinical training solutions and we reached over 1,000 members of the profession in over 100 practices through specifically tailored activities. We also saw the introduction of over 20 new programmes and workshops created in the year. In addition, we supported over 12,000 veterinary professionals and practice teams in over 500 group workshops or coaching sessions. Our culture survey, a diagnostic tool which identifies areas that would benefit from additional development or improvement, saw a marked increase in demand and our teams helped to interpret the results and develop training interventions that made a targeted impact as a result.

In addition to the support provided through the services described, our operational teams responded to over 100,000 contacts from our members through the year.

Our Environmental, Social and Governance (ESG) plans developed significantly through the year. We agreed our plan for managing climate-related financial risks assessing, amongst others, our potential risks from both a claims, investment, and ultimately a solvency perspective. This has seen the approval of a phased plan starting with changes to a more 'climate-tilted' investment approach from the beginning of 2022. We brought together an internal Green Group of colleagues who reviewed our operations from an environmental perspective and put in place plans and targets for improvement. This culminated in VDS achieving Investors in the Environment bronze accreditation. We plan to further accelerate activity in this high priority area in 2022. We also sent out a joint survey, with Vet Sustain to members. The results are now being assessed to identify areas where help and support are required.

Similarly, we consider that our diversity and inclusion planning activity is crucial to the development of our culture and governance for our members, customers and colleagues. We will continue to develop our plans and activity in 2022, focussing on our treatment of customers and ensuring healthy working cultures and behaviours.

A core focus during the year centred around the health and wellbeing of our team as we navigated the ongoing impact and subsequent restrictions of the pandemic. Throughout the period, we based our plans on government guidance and supplemented these with specific measures to support our ongoing operations. Our team has remained predominantly home-based except for where there has been a specific business need for colleagues to come to the office, however the need to connect colleagues and teams has also been considered and will play a huge part as we turn to a more hybrid way of working. It is a testament to the high standards of our team, that our service levels have been maintained despite the challenges of home-working and increased demand for our services. We are taking all the lessons learnt over the past two years to feed into our plans for future ways of working and changing colleague expectations and requirements. I also reviewed and refreshed the Executive Team to support the changing nature of our plans and to ensure that we have a diverse range of skills, background and perspectives.

Premium income increased 7% when compared to 2020, predominantly driven by an increase in the number of members.

The gross cost of claims and claims services increased by 16% on the prior year reflecting the increased activities and member requirements highlighted earlier. We also took the decision to repay furlough monies initially claimed at the onset of the pandemic, after which we saw the demand for our services quickly recover and surpass previous levels.

2021 marked the first full year that our Irish branch was fully operational following a period of detailed planning and execution. This was our preferred option to ensure that we could continue to support our Irish members post Brexit and I am delighted to report that the transition was managed smoothly with our services and support continuing as normal.

The Key Performance Indicators used were as follows:

Strategic Report KPIs	2021	2020
Gross written premium before return of premium (£)	15,820,037	14,746,994
Return of premium (£)	1,200,000	1,800,000
Gross claims paid (£)	6,747,153	5,817,411
Deferred income (£)	6,310,733	6,269,516
Net operating expenses (£)	5,263,325	5,198,000
Balance on technical account (£)	2,647,602	1,359,514
Surplus for year (£)	2,276,798	1,371,807
Net increase in cash (£)	1,851,498	2,610,967
Investment portfolio (£)	31,744,493	31,306,360
Combined Ratio[1]	86%	99%
Employee retention[2]	89%	91%

[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

If ever there was a year that demonstrated the value and impact that the veterinary market has on animal health and welfare and also on families, communities, businesses and the economy as a whole, 2021 was it. The growth in domestic pet ownership and the new and changing requirements around exportation and travelling with pets into Europe have had a significant effect.

The wide-reaching impacts of the pandemic across the market created a perfect storm of increased demand for new and ongoing veterinary services and escalating workplace pressures. This has resulted in increased risks and support requirements. Corporate acquisition activity has accelerated further from that seen in 2020 with additional international activity from most of the large corporate groups.

Strategy and Business Plan

The VDS strategy is designed to strengthen and extend the relationship with veterinary professionals, practices and businesses. This will see a continued dedication to the veterinary market, taking into account the changing requirements reflecting the environment. We will introduce more personalised and tailored product variants and services to support a more diversified market. Our plans will be enabled through investment in data, communications and IT infrastructure that will inform and further create a more integrated and connected range of services that provide ongoing and increased value to members.

The strategy also recognises the increased importance of a connected, capable, resilient and engaged team of colleagues and signals the importance of recognising ESG and diversity and inclusion plans as part of a way of working and not as separate workstreams.

