The Veterinary Defence Society Limited

Annual Report & Financial Statements

31 December 2018

ANNUAL REPORT & FINANCIAL STATEMENTS 2018

Contents

Board and Professional Staff

BOARD OF DIRECTORS

Non-Executive Directors

N J Paull BVSc MRCVS	**Chairman**
D H Black BVM&S DVetMed DBR MRCVS	
B M H Bussell BSc (Hons) FIA	
T A Clegg FCII ACIArb	
M J Pratt BA (Hons) FCA	
C W Thomson BVM&S MBA MRCVS	
Prof S E Wolfensohn OBE BSc MA VetMB FSB DipECLAM DipECAWBM-WSEL MRCVS	
G J Lawrie BVMS CertEP MRCVS	

Executive Directors

N A Macfarlane CA	**Chief Executive**
A M Lewis BSc (Hons) ACII	**Commercial Director**
D S Green BVSc CertEP MRCVS	**Technical Director**
H J Jones BA (Hons) ACMA	**Finance Director**

General Counsel and Company Secretary

C M Gannon LLB (Hons)

BOARD COMMITTEES

Audit Committee

M J Pratt - **Chairman**
D H Black
B M H Bussell
Prof S E Wolfensohn

Remuneration Committee

T A Clegg - **Chairman**
C W Thomson
G J Lawrie

Nominations Committee

N J Paull - **Chairman**
T A Clegg
N A Macfarlane
G J Lawrie
C W Thomson

Risk and Compliance Committee

B M H Bussell - **Chairman**
Prof S E Wolfensohn
M J Pratt
D H Black
N A Macfarlane

CLAIMS CONSULTANTS

T J Phillips BVetMed CertEP CertEO DESTS MRCVS - **Head of Claims**

S R Ellis BVSc CertVOphthal MRCVS
O M Hosegood BVSc MRCVS
C E Latham MA VetMB CertVR MRCVS
C Padgett BVMS CertCHP MRCVS
N J A Perkins BVSc CertCHP MRCVS
Dr J F Pycock BVetMed PhD DESM MRCVS
N M Saunders BSc BVetMed MRCVS
M D Stanford BVSc FRCVS
C A Wright BVSc CertSAS CertVR MRCVS
J R Oliver BVSc MRCVS
Dr T Brazil BVSc CertEM (IntMed) PhD DipECEIM MRCVS
P Attenburrow BVSc CertSAO MRCVS
J A Wells BVSc MRCVS

VETERINARY CLAIMS ADVISERS

R L McNeil BVetMed MRCVS
J E F Houlton MA VetMB DSAO DVR DipECVS MRCVS
J F R Hird BVSc MA DVA DipECVAA MRCA MRCVS
M G Jones BVetMed MRCVS
R S Tee BVSc CertVC MRCVS
K H Perry BVSc MRCVS
L G Morgan BVM&S MRCVS
E Drummond BVM&S MA LLM MRCVS
K E Moore BVSc BSC RVN MRCVS
A D Buxton BVSc MRCVS
R T Green BVSc CertWEL MRCVS
S Henney BVM&S MRCVS
R J Baxter BA VetMB MRCVS
J Gillon BVM&S Cert SAM MRCVS

PROFESSIONAL ADVISERS

Reinsurance Brokers
Capsicum Reinsurance Brokers LLP

Insurance Brokers
Arthur J Gallagher (UK) Limited

Investment Managers
Legal and General Investment Management (Holdings) Limited

Investment Advisers
Redington Limited

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Internal Auditors
RSM Risk Assurance Services LLP
Accountants and Business Advisers

Actuaries
KPMG LLP
Consultancy and Actuarial Services

Solicitors
Hill Dickinson LLP
Keoghs LLP
A & L Goodbody
Hayes & Sons
William Fry
BLM
Johns Elliot
Sheridan & Leonard
Clyde and Co
Dore & Co
Knights Plc
Walter A Smithwick & Son, Kilkenny
Brabners LLP

Bankers
The Royal Bank of Scotland plc
Barclays Bank plc

Registered Office
4 Haig Court
Parkgate Estate
Knutsford
Cheshire
WA16 8XZ

Registered number: 2159441

Chairman's Statement

In writing this report for the 2018 VDS year, the question of Brexit direction still hangs in the balance. Such uncertainty does not sit easily with a business that commits to work on behalf of members to assess and mitigate risk and be prepared for all eventualities. The Board moves into 2019 pledging to do all we can for our Irish members to enable us to continue our role as the Professional Indemnifier for the veterinary profession in Ireland. The whole Society would be the lesser for losing our Irish members. They make up around 10% of our membership so any inability to maintain our cover after Brexit would impact on the UK members as well as our Irish colleagues. The work done by the Board and the Executive team will keep us in the best possible place to minimise the potential Brexit risks that are currently driven by so much uncertainty. The Society has applied to the Central Bank of Ireland to set up of an Irish branch which will allow it to continue offering insurance to its Irish members in the future. The VDS continues to commit to defend, support and develop all our members as we look to move into a new type of Europe post Brexit.

The VDS Mutual Bonus, based on underwriting and investment performance, will be paid again this year based on the results from 2018. The Brexit and world trade uncertainty has created volatility in the investment markets, which has resulted in the poor performance of investments in 2018. Underwriting for 2018 has been prudent and has resulted in a good performance this year. Mutual Bonus will always vary depending on the financial returns in any one year and will go up and down. The challenges in this poor investment year, with the financial sector seeing nearly every asset class post negative or flat returns, has resulted in a lower bonus this year. The care taken regarding underwriting within the VDS however has enabled us to pass back bonus to our loyal members despite the challenges.

The VDS strategy is built around the themes of Defend, Support, Develop. Our core service of providing professional indemnity insurance for the veterinary profession has been and will continue to be the main aim of the Society. Our ongoing strategy is to improve, extend and expand our member services through a series of initiatives. The VDS continues to be a Society that is there for the veterinary profession, providing support and risk management through our insurance cover but increasingly advice, risk management services and training. As we enter 2019 there will be the addition of other initiatives that have a natural flow from the Defend, Support and Develop strategy.

Overall the VDS Board has a conservative approach to risk and is satisfied with keeping the Society as a relatively low risk and stable operation. The Board is mindful of the need for a strong risk management framework and 2019 will see further enhancements in this area.

"The VDS continues to be a Society that is there for the veterinary profession, providing support and risk management through our insurance cover but increasingly advice, risk management services and training."

Our highly skilled team of veterinary Claims Consultants and Claims Advisers work tirelessly on a daily basis to protect and support our members. They give our members the peace of mind knowing they are there, with help and guidance to minimise risks within member practices. Utilising advisers with specific expertise from the key sectors of domestic animal, equine and farm practice enables members access to the precise advice that is required. The addition of VetSafe last year is gradually embedding as a useful risk management tool in practice teams. VetSafe is a system launched in 2018 and designed by vets and for vets, to help protect patients, clients and clinicians from professional errors. Projects like this are focused on assisting member practices to minimise the risk of claims. Response from members has been uniformly positive. Clinicians comment on its ease of use and built in support, while senior staff and managers have welcomed its big data and benchmarking potential and its use to reinforce their 'just culture' message.

Our development of the VDS Training team continues, enabling us to reach out to more members, providing development and support to assist in mitigating their own risks. In the last two months of 2018 VDS has seen 5,668 hours of training undertaken by 1,334 delegates. As we enter 2019 there are new initiatives being rolled out to include new graduate development, wellbeing/culture and further complaints training. VDS Training strategy continues to be to build training, tools and strategies to improve quality of care, reduce and manage risk and develop people, teams and businesses.

2019 will see the launch of VDS Support signposting members to access other insurance products provided by trusted partners. Providing access to other insurers' products will allow VDS to concentrate on our core activities while also giving our members a route to their products and services. VDS will seek to partner with companies that have a shared ethos of mutuality and commitment to supporting their members. Any income from these partnerships through commissions will be used to benefit all VDS members.

The VDS continues to provide annual support to Vetlife with a donation of £52,000 this year. Members' proxy voting returns raised another £201. Our members have also donated an extra £11,945 during the renewal process. The Society's ongoing commitment to providing financial assistance to Vetlife is part of our support for the veterinary profession.

As a company regulated by the PRA and FCA, our corporate governance and regulatory compliance continues to be an important element of the Board role. We have seen the implementation and further strengthening of the Senior Managers & Certification Regime (SM&CR). The SM&CR increases business leaders' accountability for the areas and management functions they are responsible for.

