



The Veterinary Defence Society Limited

Annual Report & Financial Statements

31 December 2020

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**

D S Green BVSc CertEP MRCVS - **Technical Director**

H J Jones BA (Hons) ACMA - **Finance Director**

General Counsel and Company Secretary

C M Gannon LL. B (Hons)

BOARD COMMITTEES

Audit Committee

J R Coates - **Chair**
B M H Bussell
G J Lawrie

Remuneration Committee

G J Lawrie
D H Black
B M H Bussell

Nominations Committee

D H Black - **Chair**
J R Coates
R Sankaran

Risk and Compliance Committee

B M H Bussell - **Chair**
J R Coates
G J Lawrie
R Sankaran

PROFESSIONAL ADVISERS

Reinsurance brokers

Gallagher Re

Insurance brokers

Arthur J Gallagher (UK) Limited

Investment managers

Legal and General Investment
Management (Holdings) Limited

Investment advisors

Redington Limited

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

Internal auditors

RSM Risk Assurance Services LLP
Accountants and Business Advisers

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

Having taken over as Chair of the Board at the virtual AGM in July 2020, I am delighted to present my first annual report. But, as I write this, I have yet to Chair an actual face to face Board Meeting which is an indication of the challenging year that we, along with all our members and wider society, have experienced. The onset of the Covid-19 global pandemic in early 2020 and the roller coaster of policy changes, regulations, lockdowns, support packages, and the balancing of science and politics, health and economy has tested the resilience of the Society as it has for many others. As we now look forward with some optimism, a very successful vaccine rollout is underway bringing perhaps some sense of stability, we know that things will never be the same; we have found new ways of working, have innovated and adapted.

When the consequences of the pandemic started to become apparent, VDS immediately started working with our members to understand the likely consequences for the veterinary professions, seeking to understand where the risks might be, and what we could do to support. As a mutual society we are here solely for the value and benefit of our members, so it was important that we sought to quickly assess what the impacts might be on the Society and on likely changes in claims patterns as our members adapted to new, more remote and sometimes virtual ways of working. We also needed to assess the impacts on our own resources, and on our reserves, which are invested. We were aware that along with the priorities that all businesses had to protect their staff and their clients, while supporting the government policies, there was an additional dimension unique to veterinary practices – the commitment that we as veterinary professionals make when accepted onto the RCVS or VCI Registers that we will do our best at all times to ensure and promote the health and welfare of animals committed to our care.

From those initial assessments, VDS developed a range of support measures for members throughout Covid-19, from introducing more flexibility into how our policy responded to the changing circumstances of our members, to creating and delivering free online training. At the same time our advisors and consultants took an increasing number of calls for specific Covid-19 related advice as members worked to adapt to the new regulations. Then the workload really accelerated into the second half of the year mirroring that of our members as they made up the backlog of non-emergency work that had been postponed.

Also, during 2020 we had the looming finality of Brexit and we had needed to work on various possible scenarios through 2020 depending on the final outcome. As it was, we were able to quickly progress and implement our plans to establish a Branch in Ireland to be able to continue offering policies for our Irish members. This was vital to us, as Irish vets have been members of the Society since its inception more than 150 years ago, long before the EU. This requires us now to have another regulator to work with and some different legislation, but we have a good solution in place with local governance through a Branch Manager in Ireland, full support from the team in Knutsford and oversight by the VDS Board.

I have been humbled and impressed by the attitude and resilience of all in the VDS Team throughout; their ability to maintain the very highest levels of service and support to our members. This has included adapting to home working; dealing with disruption to both Criminal and Disciplinary, and Civil prosecution processes and the move to virtual hearings; moving all our training provision onto a virtual platform; and looking out for each other at the same time. This has been Raman Sankaran's first full year as CEO, and it is a credit to the leadership shown by him and the Executive Team that morale and performance has been not only maintained but enhanced.

It can be seen from the Financial Statements that 2020 was actually a strong year for VDS operationally. Our investment portfolio was resilient and performed better than initial market forecasts might have indicated, largely because of the investment strategy and risk appetite VDS established in 2018. These outcomes together meant that we were in a position to agree our largest ever "Mutual Bonus" which takes the form of a discount on the 2021 and 2022 premiums. Notwithstanding our strong performance in 2020 the outlook for 2021 and beyond is uncertain following the pandemic and Brexit. We intend to continue supporting our members for many years to come and so have taken the opportunity to strengthen our reserves today to ensure that we are well placed to deal with the uncertainty of tomorrow.

> As a mutual society, we are here solely for the value and benefit of our members.

As part of our broader commitment to the profession VDS continues to provide annual support to Vetlife with a donation of £70,000 this year. Members' proxy voting returns raised another £212, and members have also donated an additional £10,685 during the renewal process. Similarly, we donated €9,000 to the Irish Veterinary Benevolent Fund with a further €4,946 being raised from proxy voting returns and members donations. Both these organisations provide invaluable support to increasing numbers of the veterinary professions who find themselves in need of help.

One of my first roles as the Chair of the Board of VDS, was to formally say goodbye to our previous Chair, Nicky Paull and fellow Non-Executive Directors Trevor Clegg, Colin Thomson and Sarah Wolfensohn. Unfortunately, given the restrictions we were not able to give them a traditional send off, but we hope to rectify that when we can all get together again. All four have been fantastic servants to the Society bringing very different skills, but always with constructive challenge as Non-Executive Directors and with the best interests of VDS at their hearts. Nicky in particular steered the VDS for 4 years through some challenging situations and handed it over in very good shape and I hope that I can continue to build on that with the current Board, supporting Raman and his team. Other changes at Board level saw Brian Bussell taking on the role of Senior Independent Director and Gavin Lawrie adopting the Chair of the Remuneration Committee. I would like to take this opportunity to thank all the current Directors for their ongoing commitment, their governance and their strategic insight as we seek to work "As One" on behalf of our members and to continue building a truly healthy culture throughout the Society. With that in mind we are delighted to have co-opted 3 new Non-Executive Directors in 2020; Richard Clapham comes with an insurance and underwriting background while Andrew Davies and Gudrun Ravetz are veterinary surgeons with wide experience between them in various clinical and leadership roles. All three will offer themselves for election at this year's AGM.

But we have no time to relax, there is much to be done! We still do not really know what the outrun from the Covid-19 pandemic will mean for our members, if and in what format we will be able to restart face to face meetings and training, or when some of our teams might return to the office. We have a new strategic plan which seeks to further embed diversity and inclusion into everything we do as well as building a sustainable future for VDS. ESG (Environmental, Social and Governance) is a new acronym to many of us and something that incidentally our Regulators are also keen to see actively pursued. This is largely driven by regulatory requirements on managing the financial risks of climate change, the green finance strategy and green deal, meeting the growing expectations of consumers and our responsibilities as sustainable, mutual, organisations.

Back in 1865, when a pioneering vet named Ephraim Alfred Friend organised a meeting at which the formation of the 'Veterinary Mutual Defence Society' was decided, the motto agreed was "Defence, Not Defiance". The principles and ethos stand firm some 156 years later; we want to be the most trusted partner of veterinary professionals, practices and businesses by protecting and supporting them to enable a focus on improving animal health and welfare.

David H. Black

D H Black BVM&S DVetMed DBR FRCVS
Chair of the Board
8 April 2021

2020 - the big picture...

Our vision

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

Member support

16,000
ADVICE FILES

11,000
TRAINING DELEGATES

1,300
NEW CLAIMS CASES OPENED

4,560
VETSAFE REPORTS

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.