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

Our Business Model

Ultimately, we believe that our mutual model, that means we do not have to pay dividends or profits to shareholders, remains just as relevant today as throughout our 156-year 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 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. During 2021 and following the introduction of a series of investment constraints in 2020, the Board approved a change to its asset allocation to allow investment in funds directly established to respond to the challenges of climate change. Further options regarding investments designed to meet the environmental, social and governance aspects of climate change will be considered in 2022. 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 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 fails 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 2021 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 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 ongoing economic and regulatory ramifications of the UK withdrawal from the EU and the likely threats to our business and the wider economy as a result.
- The potential long-term effects of Covid-19 on the Society's business, members and staff.
- 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 four veterinary professionals on the Board who are eligible for membership and are connected to the veterinary market (as listed on page 1). There are two formal Board strategy sessions, the last being in November 2021 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 in 2021, safely and securely working from home with increased communication and more contact channels. These plans will continue into 2022 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. During 2021, the Society's external investment advisers Redington attended the Board's strategy meeting to provide an overview of the investment markets and the performance of the Society's investment portfolio. Redington subsequently provided the Board with a series of options designed to address the financial risks of climate change to the Society's portfolio and to encompass more ESG-focussed investments. 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 2021 this included attendance by non-executive directors at the Society's claims meetings. 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.

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 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
30th March 2022

Directors' Report

Directors' report for the year ended 31 December 2021

The directors present their report and audited financial statements of the group and company for the year ended 31 December 2021.

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.

Going concern

Having continually assessed the principal risks and in particular the impact of Covid-19, 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 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, as further described in the viability statement.

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 response by increasing interest rates. At the time of approval of the Annual Report & Financial Statements there has been minimal financial impact from the Covid-19 pandemic on the Society's core business and the volatility on the investments is well within the Board's risk appetite.

The conflict in eastern Europe between Ukraine and Russia has been assessed by the Board. There is minimal exposure to the Society other than the associated volatility within the financial markets, this will be monitored closely into the future.

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 2022 the Board will continue to monitor this with the intention to further enhance the ESG profile of the investment portfolio.

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 (Appointed 24 November 2021)

D H Black

B M H Bussell

D S Green (Resigned 31 July 2021)

G J Lawrie

H J Jones (Resigned 28 July 2021)

J R Coates

A R J Davies

G Ravetz

R Clapham

The following 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 £70,000 (2020: £70,000) were made to Vetlife and €9,000 (2020: €9,000) to the Irish Veterinary Benevolent Fund (IVBF) in the year. In addition to the above donations, as a result of returned 2021 AGM proxy forms, further charitable donations of £30 (2020: £212) and €2 (2020: €14) were made to Vetlife and the IVBF respectively.

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 2022 to 2024. This includes a full financial forecast for this period. Our financial forecasts assume that the impact of Covid-19 pandemic 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 2021. 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 strong cash position and the liquid nature of the investment portfolio which allows for immediate access to funds to provide adequate access to 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 as a going concern in the period of three years to 31 December 2024.

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, Gavin Lawrie, Gudrun Ravetz and Andrew Davies.

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 2021 is provided below.

The Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary and representatives from the internal and external auditors also attend committee meetings. 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 and David Black 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 Director, Richard Clapham, Gudrun Ravetz and the Society's Chief Executive Officer Raman Sankaran. The Committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive 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, Gavin Lawrie, Gudrun Ravetz, Andrew Davies 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.

Directors' attendance at Board and Committee meetings during year ending 31 December 2021.

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).*

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.

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

[1] Retired from Remuneration Committee July 2021
[2] Retired from Board and Audit Committee July 2021
[3] Retired from Nominations Committee July 2021
[4] Joined Remuneration and Nominations Committees July 2021
[5] Joined Audit and Risk & Compliance Committees July 2021
[6] Joined Nominations, Audit and Risk & Compliance Committees July 2021
[7] Retired from Board July 2021

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 2021 as a result of staff having 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 2021, the Board comprised two executive directors and seven non-executive directors, three of whom are subject to re-election by the membership at the 2022 AGM. The newly appointed CFO is also subject to election by the members at the AGM in 2022. 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 nine years from his first election at the 2012 AGM and remains in post for a further year from the 2021 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 however are made on merit against objective criteria and in line with the requirements of the succession plan. All directors must meet and maintain the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority 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 2021, as part of its longer-term succession planning, the committee oversaw the appointment of a new executive director as Chief Financial Officer. A vigorous and thorough process was followed to ensure that the most appropriate candidates were identified. The process considered the current skill sets around the Board and the future strategic business and leadership needs of the Society. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business 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.

On 28 July 2021, at the Society's AGM, Richard Clapham, Gudrun Ravetz and Andrew Davies were elected to the Board as Non-Executive Directors. The Chair, David Black, was re-elected to office by Special Resolution to serve a further 12 months on the Board.

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 28 July 2021.

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 as this is not consistent with the Society's business model.

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

The Society's Remuneration Policy has to date secured and retained senior employees of the right calibre, sharing a common purpose aligned to the Society's strategy. The business plan, agreed at the end of 2021, will require a review of current reward and benefits programme to ensure it supports the Society's culture, values, ways of working and Business Plan requirements.

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 of the Board and chairs of its respective Committees are available to answer questions.

The 2021 AGM was the second AGM to be held remotely as a result of the Covid-19 outbreak. Members were invited to ask questions prior to the meeting following publication of the Notice of AGM and the Annual Report & Financial Statements 2020.