But it is far more than just another regulatory initiative aimed at senior managers. Specifically, SM&CR aims to encourage a culture in which staff at all levels take personal responsibility for their actions, and to ensure firms and their staff clearly understand, and can demonstrate, where responsibility lies. Critically, SM&CR aims to embed personal responsibility into the functions held by the Boards and Senior Managers of regulated firms. Within VDS the culture is to assure all members that the Society continues at all levels to work on their behalf.

By the time this statement is published the outcome of Brexit may well be known. It is just one area of risk that the VDS needs to be ready for and plans for all options were underway as we entered 2019. The VDS as a mutual company assure our members that their concerns are very much VDS concerns as we continue to work hard on their behalf, using over 150 years of experience to Defend, Support and Develop the veterinary profession.

Nicky Paull

N J Paull BVSc MRCVS
Chairman of the Board
27 March 2019

Strategic Report

The Directors present their strategic report on the Group for the year ended 31 December 2018.

Principal activity

The principal activity of the Veterinary Defence Society Group ("the Group" or "Society") is the provision of professional indemnity insurance (including risk management, advice and training services) to veterinary surgeons in the United Kingdom and the Republic of Ireland, against claims arising from allegations of professional negligence and costs of disciplinary and criminal proceedings.

Business review

2018 was another successful year for the Society and the Chairman's Statement provides a review of some of the Group's key activities.

Gross written premiums, before return of premium, amounted to £13,242,632, an increase of £967,278 on the previous year (2017: £12,275,354).

In 2018 the Society continued with a return of premium (called the "Mutual Bonus"). This enables the Society to distribute a share of surplus in years when there is a positive insurance result and favourable investment income returns. The Society is in a position to do this as a result of its ongoing development of accurate risk-based underwriting and pricing, proactive risk management and a prudent finance and investment strategy. The Society had a good underwriting performance in the year, but investment returns have been affected by the market turmoil in 2018 and the Board has approved the distribution of a £250,000 Mutual Bonus, which is equivalent to approximately 2.0% of 2018 gross written premium (2017: £550,000 4.5% of 2017 gross written premium).

The costs of claims incurred, net of reinsurance, was £5,815,910, a reduction of £614,284 on the previous year (2017: £6,430,194). This reduction is primarily the result of a provision reduction due to the claims experience on Criminal & Disciplinary since the reserving basis changed from claims made to claims incurred in 2017.

Gross claims paid during the year increased from the previous year as a result of increases in the average value of claims and the frequency for smaller claims. Claims costs and gross provisions are the main uncertainty in the business and by continually monitoring our reserves, including the frequency of large claims, we hope to reduce the impact of uncertainty in future years.

The Society remains in a strong financial position with almost £30 million of financial investments at the year-end. These financial investments underpin both the technical insurance reserves and the retained reserves and provide the Society with an excellent foundation from which to deliver its strategy.

The Key Performance Indicators used were as follows:

	2018	2017
Gross written Premiums before Return of Premium	£13,242,632	£12,275,354
Return of Premium	£250,000	£550,000
Gross claims paid	£5,804,757	£5,589,619
Deferred Income	£5,520,952	£6,919,687
Surplus / (deficit) on Technical Account	£399,163	(£634,514)
Deficit after tax	£177,221	£634,514
Net decrease in cash at bank	(£1,400,525)	(£2,319,348)
Net cash used in investing activities	£688,962	£1,538,272
Investment portfolio	£29,361,921	£29,986,653
Combined Ratio[1]	97%	111%
Employee retention[2]	93%	83%

[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 number of employees remaining at the end of the year compared to those at the start of the year expressed as a percentage*

Business model

The Society's core business model is unique, by utilising experienced veterinary surgeons to provide a wide ranging, comprehensive, expert risk management, advice and training service to members. This helps to mitigate both the frequency and severity of claims and provides a high-quality claims service when they do occur. The Board sees it as important to maintain this core business model and recognises that the costs associated with providing this quality of service can be higher than industry norms and therefore continually strives to ensure this represents good value for members.

During 2018 the Society continued on its five-year plan to deliver its business strategy. Whilst this core business model will be maintained and further developed, the Society will seek to consolidate its current professional indemnity (PI) offering with particular reference to multi-channel, online/digital delivery and management, extend its risk management, advice and training services and expand its product offering to other complementary insurance and non-insurance related products and services.

Key to the extension of the Society's training services and a change to the business model was the establishment of a subsidiary company, VDS Training Services Limited in 2017. Although VDS Training operates outside of the PRA and FCA regulatory regime it will operate as part of the VDS 'family' establishing the link between risk management training and the insurance product and services.

A further addition to the VDS family in 2018 was the establishment of a second subsidiary company, VDS Support Limited. As with the training company, VDS Support Limited is not regulated by the PRA or FCA. Its purpose is to facilitate the offering of complementary products and services to the membership, which will be rolled out in 2019.

As detailed in the Corporate Governance Review, the Board meets regularly to ensure that strategy is set within the context of the Society's risk appetite which, in turn, is reviewed throughout the year as part of the Society's Own Risk and Solvency Assessment (ORSA).

Financial risk management

The Society is exposed to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular one of the key financial risks 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 Society has reviewed its investment strategy and invested in funds that offer an investment return in line with the Board's investment risk appetite, while keeping the financial risk at an acceptable level. It is the Board's intention to review its investment strategy in the light of Brexit and also to consider the effect of setting up the branch in Ireland in 2019.

Our main aim is to minimise risk to the Society'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 Society's activities.

Credit risk

The Society's principal credit risks are with institutions that hold our investments, deposits and bank balances. The Society maintained a prudent investment strategy during 2018 with approximately £30 million invested in Debt Securities and Shares, other variable-yield securities, unit trusts and other investment funds. The Society has a policy of spreading its exposure over a number of counterparties in order to avoid any significant concentration of credit risk.

There is also potential exposure to reinsurance credit risk. The Society has a policy of using reinsurance organisations with a minimum credit rating of A. The Society is also exposed to foreign exchange risk. The principal method of matching this is predominantly by matching currency assets and liabilities rather than by the use of any derivative instruments.

Principal risks and uncertainties

In conducting its business, the Society faces a range of risks and these are fully discussed in the Society's ORSA. The ability to handle change effectively exposes the Society to IT and associated risks and the Board is mindful of the need to mitigate and monitor these risks on an ongoing basis as it pursues its business strategy. In addition, loss of market share, damage to reputation and exposure to major losses continue to feature highly in the management of the Society's top risks.

Taking each of these in turn, the Board considers that the loss of market share is mitigated by providing a service that is unique and difficult to replicate yet achieves the optimal balance of quality and cost to members. The strategy ensures this service remains relevant and up to date within the rapidly changing business environment by constantly reviewing and consolidating the core offering whilst extending and expanding its other complementary products and services. The Society has also continued to develop tangible benefits of its mutual status and in the last three years has paid out a Mutual Bonus by way of a return of premium. For the 2018 underwriting year we are declaring a Mutual Bonus which will be paid out in 2019. The excellent reputation of the Society has been built up over many years and it is a core value of the Society to safeguard this reputation. The Society has a firm and steady commitment to compliance and regulatory matters and has embedded in to the business many policies, procedures and practices covering areas such as customer care, communication along with the use of technology and constantly monitors and reviews them against best practice.

Claims trends are monitored by source, type of claim, by their frequency and severity to assess the correct level of premium and to inform, on an annual basis, what levels of reinsurance are purchased in order to protect the Society's capital position. In recent years there has been an increasing trend by regulators of the veterinary profession to pursue matters of professional misconduct impacting both advice line usage and the number of claims.

The Society has responded by ensuring it has the right resources within the claims teams and, crucially, by exploring ways both technological and digital to provide its services.

2018 also saw the realisation of a risk which has emerged in the insurance industry as a whole; the ability of VDS, as a UK regulated insurer, to continue to operate in Ireland after the UK withdrawal from the European Union. In light of the uncertainty of the negotiations, the Society's expected operations in Ireland have been a particular area of focus for the Board. As at the year end, there is no clear path as to the future conduct of insurance business in Ireland by VDS however it is confirmed with the CBI that the company will be able to manage the back book, renewals start in November and by then there will be more clarity. The Board is actively pursuing options including the setting up of an Irish Branch which is the most likely outcome, this will ensure the Society's ability to continue to service its members in Ireland both now and in the future.

Business environment

The pace and breadth of change within the veterinary profession continued in 2018 albeit with the new major uncertainty of Brexit causing concern due to its unknown impact on the large number of EU vets currently working in the UK. Other themes continue with corporatisation approaching 60% of the market which is set to continue to rise, the use of more sophisticated technology with increasing specialisation. At the same time, external sources such as rising client expectations and the ever increasing 'complaint and blame culture' continue to put added pressure on the profession from external sources.

