

The Medical Defence Union Limited
(A Company Limited by Guarantee)
Annual Report and Financial Statements
for the year ended 31 December 2018



THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Company Information

Registered number	21708
Registered office	One Canada Square London E14 5GS
Independent Auditors	BDO LLP 55 Baker Street London W1U 7EU

THE MEDICAL DEFENCE UNION LIMITED
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Report of the Chairman
For the Year Ended 31 December 2018

The chairman presents his statement for the period.

2018 was a challenging but successful year for the organisation. Our teams had to pay scrupulous attention to the continuing major external issues of the development of a state-backed indemnity for primary care, the damagingly low personal injury discount rate and concern about unnecessary gross negligence manslaughter investigations, all having serious potential consequences for our members and discussed in the group strategic report by the chief executive.

We continue to believe discretionary indemnity is the best solution for the needs of our medical and dental members. From 2000-2013 we provided members with an insurance policy for clinical negligence claims, underwritten by third party insurers. There are advantages to having a contract of insurance, but it was always wrapped round with discretion because members needed access to indemnity for matters outside the policy.

We discontinued the policy in 2013 because the additional cost of purchasing insurance on behalf of our members outweighed the benefits. The benefits of discretionary indemnity are brought home in a recent example where a member notified a claim to us in 2018 arising from medical treatment provided in 1984. The doctor was an MDU member in 1984 and we are able to assist that doctor now because the discretionary indemnity we provided then allowed that doctor to come to us more than 30 years later for assistance with this claim. Discretionary indemnity provided by mutual organisations such as the MDU has served doctors and dentists well - and served patients well, too - and it remains the best way to ensure compensation will be available many years into the future.

Throughout 2018 we continued to place an emphasis on improving and streamlining our internal systems and processes to ensure we not only meet, but whenever possible exceed, the day-to-day needs of our members.

Thanks to excellent work in the claims department and by in-house and external solicitors and barristers, we continued to achieve excellent outcomes in defending clinical negligence claims. Despite a small increase in new claim notifications, over 80% of medical and almost 70% of dental claims were defended successfully and closed without payment of damages. It is difficult to quantify, but our long experience in advising members how to respond to medico-legal and dento-legal issues shows how effective management of adverse incidents soon after they occur can reduce the risk of claims. Similarly we encourage members to contact us as soon as possible about complaints, because their timely and appropriate handling can reduce the risk of claims.

The planned clinical negligence scheme for general practice will offer no support to members facing complaints, coroner's inquests or career-threatening medico-legal matters such as GMC, performers list or criminal investigations. It is essential that GPs maintain membership of the MDU to defend them in these circumstances, and to provide all the other benefits of MDU membership – such as 24-hour medico-legal advice, support when facing media attention and risk management education. It is vital that our members working in primary care recognise the need to maintain their MDU membership to access support that the state scheme will not provide. Relying solely on state-backed indemnity will not be sufficient to protect a GP's reputation and career. The MDU strongly advises that membership is maintained to 'Mind the gap'.

The MDU and DDU remain committed to the principle of 'Guide, Support, Defend' when safeguarding our members' interests on all issues relevant to their provision of high quality clinical care. We are on your side and by your side.

Membership numbers are a crucial guide to how well our services are regarded, and in 2018 there was a further increase in active members, particularly among GPs and GP specialist trainees in Health Education England block schemes. Our introduction of transitional benefits membership in response to the government's plan to introduce state-backed indemnity for primary care seems to have had the desired beneficial effect of keeping more clinicians in general practice. As a result there was a 40% reduction in the number of the MDU's GP members who retired during 2018 compared to 2017. This is particularly important, as it not only means that many of our members have been able to continue to practise, but it reduces the pressure on other GPs and improves patient care.

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Report of the Chairman
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During 2018 our membership department answered over 160,000 telephone calls, provided over 95,000 letter and email responses and acted upon almost 23,000 applications for membership. Eighty percent of all telephone calls were answered within twenty seconds and 98% of member correspondence was responded to within five working days. Following the Princess Royal Training Award in 2017 for the excellence of training provided to our medico-legal advisers, we were delighted that in 2018 the membership department received the Princess Royal Training Award in recognition of its excellent induction training for all MDU membership staff.