As a consequence of the Covid-19 outbreak, in particular, the social distancing requirements, and in contemplation of these prevailing for some time, amendments were made at the AGM 2020 to enhance the Board's ability to communicate with the members electronically, via its website, by email or other electronic means. New Articles of Association in place now give a number of options to the Board when calling future General Meetings. It is a constant theme of the Board to continually assess whether the Society continues to meet the ever-changing needs of the veterinary profession and this underpins all strategic and operational discussions at Board and Executive Team level. In meeting members' requirements, the Society is alert to every opportunity to obtain feedback from its members and fully utilises its links into the profession provided by its claims consultants, claims advisers and other members of staff, as well as through the Membership Team.

Audit Committee Report

The Committee met four times during 2021.

During 2021, 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 on their respective reports. In doing so, the Committee was able to assure the Board of the effectiveness of the Society's audit programme and of the independence and objectivity of the internal and external auditors. The Society's internal audit 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 2021 the following internal audits were carried out:

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

During 2021, the Society's current IT project, known as VDSNet 4, remained within the scope of the internal audit programme and has been merged with the plan envisaged for 2022.

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 2021. The plan set out PwC's approach to the audit of the Society's Annual Report & Financial Statements 2021. 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 2021, 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 2021
- Reviewing the appropriateness of the Society's accounting policies
- Reviewing and approving the 2021 audit fee in conjunction with an assessment of external auditors' performance
- Reviewing the plan for the 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 new 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 2021 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 2021

On 24 November 2021, 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 2 November 2021. 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 2022.

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.

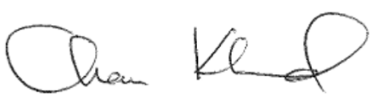
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements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



Alan Kirkwood
Chief Financial Officer
30th March 2022

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 2021 and of the group's profit 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 2021; 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 or its controlled undertakings 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: £470,946 (2020: £446,432) based on 1% of total assets.
- Overall company materiality: £447,398 (2020: £424,111) based on 1% of total assets.
- Performance materiality: £353,208 (2020: £334,824) (group) and £335,549 (2020: £318,083) (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.

Impact of Covid-19 (group and parent), which was a key audit matter last year, is no longer included because we deem our consideration of this area in the current year to be adequately captured by our other key audit matters and does not represent an area of increased audit attention in its own right. Otherwise, the key audit matters below 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 2021, technical provisions total £8.3m (£8.2m at 31 December 2020). Refer to page 36 (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 £2.7m of the technical provision balance as at 31 December 2021 (2020: £2.9m). In the context of our audit, this is also an area of significant audit effort.

We determined the key audit matter in respect of the valuation of technical provisions to be the methodology, assumptions and judgements used to determine the IBNR and IBNER.

Areas of particular focus include:

- Consistency of approach 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
- Final process around the selection of the IBNR and IBNER estimates made by management. The appropriateness of significant assumptions and judgements made and the degree of caution with respect to key areas of uncertainty.

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 as a result of Covid-19
- 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 £3.7m of the technical provision balance as at 31 December 2021 (2020: £3.6m). 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.

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	£470,946 (2020: £446,432).	£447,398 (2020: £424,111)
How we determined it	1% of total assets	1% of total assets
Rationale for benchmark applied (Both group and company)	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, surplus based 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 are satisfied that our overall materiality was also reasonable in relation to other Key Performance Indicator metrics reported by the group, including the earned premium, balance on the technical account and surplus after tax.	

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 £447,398. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% (2020: 75%) of overall materiality, amounting to £353,208 (2020: £334,824) for the group financial statements and £335,549 (2020: £318,083) 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) (2020: £15,000) and £15,000 (company audit) (2020: £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:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of Covid-19 and geopolitical risks
- 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 2021 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. 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
- Reviewing financial statement disclosures and testing to support documentation to assess compliance with applicable laws and regulations
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- 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).

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 7 years, covering the years ended 31 December 2015 to 31 December 2021.

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

30th March 2022

Consolidated Statement of Comprehensive Income

Year ended 31 December 2021

	Notes	2021 £	2020 £
Technical account			
Gross written premiums before return of premium	5	15,820,037	14,746,994
Return of premium		(1,200,000)	(1,800,000)
Gross written premiums		**14,620,037**	**12,946,994**
Outward reinsurance premiums		(1,040,336)	(970,361)
Net premiums written and earned premiums net of reinsurance		**13,579,701**	**11,976,633**
Allocated investment income transferred from the non-technical account	10	743,309	1,289,053
Total technical income		**14,323,010**	**13,265,686**
Claims incurred, net of reinsurance			
Gross claims paid	6	(6,747,153)	(5,817,411)
Reinsurers' share of gross claims paid	6	543,487	173,195
Net claims paid		**(6,203,666)**	**(5,644,216)**
Change in gross provisions for claims	6,17	(60,757)	(956,790)
Change in reinsurers' share	6,17	(147,660)	(107,166)
Change in net provisions for claims		**(208,417)**	**(1,063,956)**
Claims incurred, net of reinsurance		**(6,412,083)**	**(6,708,172)**
Net operating expenses	7	(5,263,325)	(5,198,000)
Total technical charges		**(11,675,408)**	**(11,906,172)**
Balance on technical account		**2,647,602**	**1,359,514**
Non-technical account			
Balance on technical account		2,647,602	1,359,514
Other income	3	569,521	433,969
Other expenses	3	(895,088)	(410,174)
Investment income	10	435,982	433,589
Net gains on realisation of investments	10	493,707	475
Unrealised (losses) /gains on investments	10	(11,893)	1,030,509
Investment expenses and charges	10	(29,882)	(21,297)
Allocated investment income transferred to the technical account	10	(743,309)	(1,289,053)
Surplus on ordinary activities before tax		**2,466,640**	**1,537,532**
Tax on surplus on ordinary activities	11	(189,842)	(165,725)
Surplus for the financial year		**2,276,798**	**1,371,807**
Other comprehensive expense:			
Revaluation of land and buildings	13	(50,000)	(50,000)
Total comprehensive income for the year		**2,226,798**	**1,321,807**

