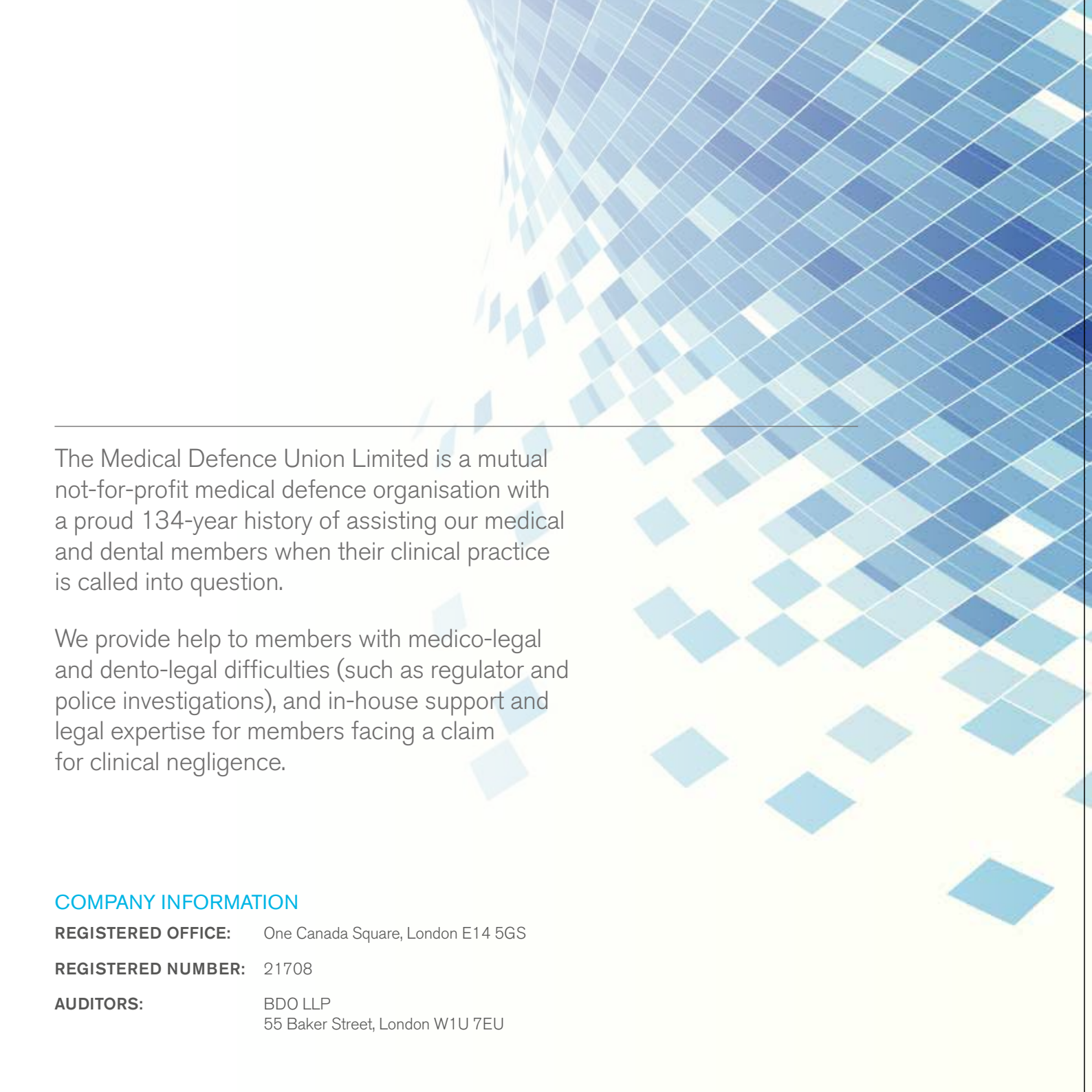




MDU

Report & Accounts 2019

The Medical Defence Union Limited



The Medical Defence Union Limited is a mutual not-for-profit medical defence organisation with a proud 134-year history of assisting our medical and dental members when their clinical practice is called into question.

We provide help to members with medico-legal and dento-legal difficulties (such as regulator and police investigations), and in-house support and legal expertise for members facing a claim for clinical negligence.

COMPANY INFORMATION

REGISTERED OFFICE: One Canada Square, London E14 5GS

REGISTERED NUMBER: 21708

AUDITORS: BDO LLP
55 Baker Street, London W1U 7EU

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REPORT OF THE CHAIRMAN

As a membership organisation, strongly positive feedback from our members and increasing numbers of members are crucial indicators that we are maintaining our high quality service.

In our latest member satisfaction survey in 2019, 93% of members surveyed said we had a strong commitment to our members, and 97% said the MDU had a 'quite' or 'very strong' reputation. Even though the state indemnity scheme for NHS primary care started on 1 April, during 2019 there was a 4% increase in the number of our GP members, and a large number of practice nurses, who previously enjoyed free membership, chose to remain with the MDU in paid membership.

Despite the increasingly competitive dental market, the DDU flourished, with the number of dental members increasing again in 2019, as it has done in nine of the last ten years. In Scotland the number of medical consultants, GPs, medical trainees and dentists increased, with 87% and 97% cumulative increases since

2013 in the numbers of consultants and dentists, respectively.

We recognise the immense pressure our members face in carrying out their clinical duties and are constantly striving to alleviate it. Of the 149,000 telephone calls received by our membership team, over 80% were answered within 20 seconds and 99% of correspondence by email or letter was answered within five working days. Our latest member satisfaction survey showed that 94% of members who had used the MDU's online portal to amend their membership would use it again, and 99% of the members surveyed who had used the MDU or DDU website thought it was good.

We have been piloting webchat for applicants who have queries when completing the MDU's online application

forms, which avoids the need for the applicant to interrupt the process and is providing our team with useful insights to improve the usability of the forms. Of those who attended our in-house face-to-face education courses, 97% would recommend them to colleagues and over 3,000 members enrolled for our online courses.

Serving the needs of our members, to be by their side as well as on their side, is our primary aim. The service outcomes and membership numbers are regularly scrutinised and emphasised by the board, and the results in 2019 reflect the excellence of the work carried out throughout the MDU and DDU.

During 2019 we introduced our new updated GROUPECARE scheme for primary care. Among its features is a discount on subscriptions where all the GPs in the practice are members of the MDU, and a new online administration facility to make it easier for practice managers to update the details of staff members on the scheme. Our corporate team has developed a variant of our corporate membership for companies

whose indemnity is now covered by the state indemnity scheme. Many of these companies wanted to retain access to the MDU's market-leading medico-legal advice and support, and as a result we have introduced a new corporate advisory membership that allows them to do this.

For our dental members we introduced a new associate contract checking service, aimed at both practice principals and associates on the basis that a well-written associate agreement should strike a careful balance between protecting the interests of both the practice owner and the associate. It includes access to a pro-forma model contract, developed in conjunction with experienced solicitors Hempsons, and advice from the DDU's dento-legal advisers who are able to read through proposed contracts and highlight potential difficulties. The service has proved very popular, with hundreds of members making use of it within the first six months and many contacting us to express their gratitude.

The most likely threat to the professional career of our members is a regulatory

investigation. Since 2015 the total number of cases at the General Medical Council (GMC) has been decreasing, but the proportion referred to the Medical Practitioner Tribunal Service (MPTS) has been increasing, such that in 2018 the total number of tribunal referrals was the same as in 2015.

A major factor in optimising the outcome of GMC and General Dental Council (GDC) referrals, and also of patient complaints and negligence claims that can each lead to referral to the GMC or GDC if they are not well managed, is prompt access to the best medico-legal or dento-legal advice. We strongly encourage our members to avoid delay in seeking assistance from our medico-legal and dento-legal advisers. In 2019 our members made around 27,000 calls to our 24-hour advisory telephone service, with over 98% during working hours being answered within 20 seconds.

At the GMC we continued to have excellent outcomes in 2019, 82% of MDU cases at the case examiner stage were resolved without referral to an



Dr Paul Riordan-Eva
Chairman of the Board of Management
and President of the MDU

REPORT OF THE CHAIRMAN

MPTS hearing. At the MPTS hearings themselves, 35% were concluded with the facts not proven, no misconduct or no finding of impairment.

At the GDC in 2019, 84% of DDU cases at the case examiner stage were resolved without referral to a practice committee hearing - and at practice committee hearings, 82% were concluded with no finding of impairment. The DDU continues to engage with the GDC at a senior level, representing members' interests by providing constructive feedback on how its fitness to practise reforms (such as the introduction of case examiners) are working in practice. We continue to champion our members' interests by responding to consultations and representing them in a variety of forums, such as the National Advisory Board for Human Factors in Dentistry, Health Education England's Advancing Dental Care Education and Training Review, the profession-wide complaint handling initiative, and the Care Quality Commission (CQC) dental reference group.

The periodontal e-learning course that arose from collaboration between

the DDU and the British Society of Periodontology has been very well received, with many complimentary comments. Our dento-legal advisers continue to deliver presentations at national, regional and local meetings emphasising a positive perspective to risk management. The presentations are very well received, with high satisfaction scores and positive comments.

We have continued to have excellent results from our handling of clinical negligence claims. In 2019, 82% of medical cases and 65% of dental cases were defended successfully and closed without payment of damages. Maintaining excellent success rates in the claims we handle on behalf of our members – defending the defensible wherever possible – is key, not just to keeping subscriptions affordable, but in defending the professional reputations of our members and discouraging spurious litigation. Our members' satisfaction with the services provided by the MDU's case handling teams was its highest ever. Our professional services teams include over 100 specialist doctors, dentists, lawyers and claims handlers who are focused on helping our members when they face

difficulties, with over half of them working remotely spread right across the UK.

On 1 April 2019, the clinical negligence scheme for primary care commenced for future liabilities in England and Wales, with NHS Resolution (NHSR) and the Welsh Legal & Risk Services handling the claims. In order to protect the interests of our members, we achieved agreement with NHSR and the Welsh government on the definition of an admission of liability that allows us the necessary freedom to advise our members about their statements and representations to bodies such as the GMC, the coroner and the police, without fear of compromising their ability to seek indemnity.

The clinical negligence scheme does not provide support for complaints, coroners' inquests or career-threatening medico-legal matters such as GMC, performers list or criminal investigations. It is vital that our members working in primary care recognise the need to maintain their MDU membership to access support in these areas. Relying solely on state-backed indemnity will not be sufficient to protect their reputations and careers.

As is being increasingly recognised and emphasised, including by the GMC with its review ('Caring for doctors, caring for patients') carried out by Professor Michael West and Dame Denise Coia into the factors which impact on the mental health and wellbeing of medical students and doctors, we acknowledge that improving and supporting the working life of healthcare workers requires urgent attention and we are working on ways to further assist our members in this regard.

Dr Tom Norfolk, who has been a member of council and dental advisory committee (DAC) since 2005 and the chairman of DAC since 2015, joined the board, together with Ms Judith Buttigieg and Mr Christian Wells. Mr David Richmond stepped down from and Dr Leisa Freeman joined council and cases committee. Dr Simon Harvey joined council and DAC.

Coronavirus has of course impacted members' activities after the end of the year, as well as those of the MDU, and we will continue to monitor this. This is discussed in greater detail in the Strategic Report and note 26 to the financial statements.

To provide the best medico-legal or dento-legal services to our members remains the top priority of the MDU and DDU. Our service outcomes and membership numbers are highly reassuring and we strive to provide an excellent service, continually adapting to the ever changing medico-legal and dento-legal environments. To 'Guide, Support and Defend' our members remains our abiding aim.

Dr P Riordan-Eva

**Chairman of the Board
of Management and
President of the MDU**

26 May 2020

GROUP STRATEGIC REPORT

In beginning this group Strategic Report for 2019 I would like to remind our members that the MDU is a mutual non-profit making organisation and owned by you our members. I am pleased to report that 2019 was a good year for the MDU, your company.

Membership numbers increased, and despite continuing political uncertainty and its impact on the financial markets, it was a good year in terms of investment returns (details on page 41).