4% INCREASE
IN VET MEMBERS

125,000
SERVICE CONTACTS WITH MEMBERS

5% INCREASE
IN RVN MEMBERS

31,000 INCOMING OPERATIONAL CALLS + **65,000** EMAILS SEEKING ASSISTANCE = **96,000** TOTAL ENQUIRIES

passion

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

teamwork

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

dependability

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

Strategic Report

It is a privilege to present this Strategic Report on behalf of the Directors and also humbling to be part of an organisation and the wider market at this time. To pick up where the Chair of the Board left off, 2020 has been a year where I am proud to say that we have delivered on our purpose - to protect and support veterinary professionals, practices and businesses, enabling them to focus on animal health and welfare. It has also made me incredibly proud to support the veterinary professions and being part of a team who have worked so selflessly and tirelessly in often challenging conditions. I talked in this Report last year about the responsibility of leading the team to build on a legacy dating back to 1865 and I feel that 2020 has certainly been consistent with, and built upon, that legacy demonstrating the value and role that we play. I also referred last year to the need for VDS to make changes as the professions change and in 2020, we have demonstrated our ability to be agile and flexible to support our members.

At the outset of the Covid-19 pandemic, we laid out some clear principles and priorities of how we would make decisions and focus our efforts through the uncertainties of the Covid-19 environment. These clearly prioritised the ongoing delivery of the quality and extent of our services first and foremost, meeting members' needs and supporting the broader market where we could. This needed to be done in the most efficient manner possible but ensuring that services were not compromised through cost cutting. These principles have served us well to date and continue the legacy and reflect the values and ethos of the organisation. The ongoing impact of Covid-19 has in many ways overshadowed the uncertainty and activity surrounding Brexit, but this has also significantly shaped our activities in 2020 to ensure continued services and support the changing needs of members.

Business review

Protecting and supporting members and colleagues have been the predominant themes in the year.

Outside of the ongoing management of claims and advice requirements, we supported members in over 125,000 different service contacts during the year through fielding calls, emails or in training programmes. We did see a drop in demand in some areas, for example advice calls, in April and May but in all areas, these quickly returned and increased considerably in the second half of the year. A steady increase in complexity of advice requirements and in supporting members with complaints, claims or investigations has also been evident. Both claims and advice volumes ended the year at similar levels to 2019 despite the drop off in the early pandemic period which reflects the acceleration in the second half of the year and which we have seen continue in early 2021.

We had over 11,000 attendees at our training programmes which, after a drop-off in the second quarter, grew in demand as the year progressed to support the increased pressures in the market.

In terms of our members, we quickly assessed and reviewed their changing needs in response to the Covid-19 pandemic and made immediate changes to cater for these. This started with introducing more flexibility into our cover, to reflect the use of furlough and changes to working patterns. We also produced and communicated supporting advice notes to provide guidance relevant to the circumstances and associated, adapted ways of working.

Our training activities went through an immediate pivot, moving to a virtual platform and we delivered free webinars to nearly 5,000 members in that first period, supporting the new and immediate requirements in areas like communication and resilience.

From a colleague perspective, we have followed government guidance throughout, with only essential working in the office taking place. This has meant that there was only low-level routine office working in November and December to support our peak renewals activities with remote working being the default throughout. Communication has been strengthened and the introduction of a new Colleague Communication and Engagement Group has greatly helped to retain the link and connection with a remote working team. They helped to drive various initiatives, touchpoints and events. We even saw colleagues form the VDS choir and enter the Virtual Hallé Choir project. We continue to review and assess support requirements as restrictions continue and we are also now looking at our future ways of working which will be informed from what we have learnt over the past twelve months.

Premium income in the year was the area we initially viewed as being at greatest risk from the Covid-19 environment, but through the year it held up well to finish at £14,747k (2019: £14,379k). This reflected the speed to which the market rebounded after the initial lockdown. The cost of claims payments, handling and advice was just 3% down on 2019 with activity levels increasing in the second half of the year above the corresponding prior year period. This demonstrates the increased need for the services that we are currently providing to our members. Operating costs showed the biggest movement year on year reflecting a combination of one-off charges in 2019 along with specific COVID-19 savings and longer-term improved cost control. This operating performance, together with the favourable experience witnessed in the investment portfolio described by the Chair of the Board, leaves VDS in a strong and stable position to meet the future needs of members.

Business Review

The VDS Irish Branch went live at 11pm on the 31st of December 2020. This was the result of a considerable amount of work from across our teams to ensure that we could continue to support our members in Ireland. This means that we add the Central Bank of Ireland (CBI) to the PRA and FCA as our regulators and the need to comply with a new regulated environment. To support this, we welcomed Aengus Cummins to the team as our Irish Branch Manager. There was increased uncertainty around areas such as export certification as a result of Brexit and we saw an increase in the demand for advice in this area. We produced advice notes to help support members on this and explained how the policy works in this area.

The Key Performance Indicators used were as follows:

Strategic report KPI's	2020	2019
Gross written premium before return of premium	£14,746,994	£14,379,446
Return of premium	£1,800,000	-
Gross claims paid	£5,817,411	£5,939,865
Deferred Income	£6,269,516	£5,205,393
Balance on technical account	£1,359,514	£1,745,608
Surplus for year	£1,371,807	£2,216,767
Net increase in cash	£2,610,967	£988,913
Investment portfolio	£31,306,360	£30,279,913
Combined Ratio[1]	99%	96%
Employee retention[2]	91%	92%

[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

Covid-19 and Brexit have further impacted a business environment that was already experiencing high levels of change.

From an insurance sector perspective, there is a high level of attention being placed in assessing the increased risks associated with the pandemic, most notably, and also Brexit. The current environment does reduce our confidence in past performance being relied upon as a predictor of future trends. We have carefully considered the reserves required to cover this increased uncertainty risk. There may also be a flattening in the historic trend of increasing numbers of vets working in practice, but there are good reasons to suspect that the veterinary services market will remain strong and that the sector will not contract.

After slowing at the outset of the pandemic, veterinary corporate acquisition activity accelerated in the final quarter again. The ongoing impact of the restrictions combined with the demand for services has further increased the pressures and impact on health and wellbeing amongst the professions and we are seeing the continued and enhanced challenges of recruitment and retention. There is also a trend of an increased complexity in claims received and advice requested which results in the requirement for increased resources to effectively support these. We have seen this compounded in 2020 with delays in disciplinary investigations, court hearings and in general administration.

Strategy and Business Plan

Our vision and purpose specifically identify veterinary professionals, practices and businesses and our plans reflect the importance we see in segmenting our services accordingly as there are different needs and requirements to consider. In an increasingly complex environment, that is becoming more specialised, there are diversifying needs across the market meaning that further segmentation is required to retain the relevance of communication and services. There is a definite requirement to ensure that we are more responsive and adaptable than ever before as changes within the market and for our members are happening quicker than ever before and our plans focus on the enhancement of this capability.

We have seen an increase in demand for our expanding range of services, from claims and advice to our Vetsafe tool that consolidates adverse event data to identify improvements that can be made to processes, activities and outcomes. This then extends to our range of training solutions that have been further enhanced in 2020. A core component of our strategy is to continue the development of these services but to ensure that they become more integrated and aligned, working together to further improve their value and impact. An example of this is our ability to develop training solutions that focus on the trends we are seeing in complaints and claims ensuring that courses are highly targeted and effective.