2018 also saw the implementation of further regulatory requirements; The General Data Protection Regulations (GDPR) and the Insurance Distribution Directive (IDD) have affected the operational side of VDS, including the development of systems and controls designed to further protect individuals' data within the EU and the introduction of further procedures and protocols to enhance consumer protection.

The implementation of the Senior Manager & Certification Regime (SM&CR) on 10 December 2018 has further enhanced senior management and employee accountability as required by both regulators. The SM&CR introduced changes to how the FCA and PRA regulate individuals working in financial services and has created a system to more effectively help enable firms and regulators to hold people to account. In implementing the new regime, the Society has worked hard to encourage staff to take personal responsibility for their actions, improve conduct at all levels and ensure that VDS and its staff clearly understand and can show what they do.

The Society continues to command a strong market share however, whilst direct competition within the veterinary Professional Indemnity insurance market is currently limited, the Society is always vigilant of and prepared for new entrants to the market and to the prospect of large veterinary organisations seeking alternative approaches to their risk management.

Business plan and future activities

The Society's business strategy was reviewed during 2015/16 resulting in the five-year plan, this moved into implementation phase during 2017. The current phase sees developments delivered across a three year planning period and will see the Society consolidating and extending its current well respected professional indemnity cover, and a claims service that goes beyond the simple provision of indemnity. Building upon the launch of the subsidiary companies, VDS Training Limited and VDS Support Limited, the Society will extend and expand its advice, risk management and training services in terms of delivery methods, breadth of products and services, endeavouring to develop innovative ways in which it can serve its members to provide the right balance of quality and value. The Society is currently reviewing its business strategy for the three year planning period 2020 to 2023.

Approved by the Board and signed on behalf of the Board

N A Macfarlane, Chief Executive, 27 March 2019

Corporate Governance Review

The Society is committed to good practice in corporate governance and is a member of the Association of Financial Mutuals ("AFM"). As at the year-end 2018, the Society has operated in accordance with the AFM annotated version of the 2016 UK Corporate Governance Code ("the Code") produced by the Financial Reporting Council.

The Society, as a member of the AFM, is required to comply with the code. This review explains how the Society applies the principles of the Code. The AFM Corporate Governance Code sets out a series of principles of good corporate governance that members apply within their business. The Code draws on expectations of directors from a range of sources, including the relevant legislation, regulatory rules and internationally recognised standards.

The Board

Code principle A.1: Every Company should be headed by an effective board, which is collectively responsible for the long term success of the Company.

The principle functions of the Board are the determination of the Society's strategic direction (including its key financial objectives), the review of business and financial performance and ensuring effective systems and controls are in place for risk management. The Board continues to progress the development of the Society's product and service areas as a key part of its 2018 to 2020 Business Plan.

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 conducts an annual self-assessment exercise to review its effectiveness and highlight any areas which should be improved.

Each of the Board committees has a terms of reference, which are published on the Society's website. The composition of each committee is reviewed in July each year by the Chairman and any changes are approved by the Board.

The Board receives reports and recommendations from the Board committees and also receives a monthly report from the Executive Committee.

Board committee restructure

The Chairman reviews the activities and composition of the Society's Board Committees. At the Board meeting on 25 July 2018, it was decided that the Audit, Risk & Compliance Committee should be divided into an Audit Committee and a separate Risk and Compliance Committee, it being intended that the latter would ensure sufficient time and focus could be given to Risk and Compliance matters. It was also agreed that the Investment Committee would be disbanded and its function transferred to the Risk and Compliance Committee. These changes took effect on 07 November 2018 when the two separate Committees met for the first time.

Audit Committee (AC)

The committee is chaired by Non-Executive Director, Michael Pratt, a chartered accountant. Non-Executive Directors, David Black, Brian Bussell and Sarah Wolfensohn were the other members of the AC during 2018.

This committee monitors internal controls, financial reporting, risk management and regulatory compliance matters. It reviews the work of the Internal Audit, Compliance and Risk Management functions and assesses their effectiveness. It considers and makes a recommendation for the appointment of the external 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 ARCC 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, by invitation. Other members of the management team attend as required.

Remuneration Committee

The committee is chaired by Non-Executive Director, Trevor Clegg. Non-Executive Directors, Gavin Lawrie and Colin Thomson are the other members of the committee. The committee's main role is to determine and agree with the Board the Society's Remuneration Policy which sets out the criteria for the remuneration of the Chairman 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 Nicky Paull, who is also Non-Executive Chairman of the Board. The other members of committee are Non-Executive Directors, Trevor Clegg, Gavin Lawrie, Colin Thomson and the Society's Chief Executive Officer, Norman Macfarlane. 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 and Compliance Committee (RCC)

The committee is chaired by Non-Executive Director, Brian Bussell. Non-Executive Director Professor Sarah Wolfensohn, David Black, Michael Pratt and the Society's Chief Executive Officer, Norman Macfarlane form the rest of the Risk and Compliance Committee.

Since November 2018, the committee undertook 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 2018

The Chairman annually reviews membership of board committees at the first board meeting following the AGM, the following table 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.)

Director	Board	Remuneration	Nominations	Audit, Risk & Compliance	Investment	Risk & Compliance	Audit
D H Black[5]	5/6		3/3	5/5		1/1	1/1
B Bussell	6/6			4/5	3/3	1/1	1/1
T A Clegg[2]	6/6	1/1	1/1				
D S Green	6/6						
G J Lawrie[3]	6/6	1/1	1/1	5/5			
A M Lewis	6/6						
H Jones	6/6			5/5	3/3		
N A Macfarlane	6/6		4/4	5/5	3/3	1/1	
N J Paull	6/6		4/4				
M J Pratt[5]	6/6		3/3	5/5		1/1	1/1
C W Thomson	6/6	1/1	4/4				
J A Wells[1]	1/1						
S E Wolfensohn[4]	6/6	1/1			3/3	1/1	1/1

[1] Retired from Board January 2018

[2] Joined Nominations Committee July 2018

[3] Joined Nominations Committee July 2018

[4] Joined Audit Committee and Risk & Compliance Committee and left Remuneration Committee July 2018

[5] Left Nomination Committee July 2018

Audit, Risk & Compliance Committee and the Investment Committee were replaced by the Audit Committee and the Risk & Compliance Committee in November 2018.

Division of responsibilities

Code Principle A.2: There should be clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision.

The roles of Chairman and Chief Executive Officer are held by different individuals, with a clear division of responsibilities. The Chairman 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 Chairman

Code Principle A.3: The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

The Chairman 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 Chairman also ensures that Directors receive accurate, timely and clear information.

Non-Executive Directors

Code Principle A.4: As part of their role as members of a unitary board, Non-Executive Directors should constructively challenge and help develop proposals on strategy.