It was also an excellent year for our claims handling team, who continued to defend medical and dental members' claims robustly, maintaining a closure without payment rate of over 80% in medical, and 65% in dental claims. This means we paid out on behalf of our members in fewer than 20% of medical, and 35% of dental claims. By contrast, NHR 2018/9 made payments in 59% of clinical claims closed (NHR annual report 2018/9 page 18). Effective claims handling is necessary to support you and keep your company's costs down. Defensible claims must be

defended robustly, while those that should be settled should be resolved fairly.

The MDU's claims team's excellent outcomes are also important because claims against individual members (GPs, dentists and consultants in private practice) can affect reputations. We don't settle claims for expediency's sake and members are involved in decisions about their claims. As one medical member put it after a claimant finally discontinued the case late in the process:

'I want to thank you for your support and all the work you have done. Having you sit at the table obviously as MDU representative, but also as a doctor was really helpful. And thank you for keeping faith in me throughout the process.'

The year saw a change in the Ogden discount rate, which went up to -0.25% in England and Wales from 5 August, whereas in Scotland it was confirmed on 27 September that it would remain at -0.75%. The rate for England and Wales is determined by the Lord Chancellor and used to calculate the sums awarded for long term care. The example below illustrates that the discount rate is one reason why clinical negligence compensation awards remain higher in England and Wales than almost anywhere else in the world.

- A claim from a teenage patient for brain injury as an infant that resulted in cognitive and visual impairment settled for £10.6m on a discount rate of -0.25%. The value of the claim before March 2017 at 2.5% (the rate before March 2017) would have been approximately £4.5m; the value of the claim at the discount rate introduced in 2017 at -0.75% would have been approximately £11.6m.

It may surprise you to learn that there is no definitive evidence on how

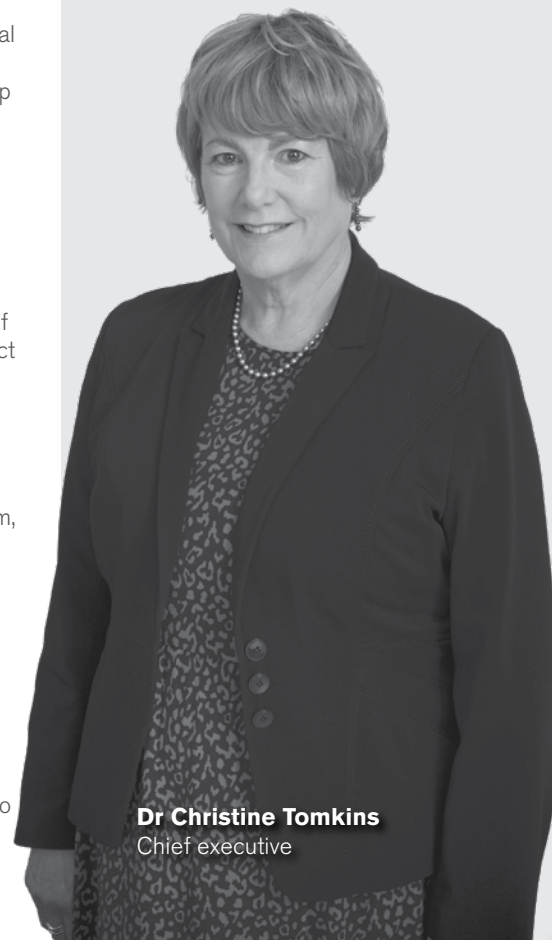
compensation awards are invested to provide for future care, how those investments perform, how compensation is spent, and whether claimants are over or undercompensated. We have suggested that the Ministry of Justice should collect information about claimants' use of their awards to provide an evidence base to inform future decisions made by the Lord Chancellor.

The separate problem of disproportionate costs in lower value claims was not addressed by legal reforms introduced by the Legal Aid, Sentencing and Punishment of Offenders Act 2012. It persists and still needs to be addressed. The cases below illustrate the continuing disproportion in some cases.

- Medical case settled before proceedings for £6,000. £59,000 costs claimed but agreed at £34,000.
- Dental case with compensation paid after proceedings at £24,000. £81,000 costs claimed but agreed at £62,000.

The MDU was a member of the 2018 working group, which also included clinical negligence claimant and defendant representatives and was asked to develop 'a bespoke process for fixed recoverable costs for claims up to £25,000.' The working group published its proposals in October 2019, with the group's chair recognising there was not a complete consensus on how low value clinical negligence claims should be handled. The proposals are with the Department of Health and Social Care and will be subject to further consultation.

Fixed costs have been under consideration since 2015. We do not anticipate any change soon. However, legal costs are a small part of the problem, and a more pressing problem is the legal system that results in multi-million pound compensation awards that are inflating much faster than society's ability to pay for them. For example, awards to just two claimants in 2018 were estimated at £27m and £37m each. As a result of spiralling indemnity costs, which only the government can control, it had to step in to help GPs who could no longer afford to



Dr Christine Tomkins
Chief executive

GROUP STRATEGIC REPORT

pay for their own indemnity. April 2019's introduction of state indemnity for future claims against GPs in England and Wales was a relief to these GPs financially, but it did nothing to address the cause of the problem. Considering that NHR total estimated liabilities for clinical negligence claims reached £83.4bn by the end of March 2019, there is every reason for urgency and we hope the government elected in 2019 will treat this as a priority.

In December 2017 the Public Accounts Committee (PAC) recommended that the government 'must take urgent and coordinated action to address the rising costs of clinical negligence'. This included: 'reviewing whether current legislation remains adequate and reporting back to the committee by April 2018'. As a result a cross-governmental working party was set up between the Department of Health and Social Care and the Ministry of Justice, and the MDU provided evidence. The working group has not reported yet, but it is to be hoped the newly-constituted PAC pursues this pressing concern.

The principal causes of high volumes of clinical negligence claims and

large awards do not lie with individual practitioners. They are a result of changes in legal procedures over the last 20 years and the retention of a 1948 law that requires defendants such as the MDU and NHR to disregard the availability of NHS care when calculating compensation awards. The government needs to find a fair solution so that patients who are damaged by negligence receive all the treatment and care they need for the rest of their lives, while addressing the fact that payment by the public sector of multi-million pound awards for negligence to the few inhibits access to care for the many.

I referred to the state-backed schemes for primary care, which provide GPs with indemnity for clinical negligence claims arising from incidents occurring on or after 1 April 2019. At the time of writing, the MDU remains in discussion with the English and Welsh governments about our GP members' existing liabilities; that is, claims that have been made or may yet be made from incidents that happened before 1 April 2019. We remain committed to finding an acceptable solution that takes into account the

interests of all the MDU's members, and any arrangement needs to take account of the factors that are important to them. For example, claims against GPs are very different to those against hospitals and need a special approach. GPs are named defendants, rather than a trust or health board, and can feel professionally and personally vulnerable, so the way a claim is handled and the outcome achieved is crucial for the defendant doctor.

On behalf of GP members, we sought clarification of the regulations governing the English and Welsh future liabilities schemes that allowed claims to be excluded if GPs made an admission of liability. Neither regulation defined the term, and as this had the potential to affect admissions that GPs may need to make elsewhere - for example, to the GMC, police or coroners - we asked NHR and the Welsh government to confirm that doing so would not affect GPs' ability to seek assistance with a claim. After correspondence over many months, NHR and the Welsh government provided the reassurance we had been seeking for members.

Even with the introduction of state indemnity for future claims, English and Welsh GP members recognised they need the MDU for other medico-legal reasons; for example, so they can seek expert advice through our 24-hour medico-legal helpline, and assistance with matters such as GMC and criminal investigations, complaints and disciplinary procedures. During 2019 the majority of our existing GP members remained with the MDU and more GPs continued to join us, so our GP membership grew.

Our medico-legal and dento-legal advisory teams are available to provide guidance and support to members around the clock. Last year I reported an increase in members seeking our assistance and our teams have remained very busy advising and assisting well over 30,000 members who approached us for help. Pleasingly, we answered over 98% of calls to our advice-line during the working day within 20 seconds, and average member satisfaction scores across a range of measures were higher than ever, exceeding 4.5/5. We understand the importance our members place on

immediate access to a professional colleague who has real life experience of the challenges of clinical practice, and extensive expertise in the legal and regulatory difficulties members can face.

The thanks below are from a member who was kind enough to write to one of our medico-legal advisers after a successful outcome. These sentiments are echoed in many of the compliments our colleagues receive. They mean a lot to us.

'...It is such a big relief. This would certainly not have been possible without you and I wanted to update you and express my heartfelt gratitude for your invaluable help, guidance and support to me throughout this stressful process. Thank you very much for bearing with me at every single stage...Thank you for instructing a wonderful legal team too who were very helpful.'

Modern day clinical practice is a high-pressured and often stressful environment. The additional burden of direct involvement in a regulatory or legal process such as a referral to the regulator

or a clinical negligence claim can prove overwhelming for some. Our teams successfully support and guide thousands of members through these procedures each year, but sometimes members reflect that it would also be helpful to be able to talk to someone who has been through the type of case they are going through. Being a 'doctors for doctors' and 'dentists for dentists' organisation, we are uniquely placed to broaden the support we provide to our members. We are now piloting a peer support programme that can put a member facing a challenging case in touch with another member who has 'been there' and made it successfully through to the end of the case. If the pilot proves successful, we plan to broaden out the peer support we can offer.

Our medical and dental teams also have access to, and work closely with, our dedicated in-house lawyers and a country-wide panel of specialist external law firms. Our in-house team of solicitors assist members across a varying range of legal work and strive to ensure the best possible outcomes. This is reflected in the results they achieve and the level of

GROUP STRATEGIC REPORT

support they provide to members under investigation.

Achieving a positive resolution at the earliest opportunity is paramount. With the GDC, of the 55 cases where our in-house solicitors assisted members with representations to case examiners (who decide if a case should be referred to a hearing), only nine cases were referred. Of the cases that went to a practice committee, 82% were concluded with no finding of impairment. The latest GDC figures relate to 2018, where the Professional Conduct Committee concluded 21.2% of hearings with no finding of impairment - whereas in the same year, our in-house solicitors concluded 50% of hearings with no finding of impairment.

Of the 90 GMC cases where in-house solicitors assisted with representations to case examiners, only 16 were referred to a tribunal on fitness to practice run by the MPTS. A five-year comparison (2014–2018) shows the MPTS tribunal's average was 19.9% of cases concluded with no finding of impairment, whereas the MDU's

solicitors' figure for the same period was 43.8%.

Our in-house legal team's dedication and expertise in the work they do for all members we assist is best summed up by one grateful member's comments:

'Just wanted to say a big thank you for all you did for me over the last few years. I am eternally grateful to you for getting me through what turned out to be a very challenging time. You worked tirelessly and compassionately throughout this time and you are living proof that you don't have to be a doctor to save lives!'

Of equal importance to the legal expertise in our in-house team is the level of support we provide to our members to help them cope with the distress caused by an investigation into their practice. Results from an online satisfaction survey in 2019 show the in-house legal team scored an average of 4.72 out of 5 during 2019, which attests to the care they provide.

During 2019 we continued to contribute substantially to the development of policy

relating to gross negligence manslaughter (GNM). As well as working with the officials taking forward the 2018 Williams review's main recommendations, we contributed written and oral evidence to the independent review into *'How gross negligence manslaughter and culpable homicide are applied to medical practice,'* chaired for the GMC by surgeon Leslie Hamilton. Among other concerns, Mr Hamilton's report, published in June 2019, identified shortcomings in the way unexpected deaths are investigated, and in some aspects of the way experts present their evidence. It also highlighted the need for greater consistency in referrals of deaths to the police, and recommended that any coroner who believed a doctor's conduct may amount to GNM should be able to discuss the matter with the chief coroner before referring to the police.

Since the MDU gave evidence to the Williams inquiry in March 2018, our medico-legal advisers have instructed solicitors to assist 14 medical members with new GNM investigations. We hope it is some comfort to members that our in-house lawyers' team specialises in

assisting doctors and dentists facing criminal allegations or proceedings and that no MDU member has been successfully prosecuted for GNM in more than seven years.

However, it is still a major concern that so many doctors are being referred and investigated in circumstances where we believe this wouldn't happen if individuals and bodies such as coroners, the police and Crown Prosecution Service (CPS) could agree on a clear statement of the law relating to GNM, and had a better appreciation of the very high threshold that should be applied. Since the Williams report made recommendations to this effect, we have been working with the government to facilitate these necessary changes.