To support this, we are investing in our digital and data capability with the start of the roll out of a new digital platform in 2021. A key benefit is that this is a member-centric platform, providing the increased functionality to be more responsive to the differing needs of members and forming the foundation for further enhancements in a modular build.

Environmental, social and governance (ESG) plans and awareness assume a high priority as we embed our approach to managing the financial risks of climate change, in particular, as well as improving the positive impact that VDS can make as a company. There is also increased focus on our diversity and inclusion plans, essential in order to remain connected and in tune with both the communities with which we work and broader society ensuring different perspectives, insight and challenge for more robust decision making and planning.

Our plans recognise that in order for us to remain relevant and sustainable, we must continue to develop our people. There is additional action earmarked for the first half in 2021 to accelerate our work in this area alongside building our plans for how we will work into the future, listening and learning from all that has happened over the past twelve months.

Our Business Model

We believe that our mutual ethos provides the best model to be able to protect and support our community of members. We are here solely for their value and benefit, taking decisions that are commercially sustainable and efficient but not driven by short term profit objectives. Our model also blends all the specific operational, functional and technical experience and capability with the knowledge and understanding of the veterinary professions and the environment in which our members work and the challenges they face. This enables us to provide highly tailored, personal support offering a holistic 'business-wide' risk management approach. Highly experienced veterinary professionals deliver core components of our member facing activity supported by member services and other financial, operational and functional expertise.

In 2020, we have undertaken a detailed assessment of our activities to ensure that our services are delivered in the optimum way for our members, and this will feed into our designs for the future.

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
- Risk appetites that define the amount of risk the Society is prepared to accept
- Controls built into our processes
- Identification, monitoring and recording risks and issues with regular reviews by senior management and the Board

The table below summarises some of the risks and uncertainties currently faced by the 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, reduction in premiums.	The Society reviews its investment strategy annually and Executive review performance monthly. During 2020, and based on the Society's appetite to investment risk, the Board agreed a number of investment constraints and trigger points to reduce the risk of significant losses. 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 Executive and the 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 relationship.
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 2020 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 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 economic and regulatory ramifications of Brexit 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 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 ("S172") of the Companies Act 2006 ("the Act"). The Act provides that a director must act in the way that he or she considers, 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 S172 of the Act. Details of how Directors had regard to S172 are set out below.

At appointment Directors are briefed on directors' duties, including S172, with regular reminders throughout the year, particularly when making key or strategic decisions. The Board after the AGM each year 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 5 veterinary professionals on the Board who are eligible for membership and connected to the veterinary market (Listed in the Directors Report page 2). There are two formal Board strategy sessions, the last being in November 2020 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 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 2020, from setting up safely and securely at home to increased communication and more contact channels. These plans will continue into 2021 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 2020, the Society's external investment advisers Redington attended two Board meetings to provide an overview of the investment markets and the performance of the Society's investment portfolio. Our external auditors, PwC LLP also attended the March Board 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 2020 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.

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 outsource arrangements and relationships with key suppliers through regular updates from the Executive. Oversight of the software development project is provided by the Risk & Compliance Committee which is chaired by an independent non-executive Director. At its June 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
8 April 2021

Directors' Report

Directors' report for the year ended 31 December 2020

The directors present their report and audited financial statements of the group and company for the year ended 31 December 2020.

Future developments

The directors are continually monitoring the implications of the Covid-19 pandemic, Brexit and their economic impact on the business and its environment. The Society will continue to grow its services to members in the areas where the demand has been increasing being advice, risk management and training services, as highlighted in the strategic report.

Going concern

Having assessed the principal risks and in particular Covid-19, it is not expected to have any significant impact on the operating result of the Society. The directors have determined that the largest exposure relates 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 Societies 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. At the time of approval of the Financial Statements there has been minimal financial impact from the Coronavirus pandemic on the Society's core business and the volatility on the investments is well within the Board's risk appetite. The Society will continue to follow government guidance regarding the pandemic and ensure service levels to our members are maintained. The Society has committed to repay all furlough monies received to date through the pandemic in the light of the strong financial performance.

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. The Board has allocated responsibility to the Finance Director to formulate a plan and embed the actions throughout the organisation. Our investment advisors are carrying out a review of the investment portfolio for option to reduce climate related financial risks within our 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

D H Black

B M H Bussell

T A Clegg (Retired 22 July 2020)

D S Green

G J Lawrie

N J Paull (Retired 22 July 2020)

C W Thomson (Retired 22 July 2020)

S E Wolfensohn (Retired 22 July 2020)

H J Jones

J R Coates

A R J Davies (Appointed 8 September 2020)

G Ravetz (Appointed 1 October 2020)

R Clapham (Appointed 22 July 2020)

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

D S Green

H J Jones

Charitable donations

Charitable donations of £70,000 (2019: £53,891) were made to Vetlife and €9,000 (2019: €6,735) to the Irish Veterinary Benevolent Fund (IVBF) during the year. Other donations were £259 made to a Comic Relief where VDS matched the money from staff fundraising. In addition to the above donations, as a result of returned 2020 AGM proxy forms, further charitable donations of £212 (2019: £154) and €14 (2019: €15) 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 a high quality of claims handling and risk mitigating services. Whilst the Society will continue to underwrite only one class of business it offers 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. The new activities are intended to broaden the relationship with members in order to protect this share through the provision of a more comprehensive offering.

The Society's prospects are assessed through the strategic planning process, the output of which is a series of objectives covering the planning period, these are set out in the Society's ORSA. Also considered is an analysis of risks that could prevent the plan being delivered and includes stress test scenarios being assessed against the business. Finally, financial forecasts are derived from the planning process over a three-year period.

The financial forecasts for 2021 reflect the current view on the impact of the Coronavirus pandemic on the Society's premiums and investments in the year, and the Board are confident that this can be managed to not significantly impact on the going concern and viability basis of the Society in the future.

The liquidity position is supported by the cash position and the make-up of the investment portfolio which allows for immediate access to funds to provide adequate liquidity through the most likely and downside impact scenarios.

The current projections identify that the biggest current risks and impacts are losses within the investment portfolio. We have run a number of scenarios on the investment portfolio and the most likely downside projections show a range of 10% to 20% loss in the portfolio. The impact of these still leaves the Solvency Capital Ratio within agreed parameters and the agreed Board risk appetite.

We have made a number of assumptions in developing our range of impacts as a result of the risk environment. These include the extent that investments values could be reduced during the period, as well as the length of time, the size and the speed of reduction in the investment portfolio. Due to the nature of the current situation, it becomes more difficult to forecast for the second and third year, but we have adopted a prudent view of gradual recovery from the current expected 2021 levels by the end of the three-year period.

Based on their assessment of the Society's current strategy, prospects and viability, and the fact that the Society's capital position can support the strategy, the Directors confirm they have a high expectation that the Society will be able to continue in operation across the planning period of three years to 31 December 2023.

CORPORATE GOVERNANCE REVIEW

The Society is a member of the Association of Financial Mutuals ('AFM') and is committed to good corporate governance. As at the year-end 2020 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 and Gavin Lawrie.

This committee monitors internal controls, financial reporting, risk management and regulatory compliance matters. It reviews the work of the Internal Audit, 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 2020 is provided below.

The Chief Executive Officer, Finance Director, 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 Brian Bussell 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 committee are Non-Executive Director Richard Coates and the Society's Chief Executive, Raman Sankaran. The committee is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Board and Executive succession planning, the appointment of new directors and the election and re-election of directors. The Society operates an Equal Opportunities and Diversity Policy.