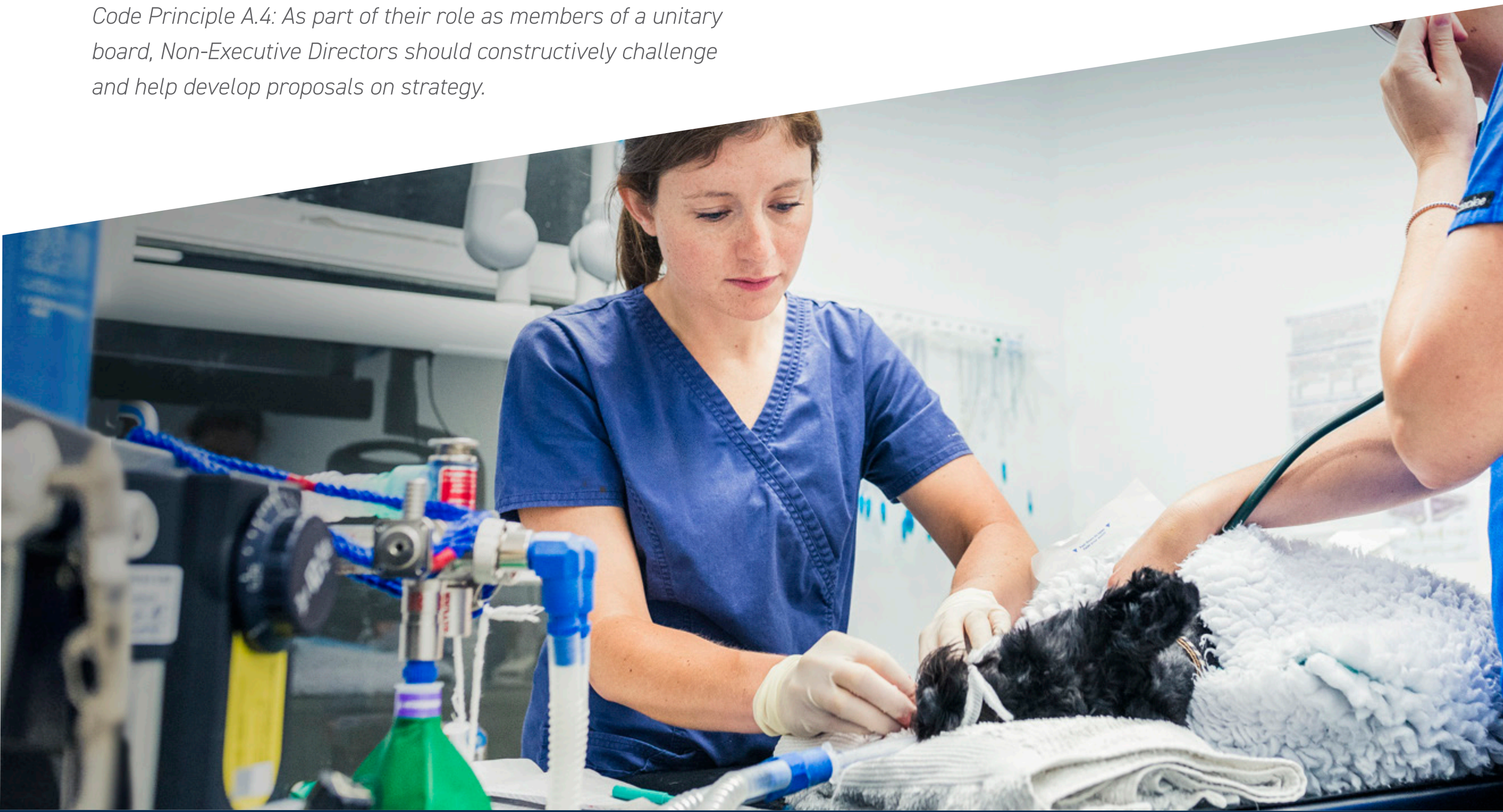
The Non-Executive Directors of the Society are drawn from a wide range of backgrounds to provide the appropriate skills, knowledge and experience to ensure a robust level of challenge and debate. The role requires an understanding of the risks in a financial services business, commercial leadership within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

The composition of the Board

Code Principle B.1: The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

Where mutual insurers have significant numbers of members with common interests, through geographic location, occupation or otherwise, this might also be considered in determining the appropriate balance for the Board and its committees.

As at 31 December 2018, the Board comprises four Executive Directors and eight Non-Executive Directors. By virtue of the Society's Articles of Association, the Chairman of the Board must be a veterinary surgeon and there must be no more than six non-veterinary members of the Board.



With the exception of Michael Pratt, all of the Non-Executive Directors have served on the Board for less than nine years. All the directors can be defined as independent under the Code. Michael Pratt was elected to the Board for a further year by Special Resolution at the AGM.

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.

David Black 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 Chairman of the Board or the Executive Directors.

Appointment to the Board

Code Principal B.2: There should be a formal, rigorous and transparent procedure for appointment of new directors 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 by the use of 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. They are subject to election by members at the AGM following their appointment and all directors appointed to the Board after the AGM 2017 are subject to re-election to office by the membership every three years.

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

Commitment

Code Principle B.3: All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

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 Chairman of the Board each year also assesses whether Non-Executive Directors have demonstrated this ability during the year.

Development

Code Principle B.4: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

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

Information and support

Code Principle B.5: The Board should be supplied in a timely manner with information in a form and a quality appropriate to enable it to discharge its duties.

The Chairman 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

Code Principle B.6: The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The Society undertakes an internal Board evaluation process every year. In addition, the performance of the Non-Executive Directors is evaluated annually by the Chairman of the Board. In turn, the Chairman of the Board is evaluated by the Senior Independent Director, after consulting and obtaining the views of the other directors. The Chief Executive Officer is also evaluated by the Chairman of the Board. The Chief Executive conducts annual appraisals of the Executive Directors and General Counsel and Company Secretary. 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 Board and the Board committees also annually evaluate their overall performance. During 2018 an external Board evaluation was performed. 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

Code Principle B.7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The Board should ensure planned and progressive refreshing of the Board.

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.

At the AGM 2017 the Society took a further step in strengthening its compliance with the Code by altering its Articles of Association to ensure that future Executive Directors be required to offer themselves for re-election by the members every three years.

On expiry of their terms of office, Non-Executive Directors are submitted for re-election. Non-Executive Directors serving over nine years will be subject to re-election annually.

Non-Executive Directors re-elected to office at the 2018 AGM were Michael Pratt, Nichola Paull and David Black. Howard Jones was elected as an Executive Director.

Financial and business reporting

Code Principle C.1: The Board should present a fair, balanced and understandable assessment of the Company's position and prospects.

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 Chairman's Statement.

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

Risk management and internal control

Code Principle C.2: The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

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

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

Audit Committee and auditors

Code Principle C.3: The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

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

The committee meets at least three times a year. At least annually, the external auditors meet with the committee without the Executive Directors present. Minutes of the committee's meetings are provided to the Board.

The committee oversees the Society's relationship with its external auditors, including (but not limited to) approving the scope of the external audit plan, reviewing the external audit report and approving external audit fees in advance.

Remuneration

Code Principle D.1: Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully, but a Company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Code Principle D.2: There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

The Society's Remuneration committee is responsible for recommending the remuneration of the Executive Directors, Chairman of the Board, and senior management in accordance with the Society's Remuneration Policy. The committee adopts a rigorous approach to determining appropriate levels of remuneration and every two years, takes external independent advice from Croner Reward before recommending remuneration which it considers necessary to attract, retain, and motivate directors and employees of the right calibre. Executive Directors' 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.

Dialogue with members

Code Principle E.1: There should be dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that satisfactory dialogue with shareholders.

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 Directors throughout the year at conferences and seminars. Non-Executive Directors attend meetings of the Claims Group by rotation throughout the year. The Society's subsidiary companies, VDS Training Services Limited and VDS Support Limited, also serve to enhance communication with members.

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

In 2018, the Society provided its members with an Annual Review, summarising the Society's Annual Report and Financial Statements 2017.

Constructive use of the annual general meeting

Code Principle E.2: The Board should use the AGM to communicate with investors and to encourage their participation.

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.

Audit, Risk and Compliance Committee report

The committee met five times during 2018, and once as the Audit committee and the Risk and Compliance committee.

With effect from 07 November 2018 the work of the Audit Risk and Compliance Committee has been divided into the Audit Committee and the Risk and Compliance Committee.

The role of the committee is to assist the Board in discharging its responsibilities for financial reporting, corporate governance, internal controls, internal and external audit and risk management. In carrying out its role, the committee took steps to ensure that it could, where necessary, make recommendations to the Board following the output of the internal and external audit functions and the committee reported to the Board throughout the year on their respective reports. In doing so, the committee was able to assure the Board of the effectiveness of the Society's audit programme and of the independence and objectivity of the internal and external auditors. The ARCC liaised with the Society's internal and external audit functions and during 2018 it concentrated on a number of important areas which were likely to impact on the Society's business strategy.

During the year, the committee received a final report from BDO LLP on Project Management Arrangements. Enhancement opportunities will be monitored in forthcoming reviews.

Following a comprehensive tender process, the ARCC recommended the appointment of RSM LLP as the Society's new company sourced internal auditors. They were appointed for a period of three years with an agreed, risk based, three-year strategic audit programme.

During the latter part of 2018, RSM provided the committee with a report on Investment Risk Management, providing reasonable assurance that the Society was operating in accordance with their expectations. Fieldwork on a review of Cyber Risk Management was undertaken by RSM in December 2018 and a final report is awaited.

PwC are the Society's external auditors and the committee worked with them in agreeing an appropriate audit plan for the year ending 31 December 2018. The plan set out PwC's approach to the audit of the Society's Annual Report and Financial Statements. 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.

Own Risk and Solvency Assessment report 2018

On 29 November 2018 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 input given by the Risk and Compliance Committee at its meeting on 07 November 2018. 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 2019.