There is no need for legal change. There are other, more effective ways of ensuring healthcare professionals are only investigated exceptionally, when the law and the threshold are clearly understood. We continue to defend members robustly and, equally important, to campaign for changes that could be made relatively easily and that would improve understanding and application of the law

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and more importantly, spare many doctors from this alarming and unnecessary experience.

Our legal, advisory and other colleagues are also working on your behalf with a wide range of bodies responsible for developing and implementing regulatory, disciplinary and complaints policy that affects you and your practice. We need to ensure what these organisations do is as fair and proportionate towards doctors and dentists as it should be.

Healthcare professional regulators remain keen to improve their procedures, to make them quicker and more efficient and to lessen their impact on registrants who are subject to them. During 2019 it had been widely hoped the government would change the outdated primary legislation that continues to prevent regulators, especially the GMC, from making changes they, and we, believe are necessary. If this fundamental problem were solved, it would give regulators the freedom they need to perform their principal functions more efficiently and cost-effectively, while still allowing them to satisfy their primary role of protecting the public and patients.

BUSINESS REVIEW

STRATEGY

In each annual report I explain the combination of factors that create the backdrop against which we need to plan the MDU's long-term strategy.

The medico-legal climate remains harsh, and we influence development of policy and procedures through which members are scrutinised and held accountable for their treatment of patients, to the full extent that we can. We engage with a wide range of medical, dental, legal, regulatory and other stakeholders in order to understand the environment in which members work, including the various economic, societal and other pressures, and the impact all this has on decisions you make, both personally and professionally.

This is important to our success in meeting the company's objective of providing the highest quality support to members at the lowest cost compatible with financial security. Our core services must always meet members' needs, and we must ensure we remain in the best position to provide members with

GROUP STRATEGIC REPORT

specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise.

KEY PERFORMANCE INDICATORS

The company is committed to maintaining strong management, organisational effectiveness, tight cost control and appropriate investment in systems and technology, to deliver the optimal service to members.

The MDU monitors its business activity by means of a number of key performance indicators (KPIs), which the board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2019.

Membership statistics

The MDU monitors all areas of membership and evaluates any movements in renewals activity, leavers, junior doctor, graduate and student applications and recruitment overall.

Quality of service

We recognise the importance of answering member calls quickly, and I am pleased to report that for 2019 our membership contact centre maintained its high quality service, answering 83.5% of the 149,000 member calls within 20 seconds. In addition, we answered 99% of the 91,100 items of members' correspondence within five days of receipt.

We take the quality of our membership department service seriously and aim to provide service of such a high quality that members have no cause for complaint. But we also acknowledge that, occasionally, things do go wrong. Our aim is to keep complaints as low as possible and to ensure we respond swiftly, fully and courteously when members do complain. In 2019, only 0.1% of member contacts resulted in a complaint.

Our membership department again retained its accreditation under the Customer Service Excellence Standard, in recognition of the high standard of service we provide to members. The Customer Service Excellence Standard tests in

depth, the areas that research shows are important to you – timeliness, accuracy, professionalism and staff attitude – and places great emphasis on how well the MDU understands its members' experience of service. We believe it shows, and are always pleased to receive feedback. We aim to make everyone's experience as positive as this member's:

‘The customer care advisers at the MDU are in a league of their own. They are quick, friendly, polite, knowledgeable and articulate. I’ve never come across another company or agency that have such amazing customer service staff! Well done!’

During 2019 we invested substantial effort in ensuring our GP and nurse members working in England and Wales were able to transfer smoothly from their Transitional Benefits membership when the Clinical Negligence Scheme for General Practice (CNSGP) came into effect in April. Our ‘Mind the Gap’ campaign set out the continuing need for MDU membership highlighting areas where NHSR would not provide guidance or assistance. We promoted this message

strongly through our GP liaison managers and through our connections with Local Medical Committees (LMCs). It was encouraging to see our GP membership being retained and also growing by 4% in the year through new GPs joining the MDU.

We relaunched our GROUPECARE scheme to offer updated benefits for practice managers. The scheme offers additional features such as an Employee Assistance Programme and financial advantages where all of the GPs in the practice are MDU members. The new GROUPECARE scheme no longer offers free membership for practice nurses, but we have seen many nurses remain in paid membership.

We have also been developing additional services for dental members. Our associate and principal dental members had been asking for advice on associate contracts, so we introduced a new service in 2019 providing this advice including, where appropriate, offering a model contract. Feedback from those who have used the service has been very positive.

Another area for concern for dental principals has been the risk of being held vicariously liable for the acts of their associates where the associate's indemnity does not respond. To address this potential risk we can now offer an extension to our membership, which principals can request to be added to their arrangement with us.

During 2019 we saw our dental membership numbers grow once more, with particular success among younger dentists.

Development of our digital channels and services remain a core part of our strategy and in 2019 we saw a substantial increase in those following us on Twitter, Facebook, Linked-In and Instagram. We have also seen downloads and use of our mobile app grow during the year and are expecting further growth in use in 2020, when members will be able to access their membership card and proof of membership via the app.

During 2020 we will introduce electronic renewals for members who pay by a continuous payment method. Research

has shown that a majority of members would prefer to receive their membership documents electronically, and by doing so the MDU also reduces its environmental impact. Members who would prefer to continue to receive their documents in the post will still have the opportunity to request this.

STAKEHOLDER ENGAGEMENT

This section outlines how directors engaged with stakeholders, how they had regard to the interests of stakeholders, and the outcome of that regard.

We recognise the importance of our stakeholders in delivering our strategy. In addition to MDU members, our stakeholders include employees, suppliers, healthcare and financial regulators and government.

We engage with members as customers when we provide advice and other benefits of membership and conduct member satisfaction surveys. Additionally, every month a sample of members who have recently opened case files or called the MDU's 24h advice line is

GROUP STRATEGIC REPORT

surveyed. This provides members with the opportunity to provide suggestions for improvements to the services provided, which are greatly valued by the MDU.

Press coverage and comments posted publicly on social media provide another means of engagement with members. These sources of information enable the MDU to assess perceptions regarding the quality of service received from the MDU and become aware of (and if necessary respond to) any current issues that could be causing members concern.

There is a formal process for investigating complaints and making improvements where required.

The KPIs and the results we achieve for members referred to elsewhere in the Strategic Report reflect the priority given to members' interests.

As set out in the Directors' Report, we engage with members in their capacity as owners of the business through the annual report and the Annual General Meeting (AGM), and the participation of members on the board is a particular strength in our governance.

Employees are provided with information about the group's performance, major business decisions, and other matters that affect them at annual staff briefings and more frequently through the group's intranet.

Employees' views are sought when decisions are required which are likely to affect their interests.

We benchmark remuneration packages to be competitive, and there is a comprehensive suite of policies relating to the interests of employees, their wellbeing and safety. Continuing Professional Development is encouraged. As reported above, the high standard of service provided by the membership department was again recognised by accreditation under the Customer Service Excellence Standard.

The MDU's Reporting Concerns Procedure provides opportunity for staff to raise concerns in confidence.

Suppliers constitute an important group of stakeholders. The MDU has a Procurement and Supplier Management

Policy and Process and relationship managers in relevant departments. Our engagement with suppliers has due regard to risks around bribery and modern slavery.

The MDU publishes its supplier payment performance on the Companies House website twice a year.

The MDU engages constructively with healthcare regulators, government departments and other institutions in relation to regulation or legislation that affects the interests of members. The MDU's engagement may, for instance, take the form of response to consultations, or contributing to committees or working groups. Examples of the MDU's activity on behalf of members are outlined above, and in the following section under the heading '*Government changes that impact the members*'.

MDU Services Limited is regulated by the Financial Conduct Authority, for insurance mediation and consumer credit activities only. MDU Reinsurance Limited is regulated by the Guernsey Financial Services Commission. Both companies

engage appropriately with their respective regulators.

The MDU takes its corporate social responsibility seriously as reflected in its commitment to treating its members and employees fairly, and managing its business with due regard to its impact on the environment.

PRINCIPAL RISKS AND UNCERTAINTIES

The MDU is always looking at the options open to us to make sure we best serve members' needs to the first class standard they expect, and as economically as is feasible, while still ensuring subscription income is sufficient to provide members with long-term security and peace of mind.

The MDU has risk management policies and procedures that include assessment of reinsurance security, including credit risk, currency risk and risks associated with financial instruments (more information below). The MDU's policies and processes encompass areas such as staff development and training, conflicts of interest, codes of conduct and fair treatment of members.

Risks are regularly reviewed by the board to ensure the necessary procedures and strategies are in place to manage risks appropriately. Below is an assessment of the principal risks.

Increasing claims cost

A significant increase in claims cost could affect the funding levels of the MDU, and we mitigate this risk in the following ways; by having in place highly trained claims and legal staff who manage claims on behalf of members, by the purchase of a well-established programme of reinsurance cover to protect against unexpected changes to claims frequency and inflation, including an assessment of the reinsurance security, and by continuing to lobby for reform of the law governing claims costs. This is explained earlier in this report, where on your behalf we continue to pursue a package of reforms, including legal reform.

Government changes that impact the members

The MDU actively represents members' interests with the government, regulators and other bodies where there may be

a medico-legal or dento-legal impact. During 2019 we were in active discussion with the governments in England and Wales and other bodies about the repercussions for our GP members of the 1 April launch of state-backed schemes to provide indemnity for health care professionals working in general practice for clinical negligence liabilities in relation to incidents occurring on or after 1 April 2019.

A scheme in England and Wales, covering claims for historic NHS clinical negligence incidents occurring at any time before 1 April 2019, was also announced. This scheme for historic or existing claims continues to exclude MDU GPs, who continue to report claims that are retrospectively inflated by the discount rate for incidents that happened before 1 April 2019. The effect of the introduction of the state schemes for incidents occurring on or after 1 April 2019, without at the same time agreeing acceptable terms to take on historic or existing liabilities, is that the MDU will continue to receive requests for assistance from members facing retrospectively inflated claims - while at the same time receiving

GROUP STRATEGIC REPORT

substantially reduced subscriptions from members who no longer need indemnity for much of their NHS work.

The MDU continues to work to engage both governments in substantive discussions with a view to reaching an agreement. The Board of Management remains firmly of the view that the best solution would be for both governments to offer terms that 'provide stability, value for money and which meet the needs of current and future GPs', thereby honouring the pledge given on behalf of the English government in February 2017 in the context of the change in the discount rate to 'ensure that appropriate funding is available to meet the additional costs to GPs, recognising the crucial role they play in the delivery of NHS care'.

Competition and meeting members' needs

The MDU differentiates itself from the competition on the quality of service it provides to its members. We continuously monitor our status in the market and have processes in place to respond quickly to potential threats. We also monitor all

areas of membership and evaluate any movements in renewals activity, leavers, junior doctor, graduate and student applications, and recruitment overall. We undertake research to monitor members' service and product needs.

Information management

The MDU has an overarching information risk, privacy and data protection policy supported by related policies and procedures. These are subject to regular review and monitoring including oversight by the Information Risk Committee. IT and information management and security policies and procedures are in place. These are subject to regular monitoring and review in light of changing risks, and review by IT management and the Information Risk Committee.

Lack of effective corporate governance

The Directors' Report explains the committee structures in place which help to mitigate this risk.

Investment risk

The MDU, through MDU Investments Limited (MDUIL), is assisted by advice

from an independent investment adviser. The MDU is responsible for setting the company's investment strategy and for reviewing the investment performance of its third party fund managers. In setting our investment objectives we take into account the estimated provision for future indemnity payments, and the effect of general economic risks which include market, credit, interest rate, inflation, liquidity and currency risks. Details of these risks can be found in note 18(b).

During the year the fund managers held derivative financial instruments in order to achieve the group's financial risk management objective. These instruments involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future.

COVID-19: impact

The directors have been monitoring the development of the impact of COVID-19 both directly on the company's business and indirectly through reviewing the development of government policy and advice. The main considerations are as follows:

Operational

The directors have made the decision to implement aspects of the company's business continuity plan (BCP), specifically requiring staff at all levels and in all functions to work remotely wherever practicable, and to limit the need for gatherings of staff so far as possible. Communications within the company are now almost wholly via email or messaging applications. The company's IT facilities are adequate to maintain operations on this basis for the foreseeable future.