Risk & Compliance Committee ('RCC')

The committee is chaired by Non-Executive Director, Brian Bussell. Non-Executive Directors Richard Coates, Gavin Lawrie and the Society's Chief Executive 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 2020

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 before and after the review. *(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 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 Executive in developing the Society.

Director	Board	Remuneration	Nominations	Audit	Risk & Compliance
D H Black[1]	6/7	3/3	4/4	4/4	2/2
B Bussell	7/7	4/4	4/4	6/6	4/4
T A Clegg[2]	4/4	1/1	4/4		
D S Green	7/7				
G J Lawrie[3]	7/7	4/4		6/6	4/4
H J Jones[4]	7/7			6/6	4/4
N J Paull[5]	4/4		4/4		
C W Thomson[6]	3/4	1/1	4/4		
R Coates	7/7			6/6	4/4
S E Wolfensohn[7]	4/4	1/1	4/4		
R Sankaran[8]	7/7		4/4	6/6	4/4
R Clapham[9]	3/3				
A R J Davies[10]	2/2				
G Ravetz[11]	1/1				

[1] Retired from Audit and Risk & Compliance Committees July 2020. Chair of Nominations Committee from July 2020

[2] Retired from Board, Remuneration and Nominations Committees July 2020

[3] Chair of Remuneration Committee from July 2020

[4] Attended Board Committees

[5] Retired from Board and Nominations Committee July 2020

[6] Retired from Board, Remuneration and Nominations Committees July 2020

[7] Retired from Board, Remuneration and Nominations Committees July 2020

[8] Attended Board Committees

[9] Joined Board July 2020

[10] Joined Board September 2020

[11] Joined Board October 2020

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. Its 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 the purpose. The Chief Executive has led initiatives aimed at enhancing the Society's culture, specifically by the introduction of a staff engagement survey, the establishment of staff led focus groups to discuss ways of improving internal communications and a fresh approach to reward and recognition. This work has been particularly meaningful during 2020 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 2020, the Board comprised three Executive Directors and seven Non-Executive Directors, three of whom are subject to election by the membership at the AGM 2021. 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 have served on the Board for less than nine years. The Chair has served 9 years from his first approval at the 2012 AGM (co-opted Sept 2011).

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 Insurance 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 2020, as part of its longer-term succession planning, the committee oversaw the appointment of three Non-Executive Directors. A vigorous and thorough process was followed to ensure that the most appropriate candidates were identified. The process considered the current skills sets around the Board and the future business and leadership needs of the Society. This has ensured that the Board can collectively demonstrate a high level of competence relevant to the Society's business need and 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 22 July 2020, at the Society's AGM, Gavin Lawrie, Non-Executive Director was re-elected to office. The Society's Chief Executive, Raman Sankaran was elected to office.

In accordance with their terms of appointment and the Society's succession plan, Nicky Paull, Trevor Clegg, Professor Sarah Wolfensohn and Colin Thomson retired from the Board at the AGM 2020.

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 an annual Board timetable of activities was introduced during 2020 to ensure further clarity.

Principle Four – Opportunity and Risk

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

Financial and business reporting

The Schedule of Matters reserved for the Board sets out the Board's responsibilities in relation to the preparation of the Annual Report and Financial Statements. Business performance is reviewed in the Chair 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 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 new business plan, agreed at the end of 2020, will require a fresh approach to reward and remuneration and the Remuneration Policy will be reviewed, if necessary, to ensure it is reflective of new challenges.

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 veterinary Executive, Non-Executive Directors and senior managers throughout the year at conferences and seminars. Non-Executive Directors attend meetings of the Claims Group by rotation throughout the year and has developed 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 Chairs of the Board and of its committees are available to answer questions.

The AGM 2020 was the first meeting 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 2019.

The consequences of the Covid-19 outbreak (in particular, the social distancing requirements) persuaded the Board to accelerate plans to alter the Articles of Association to enable it to communicate with the members electronically, via its website, by email or other electronic means. New Articles 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 level. In meeting members' requirements, the Society is alert to every opportunity to obtain feedback from its members and fully utilises its links into the profession provided by its Claims Consultants, Claims Advisers and other members of staff, as well as through the Membership Team.

Audit Committee Report

The committee met six times during 2020.

During 2020, 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 appraised 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 ('RSM'). The risk-based audit programme ensures that the committee is provided with internal audit reports aligned to the Society's strategy. During 2020 the following internal audits were carried out:

- The Society's key IT project, VDS Net 4-Phase 2
- Payroll-IR 35 Preparedness and key controls
- Own Risk & Solvency Assessment and Solvency & Financial Condition Report (capital planning and stress testing)
- Management Information and Reporting
- Risk Management Framework & Compliance Framework
- Strategy & Financial Forecasting
- Remote Working & Operational Resilience

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

PwC LLP are the Society's external auditors and the committee worked with them in agreeing an appropriate audit plan for the year ending 31 December 2020. The plan set out PwC's approach to the audit of the Society's Annual Report and Financial Statements 2020. The plan also highlighted key areas of audit risk. The committee took account of a number of audit risks and other key areas of focus identified by PwC which would inform their audit activities.

During 2020, the Audit Committee discharged its responsibilities by:

- Reviewing the Society's Annual Report and Financial Statements prior to Board approval and reviewing the external auditors' detailed reports thereon, in respect of the year ended 31 December 2020.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2020 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.

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 and Financial Statements 2020 and presented the same to the Board. Each of the Directors has agreed that, taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.

During 2020 the committee also discharged its responsibilities by:

- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.
- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Society's policies relating to fraud, whistleblowing and conflicts of interest.
- Reviewing and overseeing the Society's Own Risk and Solvency Assessment in accordance with the requirements of Solvency II.
- Reviewing the provision of internal audit services and updating the three-year internal audit programme.

Own Risk and Solvency Assessment 2020

On 25 November 2020, 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 Executive and the Board throughout the year, with specific input given by the Risk & Compliance Committee at its meeting on 9 November 2020. 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 2021.

Independent auditors

Each person who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the Society's auditors are unaware; and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

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 and the 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

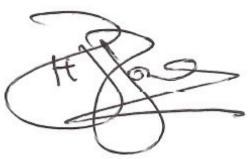
The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the groups 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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the groups and company's position and performance, business model and strategy. Approved by the board and signed on behalf of the board.



Howard J Jones
Finance Director
8 April 2021

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 2020 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).
- 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 2020; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Our audit approach

Overview

Audit scope

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

Key audit matters

- Actuarial assumptions may be inappropriate (group and parent)
- Case estimates may be inappropriate (group and parent)
- Impact of Covid-19 (group and parent)

Materiality

- Overall group materiality: £446,432 (2019: £400,847) based on 1% of total assets.
- Overall company materiality: £424,111 (2019: £380,805) based on 1% of total assets.
- Performance materiality: £334,824 (group) and £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.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, 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 and the Financial Conduct Authority, 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 preparation of the financial statements such as the 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 posting inappropriate journal entries to increase revenue of the group and parent, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board and management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Reviewing relevant meeting minutes including those of the Audit Committee, Board and the Claims Group as well as attending Audit Committee meetings.
- Reviewing data regarding policyholder complaints, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Procedures relating to the valuation of general insurance contract liabilities described in the related key audit matters below.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter

Valuation of technical provisions (group and company)

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 2020, technical provisions total £8.2m (£7.3m at 31 December 2019). Refer to page 41 (Accounting policies) and page 51 (note 17) for further information.

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 yet 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 £2.9m of the technical provision balance as at 31 December 2020 (2019: £2.1m). In the context of our audit, this is also an area of significant audit effort.