In summary;

During 2018, the Audit Risk and Compliance 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 2018.
- Reviewing the appropriateness of the Society's accounting policies.
- Reviewing and approving the 2018 audit fee in conjunction with an assessment of external auditors' performance.
- Reviewing the external audit plan for the audit of the Society's financial statements, including an assessment of key risks and in advance of approving non-audit services, the committee requested from the external auditors their assessment of any threats to independence, which the committee reviewed and determined.
- Discussing and monitoring progress on recommendations arising from regular reports from the internal auditors.
- Assessing internal audit effectiveness by consideration of suggestions for improvement.
- Reviewing the Executive Committee report on the Society's key risks, risk appetite and risk management, reporting to the Board on the results of the review.
- Reviewing the Society's policies relating to fraud, whistle-blowing 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 conducting a tender process for the appointment of new Internal Auditors during 2018.

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 2018 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.

Directors' Report

Directors' report for the year ended 31 December 2018

The directors present their report and audited financial statements of the group and company for the year ended 31 December 2018.

Future developments

The directors are continually assessing Brexit implications, and are aware it will have a significant effect on the insurance environment and the underlying authorisation arrangements will have to change to an unknown extent. The Society will continue to expand its advice, risk management and training services to serve members as highlighted in the strategic report.

Going concern

Having assessed the principle risks, 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.

Directors and their interests

The present directors of the Society are shown on page 2. The directors during the year and any changes since the year end were as follows:

D H Black

B M H Bussell

T A Clegg

D S Green

G J Lawrie

A M Lewis

N A Macfarlane

N J Paull

M J Pratt

C W Thomson

J A Wells - (Retired 31 January 2018)

S E Wolfensohn

H J Jones

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

Executive directors

D S Green

A M Lewis

N A Macfarlane

H J Jones

Charitable donations

A charitable donation of £52,000 was made to Vetlife during the year (2017: £70,000).

Other donations were £201 paid to a cancer charity where VDS matched the money from staff fundraising.

In addition to the above donations, as a result of returned 2018 AGM proxy forms, further charitable donations of £201 (2017: £321) will be made to Vetlife.

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 in place for a number of years and is based on a stable and low risk appetite whereby the Society underwrites only one line of business and focusses on a high quality of claims handling and risk mitigating services. Whilst the Society will continue to underwrite only one line of business it will seek to offer 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 short and medium term 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 it includes a number of scenarios being tested. Finally, financial forecasts are derived from the planning process over a three-year period. Currently the financial forecasts assume a stable position across the review 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 any revision in strategy, the Directors confirm they have a reasonable expectation that the Society will be able to continue in operation across the planning period of three years to 31 December 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 the 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 and company for that period. In preparing the financial statements, the directors are required to:

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

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

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

Approved by the Board and signed on behalf of the Board

H J Jones
Finance Director
27 March 2019

Independent Auditors' Report

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 2018 and of the group's and the company's result and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall group materiality: £384,963 (2017: £399,850), based on 1% of total assets.
- Overall company materiality: £365,715 (2017: £379,860), based on 1% of total assets.

- 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 company, being an insurance entity which is based in a single location and 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.
- A component was deemed to be financially significant and in scope if it contained more than 15% of the total assets. A component was also deemed to be financially significant and in scope if it contained balances relating to one of the areas of audit focus. For the one component identified a full scope audit was performed.
- Additional balance components were selected to ensure sufficient coverage across all material financial statement line items for the large balance components.

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

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and company and its 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 of the group and company. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements of the group and company such as the Companies Act 2006, the Prudential Regulation Authority's regulations and UK tax legislation. 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 company, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of general insurance contract liabilities. The group engagement team shared this risk assessment with the component auditor referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and component auditors included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the group and company's legal advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board and the Claims Group;
- 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 technical provisions described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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 2018, technical provisions total £7.4m (£7.4m at 31 December 2017). Refer to page 29 (Accounting policies) and page 44 (note 17) for further information.

Case estimates may be inappropriate

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.

Case reserves are significant in the context of the overall balance sheet, representing £3.5m of the technical provision balance as at 31 December 2018 (2017: £3.3m).

This is a key audit matter for both the group and company.

To address this risk we:

- Attended a Claims Group meeting to observe the rigour of the debate and challenge over the case estimate provisions, together with understanding the judgements and level of uncertainty taken into consideration in evaluating the claims under review;
- Read the minutes of other Claims Group meetings held during the year to obtain evidence of completeness of large or complex cases requiring specific focus in our work;
- Considered the historical accuracy of the case estimate assumptions by comparing a sample of the 2010-2017 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
- Read 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 found, 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
The Actuarial assumptions may be inappropriate In addition to case estimates, technical provisions also include: - A provision for claims incurred but not reported (IBNR) being those claims that the company will be notified of after the year but which relate to events that occurred in the current year; and - A provision for claims incurred but not enough reported (IBNER) which reflects that, based on past experience, claims estimates established at the year-end will prove insufficient. IBNR and IBNER reserves are significant in the context of the overall balance sheet, representing £2.1m of the technical provision balance as at 31 December 2018 (2017: £2.4m). The valuation of IBNR and 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. A change in actuarial assumption could have a material impact on the total value of technical provisions. Claims development factors and expected loss ratios are the key assumptions used in the calculation of the reserve. Claims development factors use historical evidence of claims to generate an expectation regarding how existing claims of a similar maturity will develop over time. Expected loss ratios estimate the ultimate claim by multiplying the premium by the expected loss ratio when the policy was issued. This is a key audit matter for both the group and company.	To address this risk we: - 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; and - Evaluated the competency, capability and objectivity of the external actuarial expert. We tested the completeness and accuracy of data used by management's external actuarial expert in the calculation of the total technical provisions by: - testing the completeness of the claim data used by the external actuarial expert by agreeing data used to the policy administration system. We found, based on the results of our testing, that the judgements applied were supported by the evidence we obtained.

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud. At the year-end, the subsidiary entities were immaterial components of the group, and consequently only the company was in scope for the group audit.

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:

	Group financial statements	Company financial statements
Overall materiality	£384,963 (2017: £399,850)	£365,715 (2017: £379,860)
How we determined it	1% of total assets	1% of total assets
Rationale for benchmark applied	We believe that total assets is the most applicable measure to use given VDS 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 VDS. 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 the one component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to this component was £365,715.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15,000 (Group audit) (2017: £15,000) and £15,000 (Company audit) (2017: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

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. *(CA06)*

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' reporting on how they have applied the UK Corporate Governance Code – An Annotated version for mutual insurers (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 17 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 17 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 16, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 10 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, by the Association of Financial Mutuals, for review by the auditors.

We have nothing to report in respect of this responsibility.

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 set out on page 18, 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.

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 received 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 4 years, covering the years ended 31 December 2015 to 31 December 2018.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester, 27 March 2019

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 £	Restated 2017 £
Technical account			
Gross written premiums before return of premium	5	13,242,632	12,275,354
Return of premium		(250,000)	(550,000)
Gross written premiums		**12,992,632**	**11,725,354**
Outward reinsurance premiums		(937,135)	(844,460)
Net premiums written and earned premiums net of reinsurance		**12,055,497**	**10,880,894**
Allocated investment income transferred from the non-technical account	10	-	524,049
Total technical income		**12,055,497**	**11,404,943**
Claims incurred, net of reinsurance			
Gross claims paid	6	(5,804,757))	(5,589,619)
Reinsurers' share of gross claims paid	6	50,000	111
Net claims paid		**(5,754,757)**	**(5,589,508)**
Change in gross provisions for claims	6,17	(14,656)	(1,036,883)
Change in reinsurers' share	6,17	(46,497)	196,197
Change in net provisions for claims		**(61,153)**	**(840,686)**
Claims incurred, net of reinsurance		**(5,815,910)**	**(6,430,194)**
Net operating expenses	7	(5,840,424)	(5,609,263)
Total technical charges		**(11,656,334)**	**(12,039,457)**
Balance on technical account		**399,163**	**(634,514)**
Non-technical account			
Balance on technical account		399,163	(634,514)
Other income	3	559,144	-
Other expenses	3	(881,748)	-
Investment income	10	486,939	596,935
Net gains on realisation of investments	10	-	80,731
Net unrealised loss on investments	10	(701,156)	(13,553)
Other investment management fees, investment expenses and charges	10	(42,281)	(80,785)
Allocated investment income transferred to the technical account	10	-	(524,049)
Deficit on ordinary activities before tax		**(179,939)**	**(575,235)**
Tax on surplus / (deficit) on ordinary activities	11	2,718	(59,279)
Deficit for the financial year		**(177,221)**	**(634,514)**
Other comprehensive income:			
Revaluation of land and buildings	13	287,247	-
Total comprehensive income / (deficit) for the year		**110,026**	**(634,514)**

All of the operations of the Group are continuing.