The directors are mindful of the differing pressures on individual members of staff, and also of the fact that these pressures change as the position nationally and locally develops. The directors expect that operational changes will continue to be required as the position develops.

Subscriptions and claims

The company's subscriptions are derived from the activities our members undertake. As the COVID-19 pandemic evolves, the directors will continue to monitor how our members' activities respond and the impact on any future claims.

Investment portfolio

The directors regularly review the sensitivity of the investment portfolio to changes in various market factors. More detail surrounding this is provided in note 18. At the date of signing these financial statements, the market value of the investment portfolio was lower than as at the balance sheet date, but within our risk appetite, which is regularly reviewed. Further, the directors do not view this as a permanent drop, but continue to keep the position under close review.

Going concern

As at the date of signing these financial statements, the directors' forecasts indicate that the company will be able to maintain liquidity and will therefore be able to continue to trade as a going concern. The directors are constantly monitoring the position in case any adverse scenarios become more likely than is judged to be the case currently.

RISK CHARACTERISTICS OF FINANCIAL INSTRUMENTS

Market risk

The MDU has adopted a prudent investment strategy that identifies the levels of risk and return acceptable in its portfolio. External professional advice is regularly sought and investment performance is subject to regular review.

Credit risk

The MDU manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Cash deposits are largely held within well-diversified AAA Money Market Funds, consequently, the credit risk is considered to be low.

Interest rate risk

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to interest rate risks. Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate

risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative to determine the number and type of derivatives that need to be held.

Inflation risk

The estimate of the MDU's indemnity provision is influenced by the likely cost of future claims, some of which can take many years to settle and are affected by compensation for future costs and losses, such as loss of earnings and cost of future care. Such costs are affected by inflation, and therefore to mitigate this risk the MDU holds investments in UK index linked gilts and bonds and inflation-sensitive financial derivatives, which by their very nature provide protection against movements in inflation.

Liquidity risk

The MDU group monitors the likely timing of the payment of its claims liabilities, and its policy is to finance these through matching subscription and other receipts, and investment assets. As the group's investment assets are mostly in easily traded financial instruments or cash, the

group ensures that any liquidity risk is minimal.

Currency risk

The MDU group's financial risk management objective is broadly to not make a profit or loss from exposure to currency rate risks. The group monitors its likely exposure to non-sterling claims and advisory costs, and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. Where investments are held in non-sterling currencies, the exchange rate risk is largely hedged.

FINANCIAL PERFORMANCE

Every quarter the board reviews the MDU's overall financial performance including subscription levels, reinsurance premiums, claims payments, legal costs and claims reserves. Details are given in the financial review, but the key figures are as follows.

The MDU's net assets now total £440.4m (2018: £403.9m) after indemnity, insurance, other provisions and pension

liabilities of £673.5m (2018: £738.8m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). As these are notified they can be picked up by the MDU under its discretionary indemnity provided to members

FINANCIAL REVIEW

SUBSCRIPTION INCOME

Total subscription income for the year ended 31 December 2019 was £144.3m (2018: £190.7m), of which 98.4% was received from our UK members, the remainder, amounting to £2.3m, being from our members in Ireland.

INVESTMENT RESULT

There were positive changes in the market value of investments in 2019 resulting in an unrealised gain of £58.7m (2018: loss of £47.6m). There was net realised investment expense of £7.8m (2018: income of £28.6m) bringing the total net investment result to a gain of £50.9m (2018: loss of £19.0m).

EXPENDITURE

In 2019 the MDU paid out £83.2m (2018: £77.0m) in discretionary indemnity claims and legal costs, of which £1.2m relates to our Irish members' claims.

Medical and dental advisory costs amounted to £31.2m in 2019 (2018: £32.8m). Reinsurance premiums in 2019 were £8.8m (2018: £9.3m).

Administration costs in 2019 were £20.8m (2018: £19.5m).

RESULT AFTER TAX

The total comprehensive result is a gain of £36.5m (2018: £119.0m).

ASSETS/INDEMNITY PROVISION

The Statement of Financial Position for the MDU shows total assets less current liabilities of £1,113.8m, compared to £1,135.5m in 2018. The decrease of £21.7m is largely due to an increase in creditors due within one year.

In assessing the provision for indemnity, the MDU takes account of all reported incidents notified up to the Statement

of Financial Position date. This includes all notifications from members, including incidents relating to potential claims, pre-claims where incidents are still being investigated and actual claims where there has been a demand for compensations or where legal proceedings have been served. It does not include any case where the board has declined to exercise or to continue to exercise its discretion to assist.

No provision is made for discretionary indemnity claims that may arise from incidents occurring before the Statement of Financial Position date but not reported to the MDU at that date, or for defendant legal costs. As these claims are notified they can be picked up by the MDU under its discretionary indemnity provided to members.

The level of indemnity provision (note 19) has been estimated on actuarial advice, taking all of the above factors into consideration, and is shown in the accounts at £671.2m (2018: £736.5m).

In summary, the MDU is a not-for-profit mutual owned by its members.

We concentrate on providing the best advisory, risk management and claims handling service to members, while controlling costs and managing funds prudently for members' financial security.

This Strategic Report was approved by order of the Board of Management.

Dr Christine Tomkins Chief executive

For and on behalf of the Board of Management
26 May 2020

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2019

ACTIVITIES

The Medical Defence Union Limited's (MDU) activities include the discretionary provision, in accordance with the memorandum and articles of association, of indemnity and medico-legal and dento-legal services for its members.

The MDU continues to set subscriptions which the directors, on actuarial advice, consider sufficient for overheads and foreseeable discretionary indemnity payments and legal costs.

The MDU represents members' medico-legal interests by informing and thereby influencing the government and other bodies on matters relating to healthcare law and the regulatory environment with a view to ensuring that any changes in these areas are equitable and fair.

Until the end of March 2013, through MDU Services Limited (MDUSL), the group provided paying members in the UK with insurance policies against claims of clinical negligence. These are underwritten by SCOR UK Company Limited and HDI Global Specialty SE (formerly International Insurance Company of Hannover SE). MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the Financial Conduct Authority for insurance intermediary and consumer credit activities only.

MDU Investments Limited (MDUIL), a wholly-owned subsidiary of the MDU, manages investments on behalf of the MDU. Funds are invested with third party investment managers and MDUIL does not undertake any direct investment activity.

DIRECTORS

The following served as directors in 2019:

BOARD MEMBER	NO. OF BOARD MEETINGS ATTENDED*
P Riordan-Eva (chairman) ^{1 3 4 5}	5
C Aghadiuno ^{2 4}	5
S E Beaumont ^{2 4}	5
W R J Dinning ^{1 4 5}	4
N A Dungay ⁴	5
P Goldsmith	5
I D Hutchinson ^{1 2 3 4 5}	5
M T Lee ^{4 5}	5
T J Norfolk ⁶	2
J H Riley ^{2 4}	5
S Shaunak	4
O C E Sparrow ¹	5
C M Tomkins ^{3 4 5}	5
S W Watkin ^{1 2 3 4 5}	5
A R Wright ^{4 5}	5

- 1 Members of the Remuneration Committee
- 2 Members of the Audit & Risk Committee
- 3 Members of the Nomination Committee
- 4 Directors of MDU Services Limited
- 5 Members of the Investments Committee of MDU Investments Limited
- 6 Appointed on 17 September 2019
- * 5 Meetings were held throughout the year

In accordance with the articles of association, the following directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next annual general meeting:

S E Beaumont
O C E Sparrow
C M Tomkins
S W Watkin

W R J Dinning retires by rotation under article 49 but will not put himself forward for re-election.

T J Norfolk, J Buttigieg and E C J Wells were appointed by the board and will stand for election at the next annual general meeting in accordance with article 54.

The MDU's articles of association give the members of the board an indemnity (including qualifying third party indemnity provisions within the meaning of section 234 Companies Act 2006, which were in force during the year ended 31 December 2019 and remain in force) against liabilities incurred in relation to the affairs of the MDU. The group also purchases directors' and officers' liability insurance which gives appropriate cover for legal action brought against directors of group companies.

CORPORATE GOVERNANCE

Set out below is a summary of the MDU's approach to corporate governance.

The participation of MDU members on the board is a particular feature and strength of the governance arrangements. There are four executive directors, two of whom are also MDU members. The board has five non-executive directors who are not members of the MDU and have no financial interest in the MDU other than their fees as board members. There are six non-executives with MDU membership, who receive fees as board members and as expert witnesses. The board does not consider that this compromises their independence as board members. All the non-executive directors are therefore considered to be independent. The non-executive directors are sufficiently strong in numbers and independence to provide a proper balance on the board.

The posts of chairman and chief executive are separate. This distinguishes the running of the board from executive responsibility for the business. The roles of chairman and chief executive are defined in writing.

There is an induction process for new directors. This is tailored to meet the needs of individuals. It is designed to give new directors knowledge of the business and of their role in it as directors.

The board undertakes an annual evaluation of its performance by questionnaire. The chairman reports back to the board on the results of the evaluation.

All board members are subject to election by MDU members at the first annual general meeting after their appointment. All, including the executive directors, are also subject to retirement by rotation and re-election at least every three years.

The board met five times in the year. The attendance record of the directors at the board meetings is set out on page 22. The board has a schedule of matters reserved to it for decision, including the following:

- approval of commercial strategy;
- changes to corporate structure;
- internal control arrangements;
- board and committee appointments; and
- contracts not in the ordinary course of business.

The board has a procedure for directors to obtain independent advice. All board members have access to the advice and services of the company secretary.

AUDIT AND RISK COMMITTEE

The board has an Audit and Risk Committee, which meets as often as necessary. The committee is chaired by Mr I D Hutchinson, a non-executive director without MDU membership. Mr Hutchinson is a chartered accountant. The committee includes three other non-executive members of the board.

DIRECTORS' REPORT

The committee meets, and spends time alone with, the internal and external auditors. The committee reviews risk management and internal control arrangements, and their effectiveness. It guides the activities and reviews the results of internal audit. The committee also reviews the scope and results of the external audit, and reviews the annual financial statements and other information in the annual report before publication. The committee reviews the indemnity provision and receives and considers a report from consulting actuaries on their peer review.

The Audit and Risk Committee has a written policy dealing with any recommendation to the board concerning the appointment of the external auditors, and with their remuneration including fees for non-audit work.

NOMINATION COMMITTEE

The board's Nomination Committee, chaired by the chairman of the board, makes recommendations on the appointment of directors. Membership of the Nomination Committee comprises the chairman and vice-chairman of the board, the chairman of the Audit and Risk Committee and the chief executive. Other board members may be co-opted by the committee according to the nature of the vacancy under consideration. The committee prepares a description of the role and capabilities required for a particular appointment. It selects a shortlist of candidates for consideration by the board, on merit and against objective criteria.

REMUNERATION COMMITTEE

The Remuneration Committee, also chaired by the chairman of the board, makes recommendations on the remuneration of the executive directors, non-executive directors and members of the Council and of Committees. The Remuneration Committee works on the basis that remuneration should be sufficient to attract, retain and motivate individuals of the quality required but without paying more than is necessary.

INTERNAL CONTROL

The board is ultimately responsible for the internal control and risk management of the MDU and for the effectiveness of these systems. The Audit and Risk Committee has authority to advise the board on these matters. Management is responsible for identifying, assessing, managing and monitoring risk, and for developing, operating and monitoring the system of internal control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The board considers regular reports on the risks inherent in the business. The principal risks are identified in the Strategic Report on page 18.

The internal control and risk management systems cannot eliminate risks to the business, but they are designed to manage them. Internal controls can provide only reasonable and not absolute assurance against material misstatement

or loss. The board, with advice from the Audit and Risk Committee, review the effectiveness of the risk management and internal control of the group.

GOING CONCERN

The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets and taken account of the discretionary nature of the company's indemnity obligations and other risk factors (discussed on page 19).