We consider the risk to have increased in the current year in light of the business and economic disruption caused by the impacts of Covid-19 and Brexit, which has had a significant impact on the Society's claims profile. In light of these factors the estimation uncertainty in relation to future experience has increased with a larger possible range of reasonable outcomes taken into consideration.

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.

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.

Our approach consisted of review and testing of the methodologies and assumptions used by the Society'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 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
Case estimates may be inappropriate (group and parent) Case reserves are significant in the context of the overall balance sheet, representing £3.6m of the technical provision balance as at 31 December 2020 (2019: £3.3m). 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 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.

Key audit matter	How our audit addressed the key audit matter
Impact of Covid-19 (group and parent) The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. Management have performed procedures to assess the financial and operational impacts of Covid-19 including: - Increased monitoring of the Society's solvency coverage ratio through regular senior management meetings; - Ability to operate and support their customers in the current restrictions; - Management has captured the increased risk in the economic environment as a result of the Covid pandemic and Brexit through their estimates for technical provisions as described in the significant matter above. - Management have actively managed the financial investments in line with the Society's investment policy to limit the impact of increased market volatility as a result of the economic impacts of Covid-19. Management have placed a particular focus on the level of capital surplus that has been maintained post year end and the risks associated with liquidity and the credit quality of assets and through this have concluded that the Society is in a stable solvency position, expects to continue to meet its capital requirements through this pandemic and continues to be a going concern.	We assessed management's approach to the impact of Covid-19 on the Society and the financial statements by performing the following procedures: - Evaluated management's stress and scenario testing; - We reviewed the governance over the production of solvency monitoring information and considered its consistency with other available information and our understanding of the business; - Performed procedures around managements' judgements and estimates for increased risk in economic uncertainty as a result of the Covid pandemic and Brexit in the preceding key audit matter; - We confirmed the latest available investment valuation to statements provided by the investment manager and tested year end valuations to independent sources; - Evaluated management's assessment of the risks facing the Society including liquidity risk, asset credit risk and operational matters; and - Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Society based on our audit. Based on the work performed and the evidence obtained, we consider the disclosure of the potential impact of Covid-19 in the financial statements to be appropriate.

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	£446,432 (2019: £400,847)	£424,111 (2019: £380,805)
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 Society is not considered to be a profit orientated 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 Society. 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 £318,083. 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 50% of overall materiality, amounting to £334,824 for the group financial statements and £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 those charged with governance that we would report to them misstatements identified during our audit above £15,000 (group audit) (2019: £15,000) and £15,000 (company audit) (2019: £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.

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 2020 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.

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 6 years, covering the years ended 31 December 2015 to 31 December 2020.

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester, 8 April 2021

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	Notes	2020 £	2019 £
Technical account			
Gross written premiums before return of premium	5	14,746,994	14,379,446
Return of premium		(1,800,000)	-
Gross written premiums		**12,946,994**	**14,379,446**
Outward reinsurance premiums		(970,361)	(983,864)
Net premiums written and earned premiums net of reinsurance		**11,976,633**	**13,395,582**
Allocated investment income transferred from the non-technical account	10	1,289,053	1,228,673
Total technical income		**13,265,686**	**14,624,255**
Claims incurred, net of reinsurance			
Gross claims paid	6	(5,817,411)	(5,939,865)
Reinsurers' share of gross claims paid	6	173,195	20,913
Net claims paid		**(5,644,216)**	**(5,918,952)**
Change in gross provisions for claims	6,17	(956,790)	154,325
Change in reinsurers' share	6,17	(107,166)	149,382
Change in net provisions for claims		**(1,063,956)**	**303,707**
Claims incurred, net of reinsurance		**(6,708,172)**	**(5,615,245)**
Net operating expenses	7	(5,198,000)	(7,263,402)
Total technical charges		**(11,906,172)**	**(12,878,647)**
Balance on technical account		**1,359,514**	**1,745,608**
Non-technical account			
Balance on technical account		1,359,514	1,745,608
Other income	3	433,969	586,183
Other expenses	3	(410,174)	(114,850)
Investment income	10	433,589	576,646
Net gains on realisation of investments	10	475	215,587
Unrealised gains on investments	10	1,030,509	688,871
Investment expenses and charges	10	(21,297)	(61,144)
Allocated investment income transferred to the technical account	10	(1,289,053)	(1,228,673)
Surplus on ordinary activities before tax		**1,537,532**	**2,408,228**
Tax on surplus on ordinary activities	11	(165,725)	(191,461)
Surplus for the financial year		**1,371,807**	**2,216,767**
Other comprehensive income:			
Revaluation of land and buildings	13	(50,000)	25,000
Total comprehensive income for the year		**1,321,807**	**2,241,767**

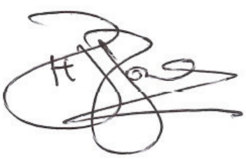
All of the operations of the Group are continuing.

Consolidated and Company Balance Sheets

As at 31 December 2020

		Group		Company	
	Note	2020 £	2019 £	2020 £	2019 £
Assets					
Intangible assets					
Intangible assets	12	510,327	318,489	500,743	295,690
Investments					
Land and buildings	13	1,275,000	1,325,000	1,275,000	1,325,000
Other financial investments	14	31,306,360	30,279,913	31,306,362	30,279,915
		32,581,360	**31,604,913**	**32,581,362**	**31,604,915**
Reinsurers' share of technical provisions		261,326	349,562	261,326	349,562
Debtors					
Debtors arising out of direct insurance operations - policyholders	15	255,309	281,897	255,309	281,897
Debtors arising out of reinsurance operations	15	-	20,913	-	20,913
Other debtors	15	1,352,254	404,690	1,244,795	324,664
Amounts receivable from group companies	15	-	-	1,760	-
		1,607,563	**707,500**	**1,501,864**	**627,474**
Other Assets					
Tangible assets	16	288,047	354,793	234,575	271,015
Cash at bank and in hand		9,076,114	6,465,147	8,906,613	6,343,124
		9,364,161	**6,819,940**	**9,141,188**	**6,614,139**
Prepayments and accrued income		344,265	284,299	332,025	281,664
TOTAL ASSETS		**44,669,002**	**40,084,703**	**44,318,508**	**39,773,444**
Reserves and Liabilities					
Revaluation reserve					
At 1 January		312,247	287,247	312,247	287,247
Revaluation in year		(50,000)	25,000	(50,000)	25,000
		262,247	312,247	262,247	312,247
Income and expenditure reserve					
At 1 January		25,559,712	23,342,945	25,360,562	23,669,933
Surplus for the financial year		1,371,807	2,216,767	1,359,514	1,690,629
		26,931,519	25,559,712	26,720,076	25,360,562
Technical provision - claims outstanding	17	8,211,060	7,254,270	8,211,060	7,254,270
Creditors: amounts falling due within one year	18	1,337,641	1,292,926	1,284,169	1,230,258
Accruals and deferred income	19	7,926,535	5,665,548	7,840,956	5,616,107
TOTAL LIABILITIES		**44,669,002**	**40,084,703**	**44,318,508**	**39,773,444**

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 page 35 to 63 are an integral part of these financial statements.