Consolidated and Company Balance Sheets

As at 31 December 2018

	Note	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Assets					
Ihtangible assets					
Intangible assets	12	516,059	53,326	476,415	28,325
Investments					
Land and buildings	13	1,300,000	1,099,022	1,300,000	1,099,022
Other financial investments	14	29,361,921	29,986,653	29,361,923	29,986,654
		30,661,921	**31,085,675**	**30,661,923**	**31,085,676**
Reinsurers' share of technical provisions		200,180	246,677	200,180	246,677
Debtors					
Debtors arising out of direct insurance operations - policyholders	15	284,008	499,084	284,008	499,084
Debtors arising out of reinsurance operations	15	28,750	-	28,750	-
Other debtors	15	613,494	461,974	498,989	387,477
Amounts receivable from group companies	15	-	-	589,408	542,560
		926,252	**961,058**	**1,401,155**	**1,429,121**
Other Assets					
Tangible assets	16	496,668	561,634	387,918	423,884
Cash at bank and in hand		5,476,234	6,876,759	5,359,436	6,554,945
		5,972,902	**7,438,393**	**5,747,354**	**6,978,829**
Prepayments and accrued income		218,983	200,441	216,949	200,441
TOTAL ASSETS		**38,496,297**	**39,985,570**	**38,703,976**	**39,969,069**
Reserves and Liabilities					
Revaluation reserve		287,247	-	287,247	-
Income and expenditure reserve					
At 1 January		23,520,166	24,154,680	23,545,445	24,154,680
Surplus / (Deficit) for the financial year		(177,221)	(634,514)	124,488	(609,235)
		23,342,945	23,520,166	23,669,933	23,545,445
Technical provision - claims outstanding	17	7,408,595	7,393,938	7,408,595	7,393,938
Creditors: amounts falling due within one year	18	1,326,173	1,236,876	1,272,813	1,231,977
Accruals and deferred income	19	6,131,337	7,834,590	6,065,388	7,797,709
TOTAL LIABILITIES		**38,496,297**	**39,985,570**	**38,703,976**	**39,969,069**

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 33 to 60 are an integral part of these financial statements.

The financial statements on pages 29 to 60 were approved by the Board of Directors and signed on its behalf on 27 March 2019.
Signed on behalf of the Board,
Howard Jones, Finance Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2017	24,154,680	-	24,154,680
Deficit for the year	(634,514)	-	(634,514)
Balance as at 31 December 2017	23,520,166	-	23,520,166
Balance as at 1 January 2018	23,520,166	-	23,520,166
Deficit for the year	(177,221)	-	(177,221)
Revaluation of land and buildings	-	287,247	287,247
Balance as at 31 December 2018	**23,342,945**	**287,247**	**23,630,192**

Company Statement of Changes in Equity

Year ended 31 December 2018

	Income and expenditure reserve £	Revaluation reserve £	Total £
Balance as at 1 January 2017	24,154,680	-	24,154,680
Deficit for the year	(609,235)	-	(609,235)
Balance as at 31 December 2017	23,545,445	-	23,545,445
Balance as at 1 January 2018	23,545,445	-	23,545,445
Deficit for the year	124,488	-	124,488
Revaluation of land and buildings	-	287,247	287,247
Balance as at 31 December 2018	**23,669,933**	**287,247**	**23,957,180**

Consolidated Cash Flow Statement

Year ended 31 December 2018

	Note	2018 £	2017 £
Operating Activities			
Net cash outflow from operating activities	21	(1,044,477)	(1,517,533)
Tax Paid		(74,908)	(222,465)
Interest and dividends received		407,822	958,922
Net cash used in operating activities		**(711,563)**	**(781,076)**
Investing Activities			
Purchase of tangible assets		(155,296)	(265,381)
Purchase of intangible assets		(489,187)	(30,001)
Proceeds on sale of tangible assets		13,000	-
Other investment management fees paid		(44,897)	(116,745)
Sale of debt securities and Shares and other variable-yield units in unit trusts		-	22,030,607
Purchase of Debt securities and Shares and other variable-yield units in unit trusts		-	(31,688,118)
Net (payments to) / cash receipts from deposits with credit institutions		(12,582)	8,531,366
Net cash used in investing activities		**(688,962)**	**(1,538,272)**
Net decrease in cash at bank and in hand		**(1,400,525)**	**(2,319,348)**
Cash and cash equivalents at the beginning of the year		6,876,759	9,196,107
Cash and cash equivalents at the end of the year		**5,476,234**	**6,876,759**

Cash and cash equivalents consists of:		
Cash at bank and in hand	5,476,234	6,876,759
Cash and cash equivalents at the end of the year	**5,476,234**	**6,876,759**

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 judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment 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 principle risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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 during the year, both 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 there is no unearned premium recognised in the balance sheet. Reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business. Return of premiums granted to policyholders are recognised as a reduction to gross written premiums during the year in which the return of premium is 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 estimated 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 claims 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. The aggregate surplus or deficit on revaluation is taken to the revaluation reserve in the balance sheet.

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:

Motor vehicles	25% per annum on cost, straight line basis
Fixtures and fittings	between 8% and 25% 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 its useful life.

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.

During the year the Group began the development of a wholly new computer system to serve the business into the future, this remains under construction at the end of December 2018. Costs directly attributable to the project are capitalised and amortisation will commence once the asset is commissioned.

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.

Account is taken of dividend income when the related investment goes 'ex-dividend' and other investment income is included on an accruals basis.

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

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

In the year the Group has changed its accounting policy in relation to the transfer made from the non-technical account to the technical account. In the past this was based on long term investment returns (as estimated by the directors) for Equities (8%) and Properties (7.6%). The Group has changed the basis to 100% after tax actual investment return to be transferred from the non-technical account 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 change in the accounting policy is presentational and has no impact on the group result either favourably or adversely and results in changes to the 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, the prior year transfer has been restated to reflect the new treatment.

The transfer in 2017 amounted to £698,415 and under the new accounting policy the reclassification results in a transfer of £524,049 (Note 10).

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 fair value using discounted estimated cashflows.

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 Unit's ("CGU's") 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. Due to the immaterial size of the training companies result in 2017 it was reported within net operating expenses in the comparatives.

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 £7,408,595 (2017: £7,393,938) 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.

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	
	2018	**2017**
United Kingdom	**£**	**£**
Gross written premiums before return of premium	13,242,632	12,275,354
Return of premium	(250,000)	(550,000)
Gross written premiums	**12,992,632**	**11,725,354**

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 £1,348,230 (2017: £1,173,439).

6. Claims incurred

	Group	
	2018	**2017**
	£	**£**
Gross claims paid	5,804,757	5,589,619
Reinsurers' share of gross claims paid	(50,000)	(111)
Net claims paid	**5,754,757**	**5,589,508**
Change in gross provisions for claims	14,656	1,036,883
Change in reinsurers' share	46,497	(196,197)
Change in net provisions for claims	**61,153**	**840,686**
Claims incurred, net of reinsurance	**5,815,910**	**6,430,194**

A positive run-off deviation of £64,000 (2017: positive of £687,000) arose on prior years' claims. Run-off deviations arise from changes in claims status as further information is received.

7. Net operating expenses

	Group	
	2018	**2017**
	£	**£**
Acquisition costs	1,118,231	1,109,271
Administration expenses	4,722,193	4,499,992
	5,840,424	**5,609,263**

Administration expenses include:		
Depreciation and amortisation	220,572	280,198
Exchange rate loss / (gain)	16,223	(34,862)
Professional fees	236,111	112,326
Consultancy fees	355,409	298,849
Fees payable to the group's auditors for the audit of the company and the Group's consolidated financial statements	84,906	149,758
Fees payable to the group's auditors for other services:		
Audit related assurance services	-	17,850
Other non-audit services	11,916	34,603

8. Employees

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Wages and salaries	5,426,834	4,718,817	5,058,870	4,663,581
Social security costs	641,176	575,567	596,648	568,641
Pension and other costs	568,906	480,881	537,536	475,881
	6,636,916	**5,775,265**	**6,193,054**	**5,708,103**

	No.	No.	No.	No.
Average number of persons employed (including directors), all of whom were involved in administration for the group	74	64	69	63

9. Directors' remuneration

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

	Group	
	2018	2017
	£	£
Remuneration	922,678	1,007,944

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

Number of Directors who were members of the defined contribution pension scheme	4	5
The pension contributions to defined contribution pension schemes for the year	66,083	72,863
Remuneration of highest paid director	218,300	210,525
Pension contributions to the defined contribution pension scheme of the highest paid director	20,645	20,034

10. Investment return

	Group	
	2018	Restated 2017
	£	£
Investment Income		
Income on financial assets at fair value through profit and loss	485,893	512,926
Income on financial assets not at fair value through profit and loss	1,046	84,009
Total income from other financial assets	486,939	596,935
Net gains on the realisation of investments	-	80,731
	486,939	**677,666**
Investment expenses and charges		
Other investment management fees	(42,281)	(80,785)
Net unrealised losses on investments	(701,156)	(13,553)
Total investment return	**(256,498)**	**583,328**
Investment return is analysed between:		
Allocated investment return transferred to the technical account	-	524,049
Net investment return included in the non-technical account	(256,498)	59,279
Total investment return	**(256,498)**	**583,328**

The restatement of the prior year Allocated investment return shows the transfer from the non-technical account to the technical account which reflects the new policy. This was based on long term investment returns and is now 100% after tax actual investment return being transferred.