We recognise the speed with which our members need to act on medico-legal issues that arise from their clinical practice, and the MDU and DDU apps provide immediate access to guidance and advice. Whether you need urgent guidance on the difficult and emotive decision of withdrawing life sustaining treatment to a patient in a vegetative or minimally conscious state, or guidance on how to fully inform patients about the risks and potential complications of extraction of wisdom teeth; whether you need to respond to a complaint or deal with a clinical negligence claim, or you feel that your judgement or performance is being adversely affected by your health, these and many other issues are covered in the apps. Needless to say, if further information is required then members should not hesitate to contact our advice lines or email the medico-legal or dento-legal teams. An early and appropriate response to an issue can often defuse the situation, while a delay in the response can escalate the matter and lead to much more extensive repercussions. Members should not be concerned that calling our advisory helpline adversely affects their annual subscription – this is not the case.

Our medico-legal and dento-legal teams took almost 30,000 calls in 2018 from members calling our dedicated 24-hour advice lines. Over 98% of calls in working hours (between 8am and 6pm) were answered within 20 seconds and all were answered by one of our specially trained doctors or dentists. Many calls are also received at weekends and outside the working day reflecting the round-the-clock working lives of our members and the constant challenges they face. Our teams are available to guide and support our members whenever they need to call on us.

In 2018 there was an increase in the number of requests for assistance from members involved in patient safety incidents, coroners' inquests, and clinical negligence claims against NHS trusts. As would be expected, there continues to be heightened concern amongst our members stemming from the high profile gross negligence manslaughter cases. Using its considerable experience in defending members in such cases, the MDU made submissions to the government review led by Professor Sir Norman Williams and the independent review commissioned by the General Medical Council and chaired by Mr Leslie Hamilton.

We continue to work with the GMC and GDC on behalf of our members. We have welcomed the GMC's efforts to alleviate the adverse effects of an investigation on doctors, particularly those with physical or mental health problems prior to or as a consequence of the investigation. There has been a significant reduction in the overall number of complaints directly to the GDC and we also welcome some positive signs, such as a reduction in the number of cases progressing to a formal hearing, following the introduction of case examiners.

Professional pressures on doctors and dentists are relentless and in the clinical environment the necessary support is becoming more difficult to access. Our website includes resources dedicated to well-being and we are developing educational content to help the profession recognise the particular stresses facing junior doctors and to inspire a culture of mutual support. As a 'doctors for doctors' organisation we are best placed to support members facing the stress of GMC investigations and claims. In addition to the expertise of our medico-legal advisers and specialist claims handlers we are trialling a peer support service, putting members who have been through GMC or claims cases in contact with members who are currently facing a similar situation.

We also understand the need for, and value of, a wider range of activities within the career portfolios of our members. Because of this we have made it easier for junior doctors to access indemnity for roles undertaken outside their training scheme, such as providing medical cover at sporting events, concerts and festivals.

With the medico-legal landscape constantly changing, during 2018 we updated our 'learn and develop' services. We have reviewed and enhanced our popular medico-legal seminars, which are delivered by our liaison managers in local surgeries, hospitals and training centres across the country. We have also revised our in-house courses which provide in-depth training on subjects including law and ethics, introduction to private practice and communication skills. Not all members can get to our events and so we are increasingly putting more services and resources online, including podcasts and easy-to-digest animations.

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Report of the Chairman
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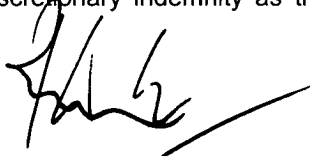
In a member survey in October 2018 90% of members considered the work we do to influence government and regulatory policy to be important or very important. We strongly agree and have continued to work on behalf of our members, collaborating as appropriate with individuals and organisations such as MPs, peers, select committees, government officials, the BMA, the BDA, the Academy of Medical Royal Colleges and individual royal colleges.