RELATIONS WITH MEMBERS

The MDU uses the annual report and annual general meeting to communicate with members about the business. It values highly communications with members, and encourages members to attend the annual general meeting. Members of the Audit and Risk, Remuneration and Nomination committees attend the AGM to respond to any relevant questions if necessary. The notice for the AGM is sent to members at least 14 days before the meeting.

DISABLED EMPLOYEES

The MDU group gives full and fair consideration to applications for employment from disabled people where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the MDU's policy wherever practicable to provide continuing employment under normal terms and conditions.

Training, career development and promotion are provided to disabled employees where possible.

STAFF INVOLVEMENT

Employees are provided with information about the group's performance at annual staff briefings and more frequently through the group's intranet.

Employees' views are sought when decisions are required which are likely to affect their interests.

EMPLOYEES, SUPPLIERS, CUSTOMERS AND OTHERS

Information required by the Companies (Miscellaneous Reporting) Regulations 2018 is included in the Strategic Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Group Strategic Report, the Director's Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 company and the group and of the surplus or deficit of the group for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that they comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom

governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

PROVISION OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Director's Report is approved has confirmed that:

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

This report was approved by the board and signed on its behalf.

N J Bowman
Company secretary

26 May 2020

INDEPENDENT AUDITOR'S REPORT

to the members of *The Medical Defence Union Limited*

OPINION

We have audited the financial statements of The Medical Defence Union Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Changes in Equity and the Consolidated and Company Statement of Cash Flows, and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's

affairs as at 31 December 2019 and of the Group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical

responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Report of the Chairman, Group Strategic Report and Directors' Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Group Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the

Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Director's Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

INDEPENDENT AUDITOR'S REPORT

to the members of The Medical Defence Union Limited

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Director's Responsibilities Statement on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 Parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S 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 auditor's 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state

to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Roberts

(Senior Statutory Auditor)
for and on behalf of BDO LLP,

Statutory Auditor

London
United Kingdom

10 June 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Members' subscriptions		144,349	190,722
Medical and dental advisory services		(31,223)	(32,793)
Administrative expenses		(20,784)	(19,495)
Indemnity, legal and reinsurance costs	6	(33,659)	(5,483)
Finance cost - indemnity/pension provision	7	(6,688)	(8,612)
Operating surplus	8	<u>51,995</u>	124,339
Changes in fair value of investments	3	58,651	(47,595)
Net investment (expense)/ income	4	(7,808)	28,582
Interest payable	5	(15)	(2,258)
Result before taxation	8	<u>102,823</u>	103,068
Taxation	10	(58,067)	3,999
Result after taxation		<u>44,756</u>	<u>107,067</u>
Other comprehensive income:			
Actuarial (loss)/gain on defined benefit schemes	21	(8,300)	11,900
		<u>(8,300)</u>	<u>11,900</u>
Total comprehensive income for the year		<u>36,456</u>	<u>118,967</u>

The notes on pages 37 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

Registered Number: 21708

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	12	14,235	15,917
Fixed asset investments	13	1,037,624	974,073
		<u>1,051,859</u>	<u>989,990</u>
Current assets			
Debtors: amounts falling due after more than one year	15	42,298	76,303
Debtors: amounts falling due within one year	15	35,753	46,274
Cash at bank and in hand		56,893	43,326
		<u>134,944</u>	<u>165,903</u>
Creditors: amounts falling due within one year	17	(73,022)	(20,391)
Net current assets		<u>61,922</u>	<u>145,512</u>
Total assets less current liabilities		<u>1,113,781</u>	<u>1,135,502</u>
Creditors: amounts falling due after more than one year	16	(1,919)	(2,077)
Provisions for liabilities			
Indemnity provision	19	(671,220)	(736,549)
Other provisions	19	(2,288)	(2,278)
Net assets excluding pension asset		<u>438,354</u>	<u>394,598</u>
Pension asset	21	2,000	9,300
Net assets		<u><u>440,354</u></u>	<u><u>403,898</u></u>
Capital and reserves			
Revaluation reserve		68,217	15,623
Retained earnings		372,137	388,275
		<u><u>440,354</u></u>	<u><u>403,898</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 May 2020.



C M Tomkins - Chief executive

The notes on pages 37 to 62 form part of these financial statements.



P Riordan-Eva - Chairman

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

Registered Number: 21708

	Note	2019 £000	2018 £000
Fixed assets			
Fixed asset investments	13	<u>25,160</u>	<u>25,160</u>
		25,160	25,160
Current assets			
Debtors: amounts falling due after more than one year	15	42,298	76,303
Debtors: amounts falling due within one year	15	963,905	954,758
Cash at bank and in hand		<u>7,945</u>	<u>2,982</u>
		1,014,148	1,034,043
Creditors: amounts falling due within one year	17	<u>(50,353)</u>	<u>(1,395)</u>
Net current assets		963,795	1,032,648
Total assets less current liabilities		988,955	1,057,808
Provisions for liabilities			
Indemnity provision	19	<u>(671,220)</u>	<u>(736,549)</u>
		(671,220)	(736,549)
Net assets excluding pension asset		317,735	321,259
Pension asset	21	<u>2,000</u>	<u>9,300</u>
Net assets		319,735	330,559
Capital and reserves			
Retained earnings		<u>319,735</u>	<u>330,559</u>
		319,735	330,559

The Statement of Comprehensive Income for the year ended 31 December 2019 for the parent company only was a loss of £10.8m (2018: gain of £133.8m).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 May 2020.



C M Tomkins - Chief executive

The notes on pages 37 to 62 form part of these financial statements.



P Riordan-Eva - Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2019	15,623	388,275	403,898
Result after taxation	-	44,756	44,756
Actuarial losses on pension scheme	-	(8,300)	(8,300)
Fair value adjustments from revaluation reserve	-	6,057	6,057
Fair value adjustments to retained earnings	(6,057)	-	(6,057)
Transfer to/from retained earnings	58,651	(58,651)	-
At 31 December 2019	<u>68,217</u>	<u>372,137</u>	<u>440,354</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2018	68,818	216,113	284,931
Result after taxation	-	107,067	107,067
Actuarial loss on pension scheme	-	11,900	11,900
Fair value adjustments from revaluation reserve	-	5,600	5,600
Fair value adjustments to retained earnings	(5,600)	-	(5,600)
Transfer to/from retained earnings	(47,595)	47,595	-
At 31 December 2018	<u>15,623</u>	<u>388,275</u>	<u>403,898</u>

The notes on pages 37 to 62 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Retained earnings £000	Total equity £000
At 1 January 2019	330,559	330,559
Result after taxation	(2,524)	(2,524)
Actuarial losses on pension scheme	(8,300)	(8,300)
At 31 December 2019	319,735	319,735

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Retained earnings £000	Total equity £000
At 1 January 2018	196,734	196,734
Result after taxation	121,925	121,925
Actuarial gains on pension scheme	11,900	11,900
At 31 December 2018	330,559	330,559

The notes on pages 37 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Result after taxation		44,756	107,067
Adjustments for:			
Depreciation of tangible assets	12	3,247	3,288
Loss on disposal of tangible assets	12	-	112
Foreign exchange differences	13	1,594	(384)
Net changes in fair value of investments	3	(58,651)	47,594
(Decrease) in provisions		(65,319)	(117,353)
Loss/(Gain) on disposal of investments	13	2,174	(29,170)
Non cash investment expense		6,611	4,842
Finance charge on pension scheme	21	(200)	100
Decrease in deferred taxation		669	(4,065)
Decrease in debtors		44,143	42,554
(Decrease)/increase in creditors		(828)	3,275
Past service cost on pension scheme	21	(800)	400
Increase/(Decrease) in corporation tax		53,015	(1,237)
Net cash generated from operating activities		30,411	57,023

The notes on pages 37 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flows from investing activities			
Purchase of tangible fixed assets	12	(1,566)	(2,267)
Purchase of investments	13	(172,135)	(592,488)
Sale of investments	13	167,441	799,895
Movement in other liquid resources	13	(10,584)	8,425
Purchase of derivative contracts		-	(1,085)
Net cash from investing activities		<u>(16,844)</u>	<u>212,480</u>
Cash flows from financing activities			
Decrease in bank borrowings		-	(221,857)
Decrease in other bank borrowings		-	(52,376)
Net cash used in financing activities		<u>-</u>	<u>(274,233)</u>
Net increase/(decrease) in cash and cash equivalents		13,567	(4,730)
Cash and cash equivalents at beginning of year		<u>43,326</u>	<u>48,056</u>
Cash and cash equivalents at the end of year		<u><u>56,893</u></u>	<u><u>43,326</u></u>

The notes on pages 37 to 62 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	2019 £000	2018 £000
Cash flows from operating activities		
Income and expenditure after taxation	(2,524)	121,925
Adjustments for:		
Decrease/(increase) in debtors (excl. amounts owed by subsidiaries)	42,542	45,232
(Decrease)/increase in creditors (excl. corporation tax)	(1,075)	1,252
Decrease in amounts receivable from subsidiary undertakings	(17,996)	(67,084)
Decrease in indemnity provision	(65,329)	(117,138)
Finance charge on pension scheme	(200)	100
Past service cost on pension scheme	(800)	400
Movement in corporation tax	50,345	(604)
Net cash generated from operating activities	4,963	(15,917)
Net (decrease)/increase in cash and cash equivalents	4,963	(15,917)
Cash and cash equivalents at beginning of year	2,982	18,899
Cash and cash equivalents at the end of year	<u>7,945</u>	<u>2,982</u>

The notes on pages 37 to 62 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

These financial statements comply with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments, derivative assets and certain financial liabilities included within creditors and in accordance with Financial Reporting Standard FRS 102 and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. In preparing these financial statements, the directors consider the significant judgements and key estimates to be the indemnity provision. Further details are provided in note 1.7.

In preparing the financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- Disclosures in respect of the parent company's financial instruments have not been presented where equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The group Statement of Comprehensive Income and Financial Position consolidate the financial results of the company and its subsidiary undertakings for the year ended 31 December 2019. No Statement of Comprehensive Income is presented for the Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006.

1.3 Going concern

In assessing the impact of COVID-19 on the MDU group, the directors have considered all matters described in the Strategic Report, including the group's operations, the impact on subscriptions and claims and the impact on the group's investment portfolio. In particular, in order to support the directors' assessment of the sustainability of the group's activities, management has prepared cashflow forecasts based on alternative assumptions that reflect possible scenarios arising from the impact of COVID-19. As at the date of signing these financial statements, the directors' forecasts indicate that the company will be able to maintain liquidity for a period of at least one year following the date of signing these financial statements and will therefore be able to continue to trade as a going concern. The directors are constantly monitoring the position in case any adverse scenarios which could change the assessment, become more likely than is judged to be the case currently.

1.4 Members' subscription

Members' subscriptions consist of subscriptions for members' services. These are accounted for on the basis of amounts received/receivable by the group before the Statement of Financial Position date, without apportionment.

1.5 Insurance premiums payable

The insurance arrangements described in the Directors Report provide for an adjustment in premiums if the actual claims experience is better than envisaged at the time the premium is initially established. Such amounts are brought into the accounts as debtors (premium element adjustment) when they can be reliably measured and are re-assessed each year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. ACCOUNTING POLICIES (CONTINUED)

1.6 Indemnity, legal and reinsurance costs

The charge for indemnity costs includes indemnity payments, the movement on the indemnity provision, legal charges covering the aggregate of all indemnity payments and legal services provided for members, together with the cost of reinsurance premiums paid/payable. These include claimants' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

1.7 Indemnity provision

Provision is made for the estimated future cost of settlement, including related claimants costs of claims against members which have been notified at the date of the Statement of Financial Position and in respect of which the company has exercised its discretion to provide indemnity. The gross provision is calculated by the MDU's actuarial team and peer reviewed by consulting actuaries.

No provision is made for claims that may arise from incidents occurring before the Statement of Financial Position date but not reported to the group at that date (IBNR) nor for defendant legal costs, nor for claims where The Medical Defence Union Limited has not exercised its discretion to assist.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the MDU's actuarial team. The provision will be paid over an extended period and subject to agreement by all parties. The provision is discounted to reflect the time value of money. The movement on the provision separately identifies the unwinding of the discount which is disclosed as a finance cost in the Consolidated Statement of Comprehensive Income.

1.8 Other provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Unless these conditions are met, no provision is recognised.