A 1% increase / decrease in the investment portfolio valuation would result in an increase / decrease in longer-terms investment return of £293,619 (2017: £293,000).

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

	Group	
	2018	2017
	£	£
Analysis of tax charge for the year		
Current Taxation		
UK Corporation Tax at 19% (2017: 19.25%)	-	89,573
Adjustment in respect of previous years	(14,665)	8
Total current tax (credit) / charge	(14,665)	89,581
Deferred tax		
Origination and reversal of timing differences	11,947	(30,302)
Tax on Surplus / (Deficit) on ordinary activities	(2,718)	59,279

Provision for deferred tax		
Capital Losses	-	(11,947)
Movement in provision		
Provision at the start of year	(11,947)	18,355
Deferred tax charged/ (credited) in the statement of comprehensive income for the year	11,947	(30,302)
Provision at the end of the year	**-**	**(11,947)**

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

The (credit) / charge for the year can be reconciled to the surplus / (deficit) per the statement of comprehensive income as follows:

	Group	
	2018	2017
	£	£
Surplus / (Deficit) on ordinary activities before tax for the year	(179,939)	(575,236)
Tax at standard Corporation Tax rate of 19% (2017: 19.25%)	(34,188)	(110,652)
Effects of		
Chargeable gains	-	-
Deferred tax not recognised	120,411	3,854
Reduction in tax rates on deferred tax balances	5,549	3,975
Deductible expenses	(9,429)	(17,714)
Non-deductible mutual (loss) / surplus (balance on technical account)	(85,593)	83,714
Chargeable gains and indexation	-	(21,322)
Adjustment to tax charge in respect of previous period	(14,665)	8
Non-taxable dividend income	(48,642)	(17,979)
Revaluation gain on property	63,839	-
Allocated investment return transferred to the technical account - non-deductible	-	134,445
Unrealised gain on equities	-	-
Fixed asset differences	-	950
Tax (credit) / charge for the year	**(2,718)**	**59,279**

The tax rate for the current year is lower than prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from the 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). 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	Goodwill	Software in development	Total	Website	Software in development	Total
	£	£	£	£	£	£	£
Cost							
At 1 January 2018	49,776	30,000	-	79,776	49,776	-	49,776
Additions	-	-	489,187	489,187	-	464,543	464,543
At 31 December 2018	49,776	30,000	489,187	568,963	49,776	464,543	514,319
Accumulated amortisation							
At 1 January 2018	21,451	5,000	-	26,451	21,451	-	21,451
Charge	16,453	10,000	-	26,453	16,453	-	16,453
At 31 December 2018	37,904	15,000	-	52,904	37,904	-	37,904
Net book value							
At 31 December 2018	11,872	15,000	489,187	516,059	11,872	464,543	476,415
At 31 December 2017	28,326	25,000	-	53,326	28,325	-	28,325

During the year the Group began the development of a new computer software system to serve the business into the future, this remains under construction at the end of December 2018. 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 2018	1,121,451	1,121,451
Revaluations	178,549	178,549
At 31 December 2018	1,300,000	1,300,000
Accumulated depreciation		
At 1 January 2018	22,429	22,429
Charge	22,429	22,429
Revaluations	(44,858)	(44,858)
At 31 December 2018	-	-
Net book value		
At 31 December 2018	1,300,000	1,300,000
At 31 December 2017	1,099,022	1,099,022

A valuation of land and buildings as at 31 December 2018 was carried out on 7 January 2019 by Wright Marshall Chartered Surveyors at open market value for existing use. This was valued at £1,300,000.

Movements in the valuation of land and buildings are shown in the Statement of Comprehensive Income and taken to a revaluation reserve on the Balance Sheet. The amount shown in the Statement of Comprehensive Income for 2018 of £287,247 includes amounts previously recognised in the income statement.

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

	2018	2017
	£	£
Cost	1,334,762	1,334,762
Depreciation	(403,818)	(377,123)
Net book value	**930,944**	**957,639**

14. Other financial investments

	Group			
	2018		2017	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities	18,477,946	18,750,000	18,770,726	18,750,000
Shares and other variable-yield securities and unit trusts	8,621,186	9,000,001	8,965,722	9,000,001
Deposits with credit institutions	2,262,789	2,262,789	2,250,205	2,250,205
Other financial investments	**29,361,921**	**30,012,790**	**29,986,653**	**30,000,206**

	Company			
	2018		2017	
	£	£	£	£
	Market value	Cost	Market value	Cost
Debt securities	18,477,946	18,750,000	18,770,726	18,750,000
Shares and other variable-yield securities and unit trusts	8,621,188	9,000,003	8,965,723	9,000,002
Deposits with credit institutions	2,262,789	2,262,789	2,250,205	2,250,205
Other financial investments	**29,361,923**	**30,012,792**	**29,986,654**	**30,000,207**

15. Debtors

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Debtors arising out of direct insurance operations - policyholders	284,008	499,084	284,008	499,084
Debtors arising out of reinsurance operations	28,750	-	28,750	-
Other debtors	613,494	461,974	498,989	387,477
Amounts owed by group undertakings	-	-	589,408	542,560
	926,252	**961,058**	**1,401,155**	**1,429,121**

Other debtors comprises predominantly from the balance of 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.

The Group other debtors also include trade debtors held within subsidiary companies. 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	Motor Vehicles	Total	Fixtures & fittings	Motor Vehicles	Total
Cost	£	£	£	£	£	£
At 1 January 2018	1,909,063	38,530	1,947,593	1,764,063	38,530	1,802,593
Additions	116,693	38,603	155,296	116,693	38,603	155,296
Disposals	-	(38,530)	(38,530)	-	(38,530)	(38,530)
At 31 December 2018	2,025,756	38,603	2,064,359	1,880,756	38,603	1,919,359
Accumulated amortisation						
At 1 January 2018	1,363,423	22,536	1,385,959	1,356,173	22,536	1,378,709
Charge	201,051	9,639	210,690	172,051	9,639	181,690
On Disposals	-	(28,958)	(28,958)	-	(28,958)	(28,958)
At 31 December 2018	1,564,474	3,217	1,567,691	1,528,224	3,217	1,531,441
Net book value						
At 31 December 2018	461,282	35,386	496,668	352,532	35,386	387,918
At 31 December 2017	545,640	15,994	561,634	407,890	15,994	423,884

17. Technical provisions – claims outstanding

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

	Group and Company	
	2018	2017
Gross Provision	£	£
At 1 January	7,393,938	6,357,055
Utilised during the year	(1,437,761)	(2,081,032)
Actuarial variations	(220,840)	1,407,672
Additional provisions	1,673,258	1,710,243
At 31 December	**7,408,595**	**7,393,938**
Reinsurers' Share		
At 1 January	246,677	50,480
Movement in provision	(46,497)	196,197
At 31 December	**200,180**	**246,677**

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 £354,780 (2017: £331,231)

18. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Pension Scheme contributions	50,984	41,968	49,505	41,968
Amounts owed to group undertakings	-	-	1	-
Other creditors	425,908	225,299	408,674	221,114
Taxation and social security	849,281	969,609	814,633	968,895
	1,326,173	**1,236,876**	**1,272,813**	**1,231,977**

Amounts owed to 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.

19. Accruals and deferred income

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Accruals	360,385	364,903	337,163	328,022
Return of Premium	250,000	550,000	250,000	550,000
Deferred income	5,520,952	6,919,687	5,478,225	6,919,687
	6,131,337	**7,834,590**	**6,065,388**	**7,797,709**

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 £427,115 (2017: £344,060) representing contributions payable by the Group during the year in respect of qualifying employees and £66,083 (2017: £72,863) in respect of directors. Contributions are charged to the statement of comprehensive income as incurred.