All of the operations of the Group are continuing.

Consolidated and Company Balance Sheets

As at 31 December 2021

		Group		Company	
	Note	2021 £	2020 £	2021 £	2020 £
Assets					
Intangible assets					
Intangible assets	12	700,757	510,327	699,388	500,743
Investments					
Land and buildings	13	1,225,000	1,275,000	1,225,000	1,275,000
Other financial investments	14	31,744,493	31,306,360	31,744,495	31,306,362
		32,969,493	**32,581,360**	**32,969,495**	**32,581,362**
Reinsurers' share of technical provisions		113,666	261,326	113,666	261,326
Debtors					
Debtors arising out of direct insurance operations - policyholders	15	503,117	255,309	503,117	255,309
Debtors arising out of reinsurance operations	15	10,766	-	10,766	-
Other debtors	15	1,235,339	1,352,254	1,193,853	1,244,795
Amounts receivable from group companies	15	-	-	396,326	1,760
		1,749,222	**1,607,563**	**2,104,062**	**1,501,864**
Other Assets					
Tangible assets	16	250,592	288,047	227,426	234,575
Cash at bank and in hand		10,927,612	9,076,114	10,605,299	8,906,613
		11,178,204	**9,364,161**	**10,832,725**	**9,141,188**
Prepayments and accrued income		383,232	344,265	372,145	332,025
TOTAL ASSETS		**47,094,574**	**44,669,002**	**47,091,481**	**44,318,508**
Reserves and Liabilities					
Revaluation reserve					
At 1 January		262,247	312,247	262,247	312,247
Revaluation in year		(50,000)	(50,000)	(50,000)	(50,000)
		212,247	262,247	212,247	262,247
Income and expenditure reserve					
At 1 January		26,931,519	25,559,712	26,720,076	25,360,562
Surplus for the financial year		2,276,798	1,371,807	2,647,602	1,359,514
		29,208,317	26,931,519	29,367,678	26,720,076
Technical provision - claims outstanding	17	8,271,817	8,211,060	8,271,817	8,211,060
Creditors: amounts falling due within one year	18	1,362,479	1,337,641	1,269,487	1,284,169
Accruals and deferred income	19	8,039,714	7,926,535	7,970,252	7,840,956
TOTAL LIABILITIES AND RESERVES		**47,094,574**	**44,669,002**	**47,091,481**	**44,318,508**

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 30th March 2022. Signed on behalf of the Board.

Alan Kirkwood
Chief Financial Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2020	25,559,712	312,247	25,871,959
Profit for the year	1,371,807	-	1,371,807
Revaluation of land and buildings	-	(50,000)	(50,000)
Balance as at 31 December 2020	26,931,519	262,247	27,193,766
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)
Balance as at 31 December 2021	**29,208,317**	**212,247**	**29,420,564**

Company Statement of Changes in Equity

Year ended 31 December 2021

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2020	25,360,562	312,247	25,672,809
Profit for the year	1,359,514	-	1,359,514
Revaluation of land and buildings	-	(50,000)	(50,000)
Balance as at 31 December 2020	26,720,076	262,247	26,982,323
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)
Balance as at 31 December 2021	**29,367,678**	**212,247**	**29,579,925**

Consolidated Cash Flow Statement

Year ended 31 December 2021

	Note	2021 £	2020 £
Operating Activities			
Net cash inflow from operating activities	21	1,853,019	2,600,811
Tax paid		(171,562)	(137,661)
Interest and dividends received		436,679	456,673
Net cash generated from operating activities		**2,118,136**	**2,919,823**
Investing Activities			
Purchase of tangible assets		(74,922)	(63,390)
Capitalisation of intangible assets		(206,465)	(212,873)
Proceeds on sale of tangible assets		-	-
Other investment management fees paid		(28,932)	(37,131)
Sale of debt securities and shares and other variable-yield units in unit trusts		3,538,718	19,757
Purchase of debt securities and shares and other variable-yield units in unit trusts		(3,495,000)	-
Net payments to deposits with credit institutions		(37)	(15,219)
Net cash used in investing activities		**(266,638)**	**(308,856)**
Net increase in cash at bank and in hand		**1,851,498**	**2,610,967**
Cash and cash equivalents at the beginning of the year		9,076,114	6,465,147
Cash and cash equivalents at the end of the year		**10,927,612**	**9,076,114**