The financial statements on pages 31 to 63 were approved by the Board of Directors and signed on its behalf on the 8 April 2021.
Signed on behalf of the Board,
Howard Jones, Finance Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2019	23,342,945	287,247	23,630,192
Profit for the year	2,216,767	-	2,216,767
Revaluation of land and buildings	-	25,000	25,000
Balance as at 31 December 2019	25,559,712	312,247	25,871,959
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**

Company Statement of Changes in Equity

Year ended 31 December 2020

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2019	23,669,933	287,247	23,957,180
Profit for the year	1,690,629	-	1,690,629
Revaluation of land and buildings	-	25,000	25,000
Balance as at 31 December 2019	25,360,562	312,247	25,672,809
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**

Consolidated Cash Flow Statement

Year ended 31 December 2020

	Note	2020 £	2019 £
Operating Activities			
Net cash inflow from operating activities	21	2,600,811	846,472
Tax paid		(137,661)	-
Interest and dividends received		456,673	541,060
Net cash generated from operating activities		**2,919,823**	**1,387,532**
Investing Activities			
Purchase of tangible assets		(63,390)	(73,075)
Purchase of intangible assets		(212,873)	(279,730)
Proceeds on sale of tangible assets		-	18,500
Other investment management fees paid		(37,131)	(50,780)
Sale of debt securities and shares and other variable-yield units in unit trusts		-	13,869,285
Purchase of debt securities and shares and other variable-yield units in unit trusts		19,757	(11,497,381)
Net payments to deposits with credit institutions		(15,219)	(2,385,438)
Net cash used in investing activities		**(308,856)**	**(398,619)**
Net increase in cash at bank and in hand		**2,610,967**	**988,913**
Cash and cash equivalents at the beginning of the year		6,465,147	5,476,234
Cash and cash equivalents at the end of the year		**9,076,114**	**6,465,147**

Cash and cash equivalents consists of:		
Cash at bank and in hand	9,076,114	6,465,147
Cash and cash equivalents at the end of the year	**9,076,114**	**6,465,147**

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 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 depending on operating and investment performance however it is ultimately at the Boards discretion. In 2020 there was a charge of £1,800,000 (2019: NIL) of which £1,200,000 has been returned to members through the 2021 renewal process and the balance of £600,000 is to be returned during 2022 renewals and has been approved by the Board.

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 loss on land and building 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 accrual's 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 favourably or adversely 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 assets (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 of the future cash flows before interest and tax obtainable as a result of the assets (or asset's cash generating unit) 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 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 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 set off 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 Services Limited made tax losses in its first and second accounting periods.

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 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 acquired.
The acquisition of the training company in 2017 led to goodwill of £30,000. The investment is recognised at its fair value which is £1. 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. The investment in VDS Support Limited is recognised at its fair value which is £1.

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 £8,211,060 (2019: £7,254,270) 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 opinions sought from third party solicitors.

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. In 2020 the claims experience has changed the historical data such that the historic loss ratios have been used for the judgement on overall claims reserving. 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	
	2020	2019
United Kingdom	£	£
Gross written premiums before return of premium	14,746,994	14,379,446
Return of premium	(1,800,000)	-
Gross written premiums	**12,946,994**	**14,379,446**

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

All premiums are written in the United Kingdom. Insurance premiums paid by members in the Republic of Ireland were £1,474,934 (2019: £1,457,172).

6. Claims incurred

	Group	
	2020	2019
	£	£
Gross claims paid	5,817,411	5,939,865
Reinsurers' share of gross claims paid	(173,195)	(20,913)
Net claims paid	**5,644,216**	**5,918,952**
Change in gross provisions for claims	956,790	(154,325)
Change in reinsurers' share	107,166	(149,382)
Change in net provisions for claims	**1,063,956**	**(303,707)**
Claims incurred, net of reinsurance	**6,708,172**	**5,615,245**

A negative run-off deviation of £225,285 (2019: negative of £74,000) arose on prior years' claims. Run-off deviations arise from changes in claims status as further particulars are received.

7. Net operating expenses

	Group	
	2020	2019
	£	£
Acquisition costs	895,919	1,165,969
Administration expenses	4,302,081	6,097,433
	5,198,000	**7,263,402**

Administration expenses include:		
Depreciation and amortisation	107,650	165,291
Loss on sale of fixed asset	-	14,473
Write off of intangible asset (note 12)	-	446,943
Exchange rate (Gain) / Loss	(103,726)	41,327
Professional fees	174,986	203,168
Consultancy fees	211,210	304,247
Fees payable to the group's auditors for the audit of the Company and the Group's consolidated financial statements	144,120	106,087
Fees payable to the group's auditors for other services:	-	-
Other non-audit services	-	-

8. Employees

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Wages and salaries	5,758,241	5,875,667	5,906,490	5,672,955
Social security costs	650,507	676,132	632,406	653,178
Pension and other costs	589,183	598,167	571,530	576,753
	6,997,931	**7,149,966**	**6,813,426**	**6,902,886**
	No.	**No.**	**No.**	**No.**
Average number of persons employed (including directors), all of whom were involved in administration for the group	80	79	78	74

9. Directors' remuneration

This analysis includes the remuneration of Executive and Non-Executive Directors.

	Group	
	2020	**2019**
	£	**£**
Remuneration	748,004	896,306

Remuneration includes salaries and benefits of Executive Directors (excluding company pension contributions) and fees paid to Non-Executive Directors

	2020	2019
Number of Directors who were members of the defined contribution pension scheme	3	4
The pension contributions to defined contribution pension schemes for the year	49,508	57,783
Remuneration of highest paid director	194,783	169,011
Pension contributions to the defined contribution pension scheme of the highest paid director	18,777	16,880

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

The previous CEO left the business 30th April 2019. He was provided with compensation for loss of office as detailed below.

	2020	2019
Compensation payment		
Salary	-	138,111
Pension Benefit	-	15,484
Company vehicle at market value	-	18,500
Other Benefits	-	5,886
	-	177,981

10. Investment return

	Group	
	2020	2019
	£	£
Investment Income		
Income on financial assets at fair value through profit and loss	428,233	573,625
Income on financial assets not at fair value through profit and loss	5,356	3,021
Total income from other financial assets	433,589	576,646
Net gains on the realisation of investments	475	215,587
	434,064	**792,233**
Investment expenses and charges		
Other investment management fees	(21,297)	(61,144)
Net unrealised gains on investments	1,030,509	688,871
Total investment return	**1,443,276**	**1,419,960**
Investment return is analysed between:		
Allocated investment return transferred to the technical account	1,289,053	1,228,673
Net investment return included in the non-technical account	154,223	191,287
Total investment return	**1,443,276**	**1,419,960**

A 1% increase / decrease in the investment portfolio valuation would result in an increase / decrease in longer-term investment return of £313,064 (2019: £302,799).