Unpaid contributions at the year-end were £50,984 (2017: £41,968)

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

	Group	
	2018	2017
	£	£
Surplus / (deficit) for the financial year	(177,221)	(634,515)
Adjustments for:		
Tax (credit) / charge	(2,718)	59,279
Investment income	(486,939)	(596,935)
Net gains on realisation of investments	-	(80,731)
Other investment management fees	42,282	80,785
Unrealised losses on investments	701,156	13,553
Profit on disposal of tangible fixed assets	(3,428)	-
Depreciation on land and buildings	22,429	22,429
Depreciation on tangible assets	210,690	236,343
Amortisation of intangible assets	26,453	21,426
Decrease in debtors arising out of direct insurance operations	215,076	286,616
(Increase) / decrease in debtors arising out of reinsurance operations	(28,750)	41,476
Increase in other debtors	(151,520)	(352,494)
Decrease / (increase) in prepayments and accrued income	60,575	(15,305)
Increase in net technical provisions	61,154	840,686
Decrease in creditors, accruals and deferred income	(1,533,716)	(1,440,146)
Net cash outflow from operating activities	**(1,044,477)**	**(1,517,532)**

22. Financial instruments

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£	**£**	**£**	**£**
Financial assets at fair value through profit and loss				
Debt securities	18,477,946	18,770,726	18,477,946	18,770,726
Shares and other variable-yield securities in unit trusts	8,621,186	8,965,722	8,621,188	8,965,723
	27,099,132	**27,736,448**	**27,099,134**	**27,736,449**

Financial assets that are debt instruments measured at amortised cost

Debtors arising out of direct insurance operations – policyholders	284,008	499,084	284,008	499,084
Debtors arising out of reinsurance operations	28,750	-	28,750	-
Other debtors	613,494	461,974	498,989	387,477
Intercompany Debtors	-	-	589,408	542,560
Deposits with credit institutions	2,262,789	2,250,205	2,262,789	2,250,205
Cash at bank and in hand	5,476,234	6,876,759	5,359,436	6,554,945
	8,665,275	**10,088,022**	**9,023,380**	**10,234,271**

Financial liabilities that are debt instruments measured at amortised cost

Other creditors including taxation and social security	**1,326,173**	**1,236,876**	**1,272,813**	**1,231,977**

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	
	2018	**2017**
	£	**£**
Income on financial assets at fair value through profit and loss	485,893	512,926
Other investment management fees	(42,281)	(80,785)
Net gains on the realisation of investments	-	80,731
Net unrealised losses on investments	(496,627)	(13,553)
	(53,015)	**499,319**

(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 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	
	2018	
	£	
As at 31 December	**Level 1**	**Total**
Debt Securities	18,477,946	18,477,946
Shares and other variable-yield securities and units in unit trusts	8,621,186	8,621,186
	27,099,132	**27,099,132**

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

	Group	
	2017	
	£	
As at 31 December	**Level 1**	**Total**
Debt Securities	18,770,726	18,770,726
Shares and other variable-yield securities and units in unit trusts	8,965,722	8,965,722
	27,736,448	**27,736,448**

(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 of A. 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 2018							
	AAA	**AA**	**A**	**BBB**	**BB**	**Other**	**Total**
	£	£	£	£	£	£	**£**
Debt Securities	1,256,976	9,877,666	4,858,225	1,349,320	320,342	815,417	**18,477,946**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	8,621,186	**8,621,186**
Deposits held with credit institutions	2,262,789	-	-	-	-	-	**2,262,789**
Cash at bank and on hand	-	-	398,077	5,077,925	-	232	**5,476,234**
Other debtors	-	-	-	-	420,275	193,219	**613,494**
Debtors arising out of reinsurance operations	-	20,000	8,750	-	-	-	**28,750**
Total	3,519,765	9,897,666	5,265,052	6,427,245	740,617	9,630,054	**35,480,399**

As 31 December 2017	**AAA**	**AA**	**A**	**BBB**	**BB**	**Other**	**Total**
	£	£	£	£	£	£	**£**
Debt securities	3,334,378	7,062,418	4,884,691	1,416,573	243,442	1,829,225	**18,770,727**
Shares and other variable-yield securities and units in unit trusts	-	-	-	-	-	8,965,722	**8,965,722**
Deposits held with credit institutions	2,250,205	-	-	-	-	-	**2,250,205**
Cash at bank and on hand	-	-	3,873,014	3,003,560	-	185	**6,876,759**
Other debtors	-	-	-	-	387,477	-	**387,477**
Debtors arising out of reinsurance operations	-	-	-	-	-	-	**-**
Total	5,584,583	7,062,418	8,757,705	4,420,133	630,919	10,795,132	**37,250,890**

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 2018 by 25bp would result in a reduction in loss before tax and the fair value of index linked securities by £81,473 (31 December 2017: £86,765).

Increasing assumed yields on fixed interest securities at 31 December 2018 by 25bp would result in a reduction in loss before tax and the fair value of fixed interest securities by £147,821 (31 December 2017: £170,609)

Decreasing assumed yields on fixed interest securities at 31 December 2018 by 25bp would result in an increase in loss before tax and the fair value of fixed interest securities by £147,821 (31 December 2017: £170,609).

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 2018 by £94,804 (31 December 2017: £120,191). A 10% decrease in the GBP: EUR exchange rate would increase the net assets at 31 December 2018 by £77,567 (31 December 2017: £146,900).

(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	
	2018	**2017**	**2018**	**2017**
	£	**£**	**£**	**£**
Claims paid	5,804,757	5,589,619	(50,000)	(111)
Gross Provision for claims	14,656	1,036,883	46,497	(196,197)
	5,819,413	**6,626,502**	**(3,503)**	**(196,308)**

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 £354,780 (2017: £331,231).

Claims development tables

The following tables represents the development on claims on a gross and net basis.

Claims outstanding (gross)

	Group and Company						
Underwriting year	**2013 & prior[1]**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claims costs:							
- at the end of reporting year		4,040,434	4,865,214	5,578,829	5,556,771	5,030,725	
- one year later		4,160,278	5,392,434	3,821,911	5,190,561		
- two years later		4,042,470	4,708,768	3,986,398			
- three years later		2,735,052	5,079,950				
- four years later		2,759,392					
Current estimate of cumulative claims	36,912,569	2,759,392	5,079,950	3,986,398	5,190,561	5,030,725	
Cumulative claims paid	36,548,000	2,638,000	4,550,000	3,198,000	3,308,000	1,309,000	
Current year gross provision	364,569	121,392	529,950	788,398	1,882,561	3,721,725	**7,408,595**

Claims outstanding (net)

	Group and Company						
Underwriting year	**2013 & prior**[1]	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claims costs:	**£**	**£**	**£**	**£**	**£**	**£**	**£**
- at the end of reporting year		4,040,434	4,865,214	5,578,829	5,310,094	5,030,725	
- one year later		4,160,278	5,392,434	3,821,911	4,990,381		
- two years later		4,042,470	4,708,768	3,986,398			
- three years later		2,735,052	5,079,950				
- four years later		2,759,392					
Current estimate of cumulative claims	34,910,569	2,759,392	5,079,950	3,986,398	4,990,381	5,030,725	
Cumulative claims paid	34,546,000	2,638,000	4,550,000	3,198,000	3,308,000	1,309,000	
Current year net provision	364,569	121,392	529,950	788,398	1,682,381	3,721,725	**7,208,415**

Reconciliation to balance sheet:

Gross technical provisions	7,408,595
Reinsurers' share of technical provisions	(200,180)
Net technical provisions (above)	**7,208,415**

[1] 2013 and prior years' cases (back to and including 2005 claims) have been aggregated at their position as at 31 December 2018 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 £21.1 million (2017 £22.0 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 2018 were £23,342,945 (2017: £23,520,166).

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

23. Capital and other commitments

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

	Group	
	2018	**2017**
Payment due:	**£**	**£**
Not later than one year	-	-
Later than one year and not later than five years	32,309	29,369
Later than five years	-	-
	32,309	**29,369**

The operating lease relates to an office adjacent to the Group's owned and occupied property.

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 £890,126 (2017: £311,000) and 83 claims (2017: 26 claims) were received from related parties during the financial year. During the year £52,639 (2017: £7,000) was paid on claims involving related parties with £32,837 (2017: £7,000) remaining outstanding as at year end.

In 2017 VDS Training Services Limited was incorporated, a wholly owned subsidiary. Training activities were purchased from VDS Training Services Limited amounting to £NIL (2017: £2,400). 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 £589,408 (2017: £543,000).

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 2018.

The Veterinary Defence Society Limited

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