Cash and cash equivalents consists of:		
Cash at bank and in hand	10,927,612	9,076,114
Cash and cash equivalents at the end of the year	**10,927,612**	**9,076,114**

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 not having share capital. The address of the Company's registered office is 4 Haig Court, Parkgate 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 he/she is a member, or within one year after he/she ceases to be a member, for payment of the Society's debts and liabilities contracted before he/she 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 separate 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

Having assessed the principal risks, and in particular Covid-19, they are not expected to have any significant impact on the Society. The directors have determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. It expects that Covid-19 might have some impact, though not significant, in relation to expected future performance, or the effects on future investment asset valuations. 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 2021, there was a charge of £1,200,000 (2020: £1,800,000) which was Board approved. Of this charge, £600,000 (2020: £600,000) is deferred to be returned in next year's renewal process (subject to future performance) with the remainder returned in current year renewals. The return of premium for 2022 renewals was £1,200,000 which includes the deferral from the prior financial year.

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 entity. 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 dominated 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.

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 acquisition 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 £8,271,817 (2020: £8,211,060) 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 incurred 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	
	2021	**2020**
United Kingdom	**£**	**£**
Gross written premiums before return of premium	15,820,037	14,746,994
Return of premium	(1,200,000)	(1,800,000)
Gross written premiums	**14,620,037**	**12,946,994**

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 £1,658,434 (2020: £1,474,934).

6. Claims incurred

	Group	
	2021	2020
	£	£
Gross claims paid	6,747,153	5,817,411
Reinsurers' share of gross claims paid	(543,487)	(173,195)
Net claims paid	**6,203,666**	**5,644,216**
Change in gross provisions for claims	60,757	956,790
Change in reinsurers' share	147,660	107,166
Change in net provisions for claims	**208,417**	**1,063,956**
Claims incurred, net of reinsurance	**6,412,083**	**6,708,172**

A negative run-off deviation of £719,394 (2020: negative £225,285) arose on prior years' claims. Run-off deviations arise from changes in claims status as further particulars are received.

7. Net operating expenses

	Group	
	2021	2020
	£	£
Acquisition costs	1,013,466	895,919
Administration expenses	4,249,859	4,302,081
	5,263,325	**5,198,000**

Administration expenses include:		
Depreciation and amortisation	128,412	107,650
Exchange rate loss / (gain)	306,466	(103,726)
Professional fees	151,238	174,986
Consultancy fees	147,376	211,210
Fees payable to the group's auditors for the audit of the Company and the Group's consolidated financial statements	121,500	118,000

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

8. Employees

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Wages and salaries	6,032,788	5,758,241	5,866,957	5,609,490
Social security costs	682,632	650,507	662,861	632,406
Pension and other costs	611,419	589,183	594,303	571,530
	7,326,839	**6,997,931**	**7,124,121**	**6,813,426**
	No.	**No.**	**No.**	**No.**
Average number of persons employed (including directors), all of whom were involved in administration for the group	86	80	84	78

9. Directors' remuneration

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

	Group	
	2021	2020
	£	£
Remuneration	610,615	748,004

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	3	3
The pension contributions to defined contribution pension schemes for the year	37,033	49,508
Remuneration of highest paid director	195,394	194,783
Pension contributions to the defined contribution pension scheme of the highest paid director	18,947	18,777

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

The former Finance Director left the business on 28 July 2021. He was provided with compensation for loss of office as detailed below.

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

10. Investment return

	Group	
	2021	2020
	£	£
Investment Income		
Income on financial assets at fair value through profit and loss	435,393	428,233
Income on financial assets not at fair value through profit and loss	589	5,356
Total income from other financial assets	435,982	433,589
Net gains on the realisation of investments	493,707	475
	929,689	**434,064**
Investment expenses and charges		
Other investment management fees	(29,882)	(21,297)
Net unrealised (losses) / gains on investments	(11,893)	1,030,509
Total investment return	**887,914**	**1,443,276**
Investment return is analysed between:		
Allocated investment return transferred to the technical account	743,309	1,289,053
Net investment return included in the non-technical account	144,605	154,223
Total investment return	**887,914**	**1,443,276**

A 1% increase / decrease in the investment portfolio valuation would result in an increase / decrease in longer-term investment return of £317,445 (2020: £313,064).