11. Taxation

	Group	
	2020	2019
	£	£
Analysis of tax charge for the year		
Current Taxation		
UK Corporation Tax at 19%	293,275	145,230
Adjustment in respect of previous years	(94,329)	(7,467)
Total current tax charge	198,946	137,763
Deferred tax		
Origination and reversal of timing differences	(39,538)	35,270
Adjustments in respect of prior periods	-	18,428
Effect of tax rate change on opening balance	6,317	-
Total deferred tax (credit) / charge	(33,221)	53,698
Tax on profit on ordinary activities	165,725	191,461
Provision for deferred tax		
Capital gains	20,477	53,698
Movement in provision		
Provision at the start of period	53,698	-
Deferred tax (credited) / charged in the statement of comprehensive income for the year	(33,221)	53,698
Provision at the end of the period	**20,477**	**53,698**
Deferred tax (asset) / liability not recognised	(440)	40,561

11. Tax on surplus on ordinary activities (continued)

The charge for the year can be reconciled to the profit per the statement income and retained earnings as follows:

	Group	
	2020	**2019**
	£	**£**
Surplus on ordinary activities before tax for the year	1,537,532	2,408,228
Tax at standard Corporation Tax rate of 19% (2019: 19%)	292,131	457,564
Effects of:		
Deferred tax not recognised	5,225	(47,309)
Reduction in tax rates on deferred tax balances	6,317	-
Deductible expenses	(14,937)	(11,524)
Non-deductible mutual loss (balance on technical account)	(15,940)	(461,047)
Adjustment to tax charge in respect of previous periods	(94,329)	10,961
Non-taxable dividend income	(12,742)	(26,975)
Allocated investment return transferred to the technical account non-deductible	-	269,792
Tax charge for year	165,725	191,461

The tax rate for the current year of 19% has been in effect since the 1 April 2017. Changes to the UK corporation tax were communicated as part of the Finance Bill published 11 March 2021, the future rate of corporation tax will be 25% from April 2023. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

12. Intangible assets

	Group				Company			
	Website & software	Goodwill	Software in progress	Total	Website & software	Goodwill	Software in progress	Total
	£	£	£	£	£	£	£	£
Cost								
At 1 January 2020	113,522	30,000	258,228	401,750	88,877	-	258,228	347,105
Additions	-	-	212,873	212,873	-	-	212,873	212,873
At 31 December 2020	113,522	30,000	471,101	614,623	88,877	-	471,101	559,978
Accumulated amortisation								
At 1 January 2020	58,261	25,000	-	83,261	51,415	-	-	51,415
Charge	16,035	5,000	-	21,035	7,820	-	-	7,820
At 31 December 2020	74,296	30,000	-	104,296	59,235	-	-	59,235
Net book value								
At 31 December 2020	39,226	-	471,101	510,327	29,642	-	471,101	500,743
At 31 December 2019	55,261	5,000	258,228	318,489	37,462	-	258,228	295,690

During 2018 the Group began the development of a wholly new computer system to serve the business into the future.

Difficulties with the third party engaged with on the delivery of this system led to the writing off (2019: £446,943) of all costs as at December 2018 in the 2019 income statement as the business decided to develop the software in house independent of third parties. Costs directly attributable to the project are capitalised and amortisation will commence once the asset is commissioned.

13. Land and buildings

	Group and Company	
	Freehold Land & Buildings	Total
	£	£
Cost		
At 1 January 2020	1,325,000	1,325,000
Additions	-	-
Disposals	-	-
Revaluations	(50,000)	(50,000)
At 31 December 2020	1,275,000	1,275,000
Net book value		
At 31 December 2020	1,275,000	1,275,000
At 31 December 2019	1,325,000	1,325,000

A valuation of land and buildings as at 31 December 2020 was carried out on 19 November 2020 by Miles Lewis LLP Chartered Surveyor at fair value for existing use. This was valued at £1,275,000 (2019: £1,325,000).

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. 2020 resulted in a reduction in value of £50,000 (2019: increase in value £25,000).

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

	Group and Company	
	2020	2019
	£	£
Cost	1,334,762	1,334,762
Depreciation	(457,208)	(430,513)
Net book value	**877,554**	**904,249**

14. Other financial investments

	Group			
	2020		2019	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities	19,212,159	18,041,144	18,042,674	18,060,267
Shares and other variable-yield securities and unit trusts	7,430,754	7,347,039	7,589,012	7,347,199
Deposits with credit institutions	4,663,447	4,663,447	4,648,227	4,648,227
Other financial investments	**31,306,360**	**30,051,630**	**30,279,913**	**30,055,693**

	Company			
	2020		2019	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities	19,212,159	18,041,144	18,042,674	18,060,267
Shares and other variable-yield securities and unit trusts	7,430,756	7,347,041	7,589,014	7,347,201
Deposits with credit institutions	4,663,447	4,663,447	4,648,227	4,648,227
Other financial investments	**31,306,362**	**30,051,632**	**30,279,915**	**30,055,695**

15. Debtors

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Debtors arising out of direct insurance operations - policyholders	255,309	281,897	255,309	281,897
Debtors arising out of reinsurance operations	-	20,913	-	20,913
Other debtors	1,352,254	404,690	1,244,795	324,664
Amounts owed by group undertakings	-	-	1,760	-
	1,607,563	**707,500**	**1,501,864**	**627,474**

Other debtors comprise of a £848,825 (2019: NIL) deposit held with the Republic of Ireland courts which was a requirement for the creation of the Irish branch. The remaining balances within Other debtors pertain 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 as at the balance sheet date.

Amounts owed by group undertakings relate to intercompany loans which are non-interest bearing and may be drawn on request by the borrower in any number of advances.

16. Tangible assets

	Group		Company	
	Fixtures & fittings	Total	Fixtures & fittings	Total
Cost	£	£	£	£
At 1 January 2020	2,098,831	2,098,831	1,948,606	1,948,606
Additions	63,390	63,390	63,390	63,390
At 31 December 2020	2,162,221	2,162,221	2,011,996	2,011,996
Accumulated amortisation				
At 1 January 2020	1,744,038	1,744,038	1,677,591	1,677,591
Charge	130,136	130,136	99,830	99,830
At 31 December 2020	1,874,174	1,874,174	1,777,421	1,777,421
Net book value				
At 31 December 2020	288,047	288,047	234,575	234,575
At 31 December 2019	354,793	354,793	271,015	271,015

17. Technical provisions – claims outstanding

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

	Group and Company	
	2020	2019
Gross Provision	£	£
At 1 January	7,254,270	7,408,595
Utilised during the year	(1,879,723)	(2,002,863)
Actuarial variations	749,000	(17,007)
Additional provisions	2,087,514	1,865,545
At 31 December	**8,211,060**	**7,254,270**
Reinsurers' Share		
At 1 January	349,562	200,180
(Reduction) / additional provisions	(88,236)	149,382
At 31 December	**261,326**	**349,562**

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 £360,070 (2019: £354,599).

18. Creditors: amounts falling due within one year

	Group		Company	
	2020	**2019**	**2020**	**2019**
	£	**£**	**£**	**£**
Pension scheme contributions	61,451	62,243	60,191	58,562
Other creditors	182,729	279,316	175,295	260,156
Taxation and social security	1,093,461	951,367	1,048,683	911,540
	1,337,641	**1,292,926**	**1,284,169**	**1,230,258**

19. Accruals and deferred income

	Group		Company	
	2020	**2019**	**2020**	**2019**
	£	**£**	**£**	**£**
Accruals	538,424	360,385	523,536	337,163
Return of Premium	1,118,595	250,000	1,118,595	250,000
Deferred income	6,269,516	5,520,952	6,198,825	5,478,225
	7,926,535	**6,131,337**	**7,840,956**	**6,065,388**

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 £470,084 (2019: £460,407) representing contributions payable by the Group during the year in respect of qualifying employees and £49,508 (2019: £57,783) in respect of directors. Contributions are charged to the statement of comprehensive income as incurred. Unpaid contributions at the year-end were £61,451 (2019: £62,243).