Subsequently, provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

1.9 Tangible fixed asset

The cost of tangible fixed assets is written off evenly over their useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful economic life ranges are as follows:

Long-term leasehold property	–	15 years
Furniture and office equipment	–	5 - 10 years
Computer equipment and software	–	3 - 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. ACCOUNTING POLICIES (CONTINUED)

1.10 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the Statement of Financial Position date or the appropriate forward contract rate. All differences are taken to the Consolidated Statement of Comprehensive Income.

1.11 Taxation

Provision is made in the financial statements for tax on investment and trading income received and receivable in the year and revaluation gains and losses realised on investments disposed of in the year.

Deferred taxation is provided using the full provision method. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date. Deferred tax assets and liabilities are calculated at the tax rate expected to be effective at the time that the timing differences are expected to reverse, and are not discounted. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered.

Where gains and losses are recognised in the Consolidated Statement of Comprehensive Income, the related taxation is also taken directly to the Consolidated Statement of Comprehensive Income.

1.12 Investments

(i) Recognition

Initial recognition of investment financial assets/liabilities occurs when the entity becomes party to the contractual provisions of the instrument. The investment financial asset/liability is recognised initially at the transaction price (including transaction costs). For commercial real estate loans, arrangement fees paid upfront by the borrower are recognised as deferred income on the date the facility is drawn.

Investments in subsidiaries are included at cost less any necessary provision for impairment.

(ii) Subsequent Measurement

Investment financial assets and liabilities at the Statement of Financial Position date are subsequently measured at market value or amortised cost.

Financial assets/liabilities at fair value:

Financial assets and liabilities measured at fair value include; gilts, bonds, equities, pooled funds, short sold government bonds and derivative contracts. Subsequently, movements on revaluation are accounted for through the Consolidated Statement of Comprehensive Income. At the year end, changes in fair value recognised through the Consolidated Statement of Comprehensive Income are transferred to the revaluation reserve.

Financial assets/liabilities at amortised cost:

Financial assets and liabilities at amortised cost include: commercial real estate loans, certain loans receivable and cash equivalents held with investment managers. Commercial real estate loans are carried at cost with an allowance for impairment. Fair value was not selected for commercial real estate loans since market valuations are not readily available. Arrangement fees are credited to the Consolidated Statement of Comprehensive Income over the term to maturity of the facility.

(iii) Derecognition

A financial asset is derecognised when: the contractual rights to cash flows expire or are settled, substantially all the risks and rewards of ownership are transferred to another party, or some of the risks and rewards are transferred to another party, or control of the asset is transferred to that party such that the other party will be able to sell the whole asset externally without any restrictions.

(iv) Derivatives

Derivative financial instruments 'derivatives' are held and traded in conjunction with the groups' risk management objectives. Derivatives are defined as a financial instrument that derives its value from the price or rate of some underlying item. Derivatives are carried on the Statement of Financial Position at market value ('marked

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. ACCOUNTING POLICIES (CONTINUED)

to market'). Derivatives with a positive market value are included within investments, those with a negative market value are shown as liabilities. Changes in that value are recognised in the Consolidated Statement of Comprehensive Income. This method is used for all derivatives which are held for trading purposes.

1.13 Investment income

Investment income includes; interest, dividends, coupons, foreign exchange gains/(losses), swap settlements and deferred arrangement fees (see note 1.12). Investment income is accounted for on an accruals basis.

1.14 Operating lease

Operating lease rentals are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

Lease incentives

- (i) Landlord contributions are initially recognised as a deferred income liability on the Statement of Financial Position. These contributions are then released to administrative expenses over the length of the lease.
- (ii) During a rent-free period, a liability is built up on the Statement of Financial Position which is then charged to the Consolidated Statement of Comprehensive Income over the life of the lease. The liability in respect of rent free periods are not discounted.

1.15 Pension costs

The group operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme.

Contributions to the defined contribution pension scheme are charged to the Consolidated Statement of Comprehensive Income in the year to which they relate.

Under the terms of the arrangements between the company and MDU Services Limited the company is responsible for any deficit, or can recover any surplus, of the defined benefit pension scheme for which MDU Services Limited is the principal employer.

The assets of the defined benefit pension scheme are measured at their market value at the Statement of Financial Position date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on an AA corporate bond of equivalent term to the liabilities.

The extent to which the scheme's assets exceed/fall short of their liabilities is shown as a surplus/deficit in the Statement of Financial Position to the extent that a surplus is recoverable by the company or that a deficit represents an obligation of the company. The following are charged to the Consolidated Statement of Comprehensive Income:-

- the increase in the present value of pension scheme liabilities arising from employee service in the current period;
- the increase in the present value of pension scheme liabilities as a result of benefit improvements over the period during which such improvements vest;
- gains and losses arising on settlements/curtailments;
- a credit in respect of the expected return on the scheme's assets; and
- a charge in respect of the increase during the period in the present value of the scheme's liabilities because the benefits are one period closer to settlement.

Actuarial gains and losses are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

2. EMPLOYEE INFORMATION

	2019 £000	2018 £000
Salaries	28,268	27,928
Social security costs	3,352	3,324
Pension costs - defined benefit scheme	2,200	3,100
Pension costs - defined contribution scheme	1,865	1,780
Other staff costs	1,136	1,384
	<u>36,821</u>	<u>37,516</u>
	2019	2018
Average number of employees in the year	453	457
	<u>453</u>	<u>457</u>

There are no staff employed by the parent company.

3. CHANGES IN FAIR VALUE OF INVESTMENTS

	2019 £000	2018 £000
Changes in fair value - assets	58,651	(50,522)
Changes in fair value - liabilities	-	2,927
	<u>58,651</u>	<u>(47,595)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

4. NET INVESTMENT (EXPENSE)/INCOME

	2019 £000	2018 £000
Bond and interest income	955	4,638
Difference on exchange	(1,594)	384
Bank interest	-	1,763
Other investment income/(expenses)	1,804	(801)
(Loss)/gain on disposal of investments	(2,174)	29,170
Investment management fees and related costs	(6,799)	(6,572)
	<u>(7,808)</u>	<u>28,582</u>

Investment income from listed investments in the year was £2.1m (2018: £2.6m)

5. INTEREST PAYABLE

	2019 £000	2018 £000
Bank interest payable	-	788
Other loan interest payable	-	1,465
Other interest payable	15	5
	<u>15</u>	<u>2,258</u>

6. INDEMNITY, LEGAL AND REINSURANCE COSTS

	2019 £000	2018 £000
Reinsurance premiums	8,757	9,275
Increase in indemnity provision (see note 19)	(13,057)	(70,474)
Premium element adjustment (see note 1.5)	(16,418)	(19,645)
Legal costs	24,072	21,855
Reinsurance recoveries (including the movement in reinsurance provision)	30,305	64,472
	<u>33,659</u>	<u>5,483</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

7. FINANCE COST - INDEMNITY/PENSION PROVISION

	2019 £000	2018 £000
Finance cost relating to indemnity provision (see note 19)	6,888	8,512
Finance cost relating to pension provision (see note 21)	(200)	100
	<u>6,688</u>	<u>8,612</u>

8. RESULT BEFORE TAXATION

The result before taxation has been arrived at after charging the following:

	2019 £000	2018 £000
Research & development taxation credit	-	(152)
Depreciation of tangible fixed assets (see note 12)	3,247	3,288
Loss on disposal of fixed assets	-	112
Operating lease rentals - land and buildings	1,184	1,184
Operating lease rentals - motor vehicles	208	202
Defined contribution pension cost	1,865	1,780
Defined benefit pension cost (see note 21)	2,200	3,100
	<u>2,200</u>	<u>3,100</u>

9. DIRECTORS' REMUNERATION

	2019 £000	2018 £000
Fees	471	470
Directors' emoluments	1,276	1,309
Amounts due and receivable under long-term incentive plans	367	314
	<u>2,114</u>	<u>2,093</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

9. DIRECTORS' REMUNERATION (CONTINUED)

The highest paid director in the year earned:

	2019	2018
	£000	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	646	628
Accrued annual pension (excluding indexation)*	162	157

* The highest paid director is in receipt of a pension from the scheme. The pension figure shown is the annual pension in payment.

Retirement benefits are accruing to two directors (2018: two) under a defined benefit scheme.

The fees disclosed above in respect of services to the company represent the remuneration of the non-executive directors of The Medical Defence Union Limited. In addition five (2018: five) of the non-executive directors received fees totalling £22,345 (2018: £31,389) for acting as expert witnesses on behalf of members.

	Fees/Salary	Benefits	STIP/ LTIP	Pension	2019	2018
	£000	[i]	[ii]	[iii]	£000	£000
	£000	£000	£000	£000		
Executive directors						
C M Tomkins	333	21	292	-	646	628
M M Gallivan	-	-	-	-	-	143
N A Dungay	135	17	98	-	250	244
M T Lee	219	17	159	-	395	383
A R Wright	188	17	130	16	335	225
	875	72	679	16	1,626	1,623

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

9. DIRECTORS' REMUNERATION (CONTINUED)

	Fees/Salary £000	Other [iv] £000	2019 £000	2018 £000
Non-executive directors				
P Riordan-Eva	84	-	84	83
H E Clarke	-	-	-	40
W R J Dinning	39	4	43	40
C L A Edginton	-	-	-	28
I D Hutchinson	50	7	57	48
O C E Sparrow	11	28	39	30
S W Watkin	53	30	83	74
J H Riley	39	1	40	11
C Aghadiuno	39	2	41	39
S Beaumont	39	2	41	39
P Goldsmith	11	9	20	22
S Shaunak	11	4	15	16
T J Norfolk	6	2	8	-
	<u>382</u>	<u>89</u>	<u>471</u>	<u>470</u>

[i] Benefits include car allowances, medical and other benefits in kind or their equivalent monetary value.

[ii] STIP represents those amounts that have been paid in 2019 and amounts accrued in respect of the year to 31 December 2019. The STIP is determined by comparing actual performance against set targets for the key performance indicators over the year.

LTIP represents those amounts that have been paid in 2019 and amounts accrued in respect of the year ended 31 December 2019. The LTIP is determined by comparing actual performance against set targets over a three year period, and relates primarily to the overall financial position of the company and its key membership statistics.

[iii] Pension costs represents company contributions to defined contribution pension scheme.

[iv] "Other" represents expenses paid to board members and any fees and expenses for attendance at council and committee meetings other than MDU board and its related committees.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

10. TAXATION

	2019 £000	2018 £000
Corporation tax		
Current tax on result for the year	7,926	-
Adjustments in respect of previous periods	49,473	65
Total current tax	<u>57,399</u>	<u>65</u>
Deferred tax		
Timing differences	1,231	(4,065)
Adjustments for prior periods	(563)	1
Total deferred tax	<u>668</u>	<u>(4,064)</u>
Taxation on profit/(loss) on ordinary activities	<u><u>58,067</u></u>	<u><u>(3,999)</u></u>

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2018 - the same as) the standard rate of corporation tax in the UK of 19% (2018 - 19%). Reconciling items are explained below:

	2019 £000	2018 £000
Profit on ordinary activities before tax	102,823	103,068
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	<u>19,536</u>	<u>19,583</u>

Effects of:

Net mutual income not subject to corporation tax	(9,349)	(23,160)
Expenses not deductible for tax	2	3,368
Capital allowances for year in excess of depreciation	-	124
Adjustments in respect of prior periods	48,909	66
Non-taxable income	(2,150)	(35)
Difference in tax rate on deferred tax movement	(145)	478
Recognition of deferred tax (asset)/liability in respect of unrealised (losses)/gains on equity investments	-	(4,421)
Fixed asset differences	92	-
Other timing differences leading to a (decrease)/increase in taxation	-	(2)
Capital gains	1,172	-
Total tax charge/(credit) for the year	<u><u>58,067</u></u>	<u><u>(3,999)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

11. AUDITOR'S REMUNERATION

	2019 £000	2018 £000
Total fees paid to the group's auditors and associates	<u>547</u>	<u>420</u>
Fees payable to the group's auditor and its associates:		
▪ for the audit of the group's annual accounts	127	153
▪ for tax services	400	243
▪ fees in respect of the audit of the MDU Services Limited pension scheme	20	24