11. Tax on surplus on ordinary activities

	Group	
	2021	**2020**
	£	**£**
Analysis of tax charge for the period		
Current Taxation		
UK Corporation Tax at 19%	62,817	293,275
Adjustment in respect of previous years	(27,485)	(94,329)
Total current tax charge	35,332	198,946
Deferred tax		
Origination and reversal of timing differences	148,044	(39,538)
Effect of tax rate change on opening balance	6,466	6,317
Total deferred tax charge / (credit)	154,510	(33,221)
Tax on profit on ordinary activities	189,842	165,725
Provision for deferred tax		
Capital gains	174,987	20,477
Movement in provision		
Provision at the start of period	20,477	53,698
Deferred tax charged / (credited) in the statement of comprehensive income for the year	154,510	(33,221)
Provision at the end of the period	**174,987**	**20,477**
Deferred tax (asset) / liability not recognised	-	(440)

11. Tax on surplus on ordinary activities (continued)

The charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	Group	
	2021	**2020**
	£	**£**
Surplus on ordinary activities before tax for the year	2,466,640	1,537,532
Tax at standard Corporation Tax rate of 19% (2020: 19%)	468,662	292,131
Effects of:		
Deferred tax not recognised	-	5,225
Reduction in tax rates on deferred tax balances	-	6,317
Deductible expenses	(13,552)	(14,937)
Non-deductible mutual loss (balance on technical account)	-	(15,940)
Expenses not deductible for tax purposes	103,483	-
Adjustment to tax charge in respect of previous periods	(27,485)	(94,329)
Non-taxable dividend income	(14,108)	(12,742)
Movement in unrecognised deferred tax	5,367	-
Remeasurement of deferred tax for changes in tax rates	41,890	-
Non-deductible loss of mutual trade	(364,915)	-
Other permanent differences	(9,500)	-
Tax charge for year	189,842	165,725

The tax rate for the current year 19% and has been in effect since the 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 liability at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2020: 19%)

12. Intangible assets

	Group				Company			
	Website & software	Goodwill	Software in progress	Total	Website & software	Goodwill	Software in progress	Total
	£	£	£	£	£	£	£	£
Cost								
At 1 January 2021	113,522	30,000	471,101	614,623	88,877	-	471,101	559,978
Additions	-	-	206,465	206,465	-	-	206,465	206,465
At 31 December 2021	113,522	30,000	677,566	821,088	88,877	-	677,566	766,443
Accumulated amortisation								
At 1 January 2021	74,296	30,000	-	104,296	59,235	-	-	59,235
Charge	16,035	-	-	16,035	7,820	-	-	7,820
At 31 December 2021	90,331	30,000	-	120,331	67,055	-	-	67,055
Net book value								
At 31 December 2021	23,191	-	677,566	700,757	21,822	-	677,566	699,388
At 31 December 2020	39,226	-	471,101	510,327	29,642	-	471,101	500,743

In 2019 the Group began the development of a wholly new computer 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 £206,465 (2020: £212,873). 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 2022.

13. Land and buildings

	Group and Company	
	Freehold Land & Buildings	Total
	£	£
Cost		
At 1 January 2021	1,275,000	1,275,000
Revaluations	(50,000)	(50,000)
At 31 December 2021	1,225,000	1,225,000
Net book value		
At 31 December 2021	1,225,000	1,225,000
At 31 December 2020	1,275,000	1,275,000

A valuation of land and buildings as at 31 December 2021 was carried out on 16 November 2021 by Miles Lewis LLP Chartered Surveyor at fair value for existing use. This was valued at £1,225,000 (2020: £1,275,000).

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. 2021 reduction in value of £50,000 (2020: reduction in value £50,000).

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

	Group and Company	
	2021	2020
	£	£
Cost	1,334,762	1,334,762
Depreciation	(483,903)	(457,208)
Net book value	**850,859**	**877,554**

14. Other financial investments

	Group			
	2021		2020	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities and other fixed income securities	18,476,403	18,041,144	19,212,159	18,041,144
Shares and other variable-yield securities and unit trusts	8,604,606	8,043,827	7,430,754	7,347,039
Deposits with credit institutions	4,663,484	4,663,484	4,663,447	4,663,447
Other financial investments	**31,744,493**	**30,748,455**	**31,306,360**	**30,051,630**

	Company			
	2021		2020	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities and other fixed income securities	18,476,403	18,041,144	19,212,159	18,041,144
Shares and other variable-yield securities and unit trusts	8,604,608	8,043,829	7,430,756	7,347,041
Deposits with credit institutions	4,663,484	4,663,484	4,663,447	4,663,447
Other financial investments	**31,744,495**	**30,748,457**	**31,306,362**	**30,051,632**

15. Debtors

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Debtors arising out of direct insurance operations - policyholders	503,117	255,309	503,117	255,309
Debtors arising out of reinsurance operations	10,766	-	10,766	-
Other debtors	1,235,339	1,352,254	1,193,853	1,244,795
Amounts owed by group undertakings	-	-	396,326	1,760
	1,749,222	**1,607,563**	**2,104,062**	**1,501,864**

Within other debtors is a balance of £799,871 (2020: £848,825) 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. In 2019 the Board considered the recoverability of the intercompany loan to VDS Training Services Limited and formed the view that it would be appropriate to impair the balance in those financial statements. As a result, the loan balance due was written down by £544,648 to nil. Since then, and in part driven by a move to an online training proposition due to Covid-19, VDS Training Services Limited has become profitable and cash generative, the Board's concerns regarding recovery of the loan have abated as supported by future cash flows. As a result the impairment of the intercompany loan was reversed in 2021: £544,648 (2020: £NIL). A first repayment was made in the year amounting to £150,000 (2020: £NIL).