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

	Group	
	2020	**2019**
	£	**£**
Surplus for the financial year	1,371,807	2,216,767
Adjustments for:		
Tax charge	165,725	191,461
Investment income	(433,589)	(576,646)
Net gains on realisation of investments	(475)	(215,587)
Other investment management fees	21,297	61,144
Unrealised gains on investments	(1,030,509)	(688,871)
Loss on disposal of tangible fixed assets	-	14,473
Depreciation on tangible assets	130,136	181,977
Amortisation of intangible assets	21,035	30,357
Write off of intangible assets	-	446,943
Decrease in debtors arising out of direct insurance operations	26,588	2,111
Decrease in debtors arising out of reinsurance operations	20,913	7,837
(Increase) / decrease in other debtors	(947,564)	208,804
Increase in prepayments and accrued income	(83,051)	(29,729)
Increase / (decrease) in net technical provisions	1,045,026	(303,707)
Increase / (decrease) in creditors, accruals and deferred income	2,293,472	(700,862)
Net cash inflow from operating activities	**2,600,811**	**846,472**

22. Financial instruments

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

	Group		Company	
	2020	**2019**	**2020**	**2019**
	£	**£**	**£**	**£**
Financial assets at fair value through profit and loss				
Debt securities	19,212,159	18,042,674	19,212,159	18,042,674
Shares and other variable-yield securities in unit trusts	7,430,754	7,589,012	7,430,756	7,589,014
	26,642,913	**25,631,686**	**26,642,915**	**25,631,688**

Financial assets that are debt instruments measured at amortised cost

Debtors arising out of direct insurance operations – policyholders	255,309	281,897	255,309	281,897
Debtors arising out of reinsurance operations	-	20,913	-	20,913
Other debtors	1,352,254	404,690	1,244,795	324,664
Intercompany debtors	-	-	1,760	-
Deposits with credit institutions	4,663,447	4,648,228	4,663,447	4,648,227
Cash at bank and in hand	9,076,114	6,465,146	8,906,613	6,343,124
	15,347,124	**11,820,874**	**15,071,924**	**11,618,825**

Financial liabilities that are debt instruments measured at amortised cost

Other creditors including taxation and social security	**1,337,641**	**1,292,926**	**1,284,169**	**1,230,258**

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	
	2020	**2019**
	£	**£**
Income on financial assets at fair value through profit and loss	428,233	573,625
Other investment management fees	(21,297)	(61,144)
Net gains on the realisation of investments	475	215,587
Net unrealised gains on investments	1,030,509	688,871
	1,437,920	**1,416,939**

(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:

	Group	
	2020 £	
As at 31 December 2020	**Level 1**	**Total**
Debt Securities, Corporate bonds and Gilts	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**

Within the Company there is an additional amount of £2 (2019: £2) recognised as a level 3 investment in relation to the investment in the subsidiary companies.

	Group	
	2019 £	
As at 31 December 2019	**Level 1**	**Total**
Debt Securities	18,042,674	18,042,674
Shares and other variable-yield securities and units in unit trusts	7,589,012	7,589,012
	25,631,686	**25,631,686**

(iii) Financial risk management

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

(a) Credit risk

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

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

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

Credit risk by class of financial instrument

Group and Company

As 31 December 2020

	AAA	AA	A	BBB	BB	Other	Total
	£	£	£	£	£	£	**£**
Debt 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**

As 31 December 2019

	AAA	AA	A	BBB	BB	Other	Total
	£	£	£	£	£	£	**£**
Debt securities	4,958,172	6,225,193	6,783,264	60,836	-	15,209	**18,042,674**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	7,589,012	**7,589,012**
Deposits held with credit institutions	-	2,551,877	2,096,351	-	-	-	**4,648,228**
Cash at bank and on hand	-	-	6,464,730	-	-	416	**6,465,146**
Other debtors	-	-	-	-	-	404,690	**404,690**
Debtors arising out of reinsurance operations	-	8,365	12,548	-	-	-	**20,913**
Total	4,958,172	8,785,435	15,356,893	60,836	-	8,009,327	**37,170,663**

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 equities 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 2020 by 25bp would result in an increase in profit before tax and the fair value of index linked securities by £99,026 (31 December 2019: £154,075).

Increasing assumed yields on fixed interest securities at 31 December 2020 by 25bp would result in an increase in profit before tax and the fair value of fixed interest securities £323,177 (31 December 2019: £301,521)

Decreasing assumed yields on fixed interest securities at 31 December 2019 by 25bp would result in a reduction in profit before tax and the fair value of fixed interest securities by £323,177 (31 December 2019: £301,521).

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 2020 by £535,866 (31 December 2019: £205,635). A 10% decrease in the GBP: EUR exchange rate would increase the net assets at 31 December 2020 by £654,947 (31 December 2019: £168,247).

(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	
	2020	2019	2020	2019
	£	£	£	£
Claims paid	5,817,411	5,939,865	(173,195)	(20,913)
Gross Provision for claims	956,790	(154,325)	107,166	(149,382)
	6,774,201	**5,785,540**	**(66,029)**	**(170,295)**

Refer to 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 £360,070 (2019: £354,622).

Claims development tables

The following tables 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)

Underwriting year	Group and Company						
	2015 & prior[1]	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:							
- at the end of reporting year		4,865,214	5,578,829	5,556,771	3,508,284	4,441,250	
- one year later		5,392,434	3,821,911	3,655,760	2,503,624		
- two years later		4,708,768	3,714,460	3,476,510			
- three years later		2,221,850	3,724,999				
- four years later		2,200,092					
Current estimate of cumulative claims	22,593,365	2,200,092	3,724,999	3,476,510	2,503,624	4,441,250	
Cumulative claims paid	22,201,699	2,083,460	2,668,009	1,921,978	1,172,747	680,888	
Current year gross provision	391,666	116,633	1,056,991	1,554,532	1,330,877	3,760,362	**8,211,060**

Claims outstanding (net)

Underwriting year	Group and Company						
	2015 & prior[1]	2016	2017	2018	2019	2020	Total
Estimate of ultimate claims costs:	£	£	£	£	£	£	£
- at the end of reporting year		4,865,214	5,578,829	5,310,094	5,030,725	4,478,598	
- one year later		5,392,434	3,821,911	4,990,381	2,518,643		
- two years later		4,708,768	3,986,398	3,352,006			
- three years later		5,079,950	3,303,100				
- four years later		2,200,943					
Current estimate of cumulative claims	21,604,030	2,200,943	3,303,100	3,352,006	2,518,643	4,478,598	
Cumulative claims paid	21,205,505	2,083,460	2,518,009	1,846,978	1,172,747	680,888	
Current year net provision	398,525	117,484	785,092	1,505,028	1,345,896	3,797,710	**7,949,734**

Reconciliation to balance sheet:

Gross technical provisions	8,211,060
Reinsurers' share of technical provisions	(261,326)
Net technical provisions (above)	**7,949,734**

[1] 2015 and prior years' cases (back to and including 2005 claims) have been aggregated at their position as at 31 December 2020 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 £25.1 million (2019 £23.0 million) 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. Income and expenditure reserves for the purposes of the financial statements as at 31 December 2020 were £27,014,364 (2019: £25,559,712).

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	
	2020	**2019**
	£	**£**
Operating leases which expire		
Within one year	1,599	5,199
Between one year and five years	127,040	16,763
After five years	-	-
	128,639	**21,962**

The operating lease relates to an office adjacent to the Group's owned property 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 £233,964 (2019: £1,586,347) and 32 claims (2019: 191 claims) were received from related parties during the financial year. During the year £10,116 (2019: £262,145) was paid on claims involving related parties with £23,500 (2019: £166,144) 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 £7,236 (2019: £35,280). The Company is financed via an interest free Intercompany loan repayable on demand. The amount due from the training company as at the balance sheet date was £1,760 (2019: £NIL).

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 2019.

The Veterinary Defence Society Limited

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