12. TANGIBLE FIXED ASSETS

Group

	Long-term leasehold property £000	Furniture and office equipment £000	Computer equipment and software £000	Total £000
Cost or valuation				
At 1 January 2019	10,266	1,076	18,583	29,925
Additions	-	6	1,560	1,566
Disposals	-	-	(2,316)	(2,316)
At 31 December 2019	<u>10,266</u>	<u>1,082</u>	<u>17,827</u>	<u>29,175</u>
Depreciation				
At 1 January 2019	2,714	796	10,499	14,009
Charge for the year on owned assets	684	216	2,347	3,247
Disposals	-	-	(2,316)	(2,316)
At 31 December 2019	<u>3,398</u>	<u>1,012</u>	<u>10,530</u>	<u>14,940</u>
Net book value				
At 31 December 2019	<u>6,868</u>	<u>70</u>	<u>7,297</u>	<u>14,235</u>
At 31 December 2018	<u>7,552</u>	<u>281</u>	<u>8,084</u>	<u>15,917</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

13. FIXED ASSET INVESTMENTS

Group

	Investments in cash & cash equivalents £000	Funds held by Investment Managers £000	Total £000
Cost or valuation			
At 1 January 2019	25,283	948,790	974,073
Additions	-	172,135	172,135
Disposals	-	(167,441)	(167,441)
Foreign exchange movement	-	(1,594)	(1,594)
Revaluation of investments	-	58,650	58,650
Net movement of cash and accrued income	10,584	(6,609)	3,975
Loss on disposal	-	(2,174)	(2,174)
At 31 December 2019	<u>35,867</u>	<u>1,001,757</u>	<u>1,037,624</u>

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2019	<u>25,160</u>
At 31 December 2019	<u>25,160</u>

The company, either directly or indirectly, holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the company's financial statements: directly MDU Services Limited (reg number: 3957086) and MDU Investments Limited (reg number: 3291117) both incorporated in England and Wales, registration number: 21708 (registered offices: One Canada Square, London, E14 5GS) and indirectly MDU Reinsurance Limited, an insurance company, incorporated in Guernsey (registered office: PO Box 34, St. Martins House, Le Bordage, St. Peter Port, Guernsey, GY1 4AU).

Dormant companies are disclosed in note 26.

The aggregate of the share capital and reserves as at 31 December 2019 and the profit or loss for the year ended on that date for the subsidiary undertaking was as follows:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

14. ANALYSIS OF FUNDS HELD BY INVESTMENT MANAGERS

	2019 %	2019 £000	2018 %	2018 £000
Pooled funds [i]	95.4	955,815	94.3	894,751
Private credit [ii]	4.4	44,516	3.2	30,007
Commercial real estate loans [iii]	0.2	1,426	2.5	24,032
	<u>100</u>	<u>1,001,757</u>	<u>100</u>	<u>948,790</u>

	2019 £000	2018 £000
Valuation basis of investments		
Fair value	1,000,331	924,758
Amortised cost [iv]	<u>1,426</u>	<u>24,032</u>
	<u><u>1,001,757</u></u>	<u><u>948,790</u></u>

- [i] Pooled funds represent investments in funds that hold short term debt and similar instruments; medium to long term debt; and diversified assets that aim to balance equity, interest rate and inflation risks.
- [ii] Private credit represents investments in funds in order to access private secure income assets.
- [iii] Commercial real estate loans are syndicated loans made via an investment manager to the UK's commercial property sector. These loans are secured against the underlying property.
- [iv] Fixed asset investments at amortised cost are commercial real estate loans.

15. DEBTORS

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due after more than one year				
Reinsurance recoveries	42,298	76,303	42,298	76,303
	<u>42,298</u>	<u>76,303</u>	<u>42,298</u>	<u>76,303</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

15. DEBTORS (CONTINUED)

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due within one year				
Reinsurance recoveries	12,714	10,719	12,714	10,719
Amounts owed by subsidiary undertakings	-	-	932,677	914,681
Other debtors	1,583	2,768	-	-
Deferred taxation (note 20)	-	9	-	-
Prepayments and accrued income	5,122	5,627	2,180	2,269
Premium element adjustment	16,334	26,777	16,334	26,777
Corporation tax	-	374	-	312
	<u>35,753</u>	<u>46,274</u>	<u>963,905</u>	<u>954,758</u>

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2019 £000	Group 2018 £000
Payments received on account	1,545	1,727
Other creditors and accruals	374	350
	<u>1,919</u>	<u>2,077</u>

All creditors falling due after more than one year are held at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group	Group	Company	Company
	2019	2018	2019	2018
	£000	£000	£000	£000
Corporation tax*	52,641	-	50,034	-
Taxation and social security	928	900	38	26
Deferred taxation (see note 20)	661	-	-	-
Accruals and deferred income	18,792	19,491	281	1,370
	<u>73,022</u>	<u>20,391</u>	<u>50,353</u>	<u>1,396</u>

All creditors falling due within one year are held at amortised cost.

*Of the £52.6m corporation tax liability, £49.5m relates to a tax tribunal decision we are seeking to appeal.

18. NET FUNDS HELD BY INVESTMENT MANAGERS

	2019	2018
	£000	£000
Financial assets: investments (see note 13)	1,001,757	948,790
	<u>1,001,757</u>	<u>948,790</u>

The historic cost of net funds held by investment managers is £933.0m (2018: £930.8m).

(a). Fair value hierarchy

Of the investments held, £1,000.3m were held at fair value (note 14), the following fair value hierarchy was used to estimate the value of these investments:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18. NET FUNDS HELD BY INVESTMENT MANAGERS (CONTINUED)

(a). Fair value hierarchy (continued)

	2019	2018
	£000	£000
Quoted prices - Level 1	-	-
Recent quoted prices - Level 2	1,000,331	924,758
Valuation technique (Unobservable inputs) - Level 3	-	-
Total net assets	<u>1,000,331</u>	<u>924,758</u>

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 Valued using quoted prices in active markets for identical assets.
- Level 2 Valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1.
- Level 3 Valued by reference to valuation techniques using inputs that are not based on observable market data.

(b). Credit risk, liquidity risk, currency risk and market risk

Credit Risk

Source and Exposure:

Credit risk is the risk that the MDU suffers losses, as a result of issuer default. In particular, this risk is associated with loans receivable and similar instruments.

Objectives, policies and processes:

The MDU manages credit risk through its investment policy, which sets a maximum exposure to any particular asset class. This is regularly reviewed and updated. All loans receivable are with banks with a long-term Standard & Poor's credit rating greater than or equal to BBB+. Cash deposits are largely held within well-diversified AAA Money Market Funds, consequently, the credit risk is considered to be low.

Where applicable this exposure is minimised by obtaining collateral held as security and other credit enhancements (see note 14).

Liquidity Risk

Source and Exposure:

Liquidity risk is the risk that the MDU encounters difficulties in meeting its obligations associated with financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18. NET FUNDS HELD BY INVESTMENT MANAGERS (CONTINUED)

(b). Credit risk, liquidity risk, currency risk and market risk (continued)

Liquidity Risk (continued)

Objectives, policies and processes:

MDU Investments Limited invests in a diversified range of asset classes, with differing liquidity profiles, including; collateral assets, liquid assets, semi-liquid assets and illiquid assets. In addition, where applicable, the fund managers independently perform a review of collateral management, to ensure MDU Investments Limited is able to meet its financial commitments as they fall due. Liquidity requirements are regularly reviewed and considered as part of the wider investment strategy.

Currency Risk

Source and Exposure:

Currency risk is the risk that the MDU experiences a profit or loss as a consequence of movements in exchange rates against the base currency.

Objectives, policies and processes:

The MDU group's financial risk management objective is broadly not to realise a profit or loss from exposure to currency rate risks. The group monitors its likely exposure to non-sterling claims and advisory costs, and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. Where investments are held in non-sterling currencies, the exchange rate risk is largely hedged.

Market Risk

Source and Exposure:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices.

Interest risk, inflation risk, credit spread risk and equity risk have been identified and explained below as the key drivers impacting market risk.

Objectives, policies and processes:

As part of its wider investments policy, the MDU actively monitors the impact of these market risks. When setting the investment objectives, the estimated provision for future indemnity payments is considered. As such, the sensitivity analysis performed below, summarises the impact on net assets, being the net movement of the investment portfolio and the indemnity provision, in response to changes in these market risks.

(i). Interest risk

Source and Exposure:

Movements in interest rates can cause the fair value of fixed income assets to change and can therefore affect the discount rate used to value the indemnity provision.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18. NET FUNDS HELD BY INVESTMENT MANAGERS (CONTINUED)

(b). Credit risk, liquidity risk, currency risk and market risk (continued)

Market Risk (continued)

Objectives, policies and processes:

The MDU group's financial risk management objective is broadly not to realise a profit or loss from exposure to fluctuations in interest rate risk, in respect to the indemnity provision. This is achieved through investment in financial instruments.

(ii). Inflation risk

Source and Exposure:

The estimate of the MDU's indemnity provision is influenced by the likely cost of future claims, some of which can take many years to settle and are affected by compensation for future costs and losses, such as loss of earnings and cost of future care. Such costs are affected by inflation experience.

Objectives, policies and processes:

The MDU group's financial risk management objective is to invest in a range of financial instruments, which by their very nature provide protection against movements in inflation.

(iii). Credit spread risk

Source and Exposure:

Credit risk is the risk that the MDU suffer losses, as a result of issuer default. In particular, the risk is associated with loans receivable and similar instruments. Associated with this, is credit spread risk, which is the change in fair value of fixed income assets held, due to changes in expectations of the risk of the issuer.

Objectives, policies and processes:

The MDU manages credit and credit spread risk through its investment policy, which sets a maximum exposure to any particular asset class and holdings within. This is regularly reviewed and updated.

All loans receivable are with banks with a long-term Standard & Poor's credit rating greater than or equal to BBB+.

Where applicable credit risk is minimised by obtaining collateral held as security and other credit enhancements (see note 14).

(iv). Equity risk

Source and Exposure:

Equity risk is the risk that financial instruments held by the MDU will diminish in value due to stock market movements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18. NET FUNDS HELD BY INVESTMENT MANAGERS (CONTINUED)

(b). Credit risk, liquidity risk, currency risk and market risk (continued)

Market Risk (continued)

Objectives, policies and processes:

Exposure to equity risk is managed by holding a diversified investment portfolio and or the use of financial instruments to mitigate the impact of adverse market movements.

(v). Sensitivity analysis

	Change %	2019 £000	2018 £000
Market risk			
Interest rate	+1	5,587	(8,179)
	-1	(5,271)	9,290
Inflation rate	+1	5,399	14,497
	-1	1,034	(8,293)
Credit spread	+1	(19,330)	(17,398)
	-1	20,811	18,679
Equity	+25	24,868	22,097
	-25	(24,868)	(22,097)

Sensitivity analysis assumptions:

- [i] When calculating the impact of a movement in any one market risk factor, it is assumed that all other variables remain constant.
- [ii] The impact above is net of the standard rate of corporation tax in the UK of 19% (2018: 19%).

(c). Capital management

The Medical Defence Union Limited actively monitors its capital requirements and those of its subsidiary undertakings. When necessary, investments in subsidiary undertakings are increased.

No external capital requirements are imposed on the MDU group.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

19. PROVISIONS - INDEMNITY

	2019 £000	2018 £000
Group and company		
At 1 January	736,549	853,687
Finance costs	6,888	8,512
Indemnity and insurance paid	(59,160)	(55,176)
(Decrease)/increase in indemnity provision (see note 6)	(13,057)	(70,474)
At 31 December	671,220	736,549

The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 0.61% (2018: 1.26%) per annum.

The principal financial assumptions used in the actuary's calculation of the gross indemnity provision for the company and the group are that claims inflation will be RPI plus 4.5% per annum (2018: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 0.81% per annum (2018: 1.36%) is used to discount the claims payments to the Statement of Financial Position date.