16. Tangible assets

	Group		Company	
	Fixtures & fittings	Total	Fixtures & fittings	Total
Cost	£	£	£	£
At 1 January 2021	2,162,221	2,162,221	2,011,996	2,011,996
Additions	74,922	74,922	74,922	74,922
At 31 December 2021	2,237,143	2,237,143	2,086,918	2,086,918
Accumulated amortisation				
At 1 January 2021	1,874,174	1,874,174	1,777,421	1,777,421
Charge	112,377	112,377	82,071	82,071
At 31 December 2021	1,986,551	1,986,551	1,859,492	1,859,492
Net book value				
At 31 December 2021	250,592	250,592	227,426	227,426
At 31 December 2020	288,047	288,047	234,575	234,575

17. Technical provisions – claims outstanding

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

	Group and Company	
	2021	**2020**
Gross Provision	**£**	**£**
At 1 January	8,211,060	7,254,269
Utilised during the year	(2,362,274)	(1,879,723)
Actuarial variations	(181,657)	749,000
Additional provisions	2,604,688	2,087,514
At 31 December	**8,271,817**	**8,211,060**
Represented as:		
Specific case reserves	3,672,838	3,600,701
Claims handling provision	1,920,636	1,750,359
IBNR / IBNER	2,678,343	2,860,000
	8,271,817	**8,211,060**
Reinsurers' Share		
At 1 January	261,326	368,492
Reduction provisions	(147,660)	(107,166)
At 31 December	**113,666**	**261,326**

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 £367,284 (2020: £360,070).

18. Creditors: amounts falling due within one year

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Pension scheme contributions	62,710	61,451	61,439	60,191
Other creditors	350,790	182,729	338,138	175,295
Taxation and social security	948,979	1,093,461	869,910	1,048,683
	1,362,479	**1,337,641**	**1,269,487**	**1,284,169**

19. Accruals and deferred income

	Group		Company	
	2021	2020	2021	2020
	£	£	£	£
Accruals	385,818	538,424	378,257	523,536
Return of premium	1,343,163	1,118,595	1,343,163	1,118,595
Deferred income	6,310,733	6,269,516	6,248,832	6,198,825
	8,039,714	**7,926,535**	**7,970,252**	**7,840,956**

20. Pension costs

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 £549,524 (2020: £470,084) representing contributions payable by the Group during the year in respect of qualifying employees and £37,033 (2020: £49,508) in respect of directors. Contributions are charged to the statement of comprehensive income as incurred.

Unpaid contributions at the year-end were £62,710 (2020: £61,451).

21. Reconciliation of surplus to net cash inflow from operating activities

	Group	
	2021	2020
	£	£
Surplus for the financial year	2,276,798	1,371,807
Adjustments for:		
Tax charge	189,842	165,725
Investment income	(435,982)	(433,589)
Net gains on realisation of investments	(493,707)	(475)
Other investment management fees	29,882	21,297
Unrealised losses / (gains) on investments	11,893	(1,030,509)
Depreciation on tangible assets	112,377	130,136
Amortisation of intangible assets	16,035	21,035
(Increase) / decrease in debtors arising out of direct insurance operations	(247,808)	26,588
(Increase) / decrease in debtors arising out of reinsurance operations	(10,766)	20,913
Decrease / (increase) in other debtors	116,915	(947,564)
Increase in prepayments and accrued income	(39,664)	(83,051)
Increase in net technical provisions	208,417	1,045,026
Increase in creditors, accruals and deferred income	118,787	2,293,472
Net cash inflow from operating activities	**1,853,019**	**2,600,811**

22. Financial instruments

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

	Group		Company	
	2021	**2020**	**2021**	**2020**
	£	**£**	**£**	**£**
Financial assets at fair value through profit and loss				
Debt securities and other fixed income securities	18,476,403	19,212,159	18,476,403	19,212,159
Shares and other variable-yield securities in unit trusts	8,604,606	7,430,754	8,604,608	7,430,756
	27,081,009	**26,642,913**	**27,081,011**	**26,642,915**
Financial assets that are debt instruments measured at amortised cost				
Debtors arising out of direct insurance operations – policyholders	503,117	255,309	503,117	255,309
Debtors arising out of reinsurance operations	10,766	-	10,766	-
Other debtors	1,235,339	1,352,254	1,193,853	1,244,795
Intercompany debtors	-	-	396,326	1,760
Deposits with credit institutions	4,663,484	4,663,447	4,663,484	4,663,447
Cash at bank and in hand	10,927,612	9,076,114	10,605,299	8,906,613
	17,340,318	**15,347,124**	**17,372,845**	**15,071,924**
Financial liabilities that are debt instruments measured at amortised cost				
Other creditors including taxation and social security	**1,362,479**	**1,337,641**	**1,269,487**	**1,284,169**

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	
	2021	2020
	£	£
Income on financial assets at fair value through profit and loss	435,393	428,233
Other investment management fees	(29,882)	(21,297)
Net gains on the realisation of investments	493,707	475
Net unrealised (losses) / gains on investments	(11,893)	1,030,509
	887,325	**1,437,920**

(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 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**

Within the Company there is an additional amount of £2 (2020: £2) recognised as a level 3 investment in relation to the investment in the subsidiary companies.

As at 31 December 2020	**£ Level 1**	**£ Total**
Debt securities and other fixed income securities	19,212,159	19,212,159
Shares and other variable-yield securities and units in unit trusts	7,430,754	7,430,754
	26,642,913	**26,642,913**

(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

As 31 December 2021	Group and Company						
	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**

As 31 December 2020	AAA	AA	A	BBB	BB	Other	Total
	£	£	£	£	£	£	**£**
Debt securities and other fixed income securities	5,170,824	6,542,034	7,435,067	64,234	-	-	**19,212,159**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	7,430,754	**7,430,754**
Deposits held with credit institutions	-	2,397,012	2,266,435	-	-	-	**4,663,447**
Cash at bank and on hand	-	-	9,075,460	-	-	653	**9,076,113**
Other debtors	-	-	-	-	-	1,351,868	**1,351,868**
Debtors arising out of reinsurance operations	-	-	-	-	-	-	-
Total	5,170,824	8,939,046	18,776,962	64,234	-	8,783,275	**41,734,341**

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 2021 by 25bp would result in an increase in profit before tax and the fair value of index linked securities by £179,094 (31 December 2020: £99,026).

Increasing assumed yields on fixed interest securities at 31 December 2021 by 25bp would result in an increase in profit before tax and the fair value of fixed interest securities £312,602 (31 December 2020: £323,177).

Decreasing assumed yields on fixed interest securities at 31 December 2021 by 25bp would result in a reduction in profit before tax and the fair value of fixed interest securities by £312,602 (31 December 2020: £323,177).

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 increase the sterling value of liabilities denominated in Euros.

An increase of 10% in the GBP: EUR exchange rate would reduce the net assets as at 31 December 2021 by £530,386 (31 December 2020: £535,866). A 10% decrease in the GBP: EUR exchange rate would increase the net assets at 31 December 2021 by £648,250 (31 December 2020: £654,947)

(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	
	2021	2020	2021	2020
	£	£	£	£
Claims paid	6,747,153	5,817,411	(543,487)	(173,195)
Gross Provision for claims	60,757	956,790	147,660	107,166
	6,807,910	**6,774,201**	**(395,827)**	**(66,029)**

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 £367,284 (2020: £360,070).

Claims development tables

The tables opposite represent 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	**2016 & prior[1]**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:							
- at the end of reporting year		5,578,829	5,556,771	3,508,284	4,441,250	4,477,767	
- one year later		3,821,911	3,655,760	2,503,624	3,336,460		
- two years later		3,714,460	3,476,510	2,240,748			
- three years later		3,724,999	2,981,100				
- four years later		3,991,229					
Current estimate of cumulative claims	24,846,582	3,991,229	2,981,100	2,240,748	3,336,460	4,477,767	
Cumulative claims paid	24,278,143	3,421,352	2,294,352	1,303,353	1,386,127	918,742	
Current year gross provision	568,439	569,877	686,748	937,395	1,950,333	3,559,025	**8,271,817**

Claims outstanding (net)

	Group and Company						
Underwriting year	**2016 & prior[1]**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:	**£**	**£**	**£**	**£**	**£**	**£**	**£**
- at the end of reporting year		5,578,829	5,310,094	5,030,725	4,478,598	4,496,354	
- one year later		3,821,911	4,990,381	2,518,643	3,316,215		
- two years later		3,986,398	3,352,006	2,241,372			
- three years later		3,303,100	2,816,679				
- four years later		3,329,951					
Current estimate of cumulative claims	23,827,030	3,329,951	2,816,679	2,241,372	3,316,215	4,496,354	
Cumulative claims paid	23,255,750	2,799,126	2,206,352	1,303,353	1,386,127	918,742	
Current year net provision	571,280	530,825	610,327	938,019	1,930,088	3,577,612	**8,158,151**

Reconciliation to balance sheet:

Gross technical provisions	8,271,817
Reinsurers' share of technical provisions	(113,666)
Net technical provisions (above)	**8,158,151**

[1] 2016 and prior years' cases (back to and including 2005 claims) have been aggregated at their position as at 31 December 2021 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 £31,150,153 (2020 £25,083,241) 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 2021 were £29,208,317 (2020: £26,931,519).

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	
	2021	**2020**
	£	**£**
Operating leases which expire		
Within one year	1,501	1,599
Between one year and five years	96,577	127,040
	98,078	**128,639**

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 £489,173 (2020: £233,964) and 201 claims (2020: 32 claims) were received from related parties during the financial year. During the year £27,792 (2020: £10,116) was paid on claims involving related parties with £27,324 (2020: £23,500) 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 £13,800 (2020: £7,236). In 2021 as supported by future cash flows the intercompany loan due from VDS training was reinstated. During the year £150,000 was repaid and the amount outstanding at year end was £396,326 (2020: £NIL) please see note 15 for further details.

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 Estate Knutsford, WA16 8XZ	Training Company	100% Ordinary Shares
VDS Support Limited	11610161	4 Haig Court, Parkgate 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 2021.

The Veterinary Defence Society Limited

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VDS-ACC-490 (JUN-22)