Provisions - other

	2019 £000	2018 £000
Group		
At 1 January	2,278	2,493
Increase/(decrease) in the year	10	(215)
Payments	-	-
At 31 December*	2,288	2,278

*Building dilapidations are recognised on two (2018: two) buildings.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

20. DEFERRED TAXATION

	2019 £000	2018 £000
Group		
At 1 January	(9)	4,056
Over/ (under) provided in the prior year	(563)	-
Charged to profit or loss	1,232	(4,065)
At 31 December	660	(9)

The deferred tax asset/(liability) is made up as follows:

	Group 2019 £000	Group 2018 £000
Accelerated capital allowances	-	(399)
Fixed asset timing differences	467	-
Capital gains	193	-
Tax losses carried forward	-	355
Short term timing differences in respect of unrealised (gain)/loss on equity investments	-	53
	660	9

21. PENSION COSTS

As explained in accounting policy note 1.15 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pension schemes are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 1 April 2018 and has been updated to 31 December 2019 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2019 reflects the status of the defined benefit section of the scheme only.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

21. PENSION COSTS (CONTINUED)

The major assumptions made by the actuary were:

	2019	2018	2017	2016
Rate of increase in salaries	3.3%	3.5%	3.5%	3.6%
Rate of increase in pension pre 16 February 2009 retirees	2.1%	2.2%	2.2%	2.2%
Rate of increase in pensions post 16 February	2.9%	3.1%	3.1%	3.1%
Discount rate	2.0%	2.9%	2.5%	2.7%
RPI inflation assumption	3.0%	3.3%	3.3%	3.3%
CPI inflation assumption	2.1%	2.2%	2.2%	2.2%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23.3 years if they are male and a further 25.1 years if they are female. Members currently aged 45 are expected to live for a further 25.0 years from age 65 if they are male and for a further 26.9 years from age 65 if they are female.

Fair value of scheme assets:

	2019	2018	2017	2016
	£000	£000	£000	£000
Equities	17,700	14,600	16,900	14,700
Property	20,600	21,700	20,500	16,500
Government bonds	28,900	20,500	16,300	16,800
Corporate bonds	89,400	83,100	90,100	81,900
Other	200	100	400	1,800
	<u>156,800</u>	<u>140,000</u>	<u>144,200</u>	<u>131,700</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

21. PENSION COSTS (CONTINUED)

The approximate fair value of assets and liabilities of the scheme were:

	2019	2018	2017	2016
	£000	£000	£000	£000
Total market value of assets	156,800	140,000	144,200	131,700
Present value of scheme liabilities	154,800	130,700	146,300	137,000
Pension asset/(liability)	2,000	9,300	(2,100)	(5,300)
	2019	2018	2017	2016
Assets as a percentage of liabilities	101.3%	107.1%	98.6%	96.1%

Movement in the fair value of the scheme liabilities during the year:

	2019	2018
	£000	£000
Opening defined benefit obligations	130,700	146,300
Current service cost	2,200	2,700
Interest cost	3,800	3,700
Contributions by scheme participants	200	200
Actuarial gain/(losses) on the scheme liabilities	21,700	(18,500)
Net benefits paid out	(3,800)	(4,100)
Past service cost (incl. curtailments)	-	400
Closing defined benefit obligations	154,800	130,700

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

21. PENSION COSTS (CONTINUED)

Movement in the fair value of the scheme assets during the year:

	2019 £000	2018 £000
Opening fair value of scheme assets	140,000	144,200
Expected return on scheme assets	4,000	3,600
Actuarial gain/(losses) on scheme assets	13,400	(6,600)
Contributions by employer	3,000	2,700
Contributions by scheme participants	200	200
Net benefits paid out	(3,800)	(4,100)
Closing fair value of scheme assets	156,800	140,000

The assets of both pension schemes do not include any of the group's own financial instruments or any property occupied by the Medical Defence Union Limited or its subsidiary undertakings.

A building block approach is employed in determining the long-term rate of return on the defined benefit pension scheme's assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Analysis of the amount charged to Statement of Comprehensive Income

	2019 £000	2018 £000
Current service cost	2,200	2,700
Past service cost (incl. curtailments)	-	400
	2,200	3,100

The total estimated pension expense in 2020 is £0.

Analysis of the amount charged to other finance costs

	2019 £000	2018 £000
Expected return on scheme assets	(4,000)	(3,600)
Interest on scheme liabilities	3,800	3,700
Net return	(200)	100

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

21. PENSION COSTS (CONTINUED)

Analysis of amounts recognised in other comprehensive income:

	2019 £000	2018 £000
Actuarial gains/(losses) on scheme assets	13,400	(6,600)
Actuarial (losses)/gains on scheme liabilities	(21,700)	18,500
Actuarial (losses)/gains recognised in other comprehensive income	<u>(8,300)</u>	<u>11,900</u>

22. MEMBERS LIABILITY

The Medical Defence Union Limited is a company limited by guarantee not exceeding £1 per member.

23. RELATED PARTY TRANSACTIONS

The group has taken advantage of the exemptions available in respect of its wholly-owned subsidiary undertakings and the disclosure of related party transactions within the group and balances eliminated on consolidation.

24. COMMITMENTS UNDER OPERATING LEASES

The group and company had minimum lease payments under non-cancellable operating leases as set out below:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Not later than 1 year	1,404	1,369	-	-
Later than 1 year and not later than 5 years	4,860	4,831	-	-
Later than 5 years	5,328	6,512	-	-
	<u>11,592</u>	<u>12,712</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

25. DORMANT COMPANIES

The MDU group had the following dormant companies as at 31 December 2019:

Hospital and Community Services Limited	Practice Nurse Defence Limited
Dental Defence Union Limited	Nursing Defence Limited
General Practitioner Defence Union Limited	Nursing Defence Union Limited
MDU Risk Management Limited	Nurse Practitioners Defence Limited
MDU Healthcare Risk Management Limited	Community Nurse Defence Union Limited
Medical Defence Risk Management Limited	Community Nurse Defence Limited
Medical Defence Healthcare Risk Management Limited	Nurse Practitioners Defence Union Limited
Healthcare Risk Management Limited	The Doctors Bank Limited
MDU Medirisk Limited	Doctors and Dentists Bank Limited
Nursing and Midwifery Defence Union Limited	Just for Doctors Limited
Nursing and Midwifery Defence Limited	MDU Healthcare Limited
Dental Auxiliaries Defence Union Limited	Medical Liability Services Limited
Dental Hygienists Defence Union Limited	The Dentists Bank Limited
Practice Nurse Defence Union Limited	No. 1515253 Limited

All of the above are: wholly owned subsidiaries of the Medical Defence Union Limited, incorporated in England and Wales and included in the consolidation.

26. SUBSEQUENT EVENTS

Following the spread of COVID-19 to Europe and other regions, global economies and markets have been significantly disrupted. There remains significant uncertainty surrounding the pandemic and each region is working to find a solution and safeguard its population. This pandemic has impacted almost all organisations, as each organisation attempts to overcome the unique challenges the COVID-19 pandemic has created. Operationally, the MDU has responded well to the pandemic and where possible has quickly implemented business continuity plans, enabling its workforce to operate from home. The MDU will continue to ensure that its members receive the best service possible, given the circumstances. This remains our priority. The impact on wider society and our members is unknown, however, the directors will continue to monitor how our members behaviour and activity changes in response to the pandemic, which could potentially impact both subscription and claims patterns. In addition, the MDU's investment portfolio has experienced volatility following the COVID-19 pandemic, resulting in a reduction in market values of our investment assets. However, the directors believe that this is temporary and that our well diversified portfolio of assets will recover, as the pandemic weakens and global economies strengthen.

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Vice-chairman of the Board and Vice-president of Council

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BA(Hons)

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MB BS DObstRCOG

MDU SERVICES LIMITED

(Continued)

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DEFENCE UNION
THE SPECIALIST
DENTAL DIVISION OF
THE MDU

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Chief financial officer

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Marketing and sales director

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Company secretary

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Operations director

Kevin Miller

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Director of legal services and Scottish affairs

Hugh Stewart

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FFFLM DipLP

Head of professional standards and liaison

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Business support services manager

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LLB MA MRCPCH FFFLM
DMedEth

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Oliver Lord

MB ChB MRCPsych
PgDip(Medical Education) DLM

Eleanor Mein

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LLB(Hons) PhD MRCP
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MB ChB DRCOG MRCPG
MA(Med Law and Ethics)
DipDerm

Peter Old

MB BS LLM

Sally Old

MB BS LLM FRCP MFFLM

Joanne Parker

MB BCh LLM DRCOG DFFP

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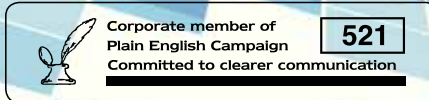
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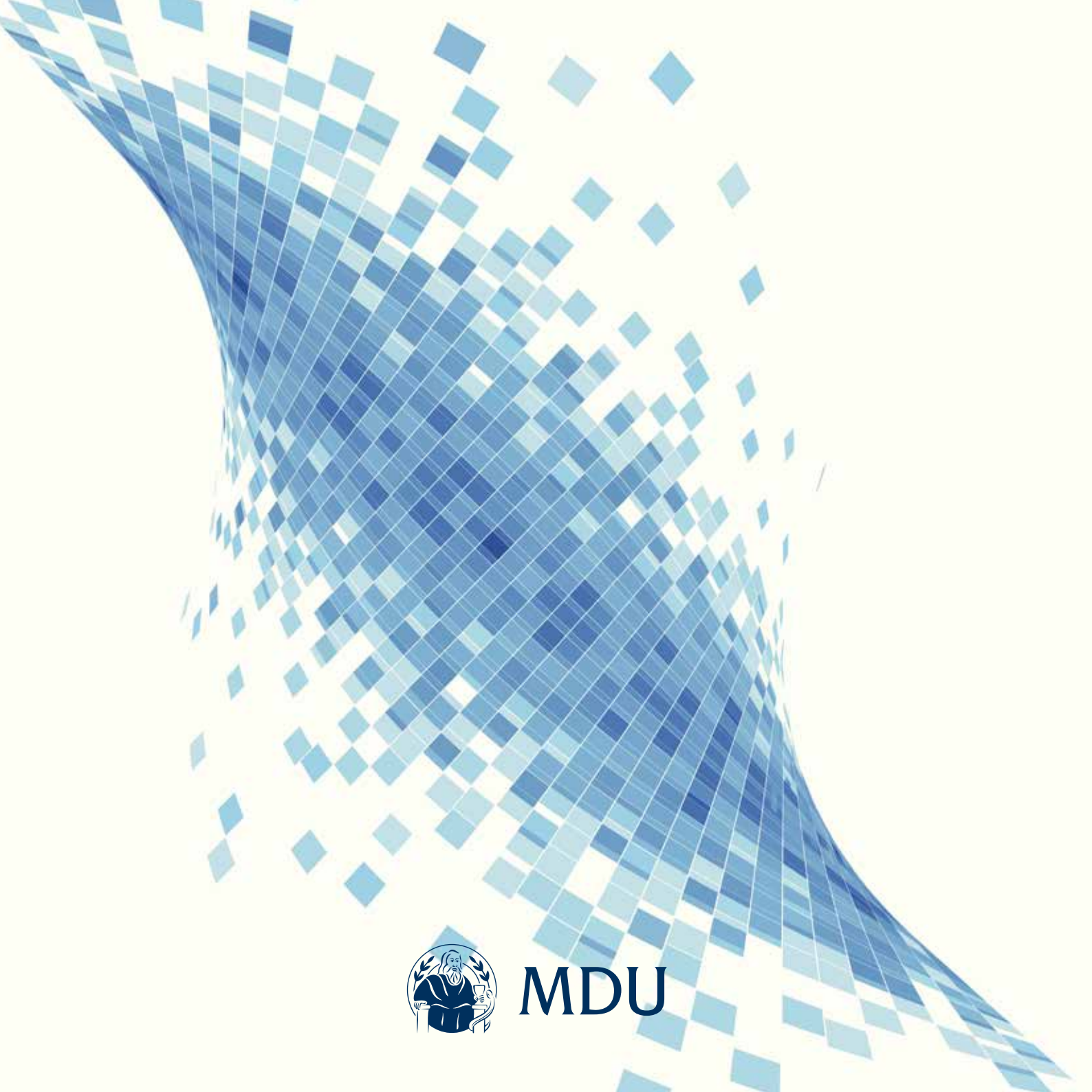
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