Within the organisation there is a rapidly increasing number of projects to improve our services to members. To ensure that these are achieved in a timely and financially secure manner we have increased our emphasis on centralised project management with an 'MDU Change' programme. Examples of the initiative are widespread use of agile methodology and a digital programme board, which has been crucial to the development of on-line applications that are now in place for all types of members and the development of the MDU and DDU apps.

After 25 years of exemplary service Mr Maurice Gallivan retired as finance director. He is greatly missed and has left a very strong legacy. Mr Harold Clarke and Mr Clive Edginton stepped down from the board. Their invaluable advice and support to the organisation and to our members are greatly appreciated. Mr Clarke will continue chairing the pension trustees. We welcomed to the board Mr Jeremy Riley with his experience in insurance and Mr Anthony Wright who has taken on the role of chief financial officer.

Dr Bernard Riley, Professor Alan Aitkenhead, Professor Sir Alan Craft, and Dr Jane Whittaker stepped down from council and cases committee and we welcomed Dr Nelly Ninis and Dr Stephanie Chadwick. Dr Eric Whaites stepped down from council and dental advisory committee and we welcomed Dr Andrew Chandrapal.

Although 2018 was full of change and uncertainty, the MDU and DDU continued to thrive and to profess our core principle – that of 'doctors for doctors' and 'dentists for dentists' within a not-for-profit mutual organisation providing discretionary indemnity as the best means to guide, support and defend our medical and dental members.



Dr P Riordan-Eva
Chairman of the board of management and President of the MDU

23 April 2019

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Group Strategic Report
For the Year Ended 31 December 2018

For the past few years this strategic report has concentrated on the cost of claims and indemnity, and this year is no exception. I wrote last year of the disastrous decision by the lord chancellor in 2016 to lower the discount rate by 3.25%, which came into effect from 20 March 2017. The result of this change, coupled with claims inflation, is best exemplified by the fact that within one week in October 2018, NHS Resolution made awards in just two cases that could result in payments of £37 million and £27 million. Potential payment of £64 million from scarce NHS funds for only two awards should be unthinkable in the context of the greater number of NHS patients who could have benefited had these sums been spent on their care. Patients damaged by negligence must be compensated, and fairly, but this obvious financial inequity cannot continue.

The government has tried to undo the unintended adverse effect on the NHS of the discount rate change with the Civil Liability Act 2018. Part 2 of the Act puts in place a procedure that will provide the lord chancellor with expert advice to assist when setting the discount rate. The Act also sets out a timetable for regular review of the procedure, which includes mandating deadlines for the initial review process that could result in the first decision by August 2019. The MDU was involved in all stages, from consultation responses to briefing parliamentarians on behalf of members. It is not a perfect solution. It is very unlikely the discount rate will return to 2.5%, which means compensation awards in high value cases are still going to be far higher than they were before March 2017. There will still be too much guesswork involved in establishing how claimants invest large compensation awards and in estimating the level of returns they achieve over lengthy periods of 20 years or more - but it is at least an attempt to begin to redress the balance.

In 2018 governments moved forward on an initiative to address the impact of claims costs on practitioners. Work continued throughout the year, in England and in Wales, on schemes to introduce state indemnity for general practice. In May 2017 the MDU launched a Save General Practice campaign to ask for urgent government support for GPs, and we surveyed our GP members, seeking their views about how they wanted the government to address indemnity costs. Ninety-five percent of GPs who responded said they had been personally affected by increasing indemnity costs and a third were thinking of quitting the NHS. Eighty-eight percent of respondents said they wanted to see the NHS funding the cost of GP indemnity. We made sure the government was aware of our GP members' views and of the need to act to reduce an indemnity burden which was not of their making and over which they had no control.

On 1 April 2019 the governments in England and Wales launched state-backed schemes for primary care, providing 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 both governments about our GP members' existing liabilities. We remain committed to finding an acceptable solution that takes into account the interests of all the MDU's members. You can find more information on page 9.

We expect to retain our relationship with our GP members, who will still need us for indemnity for any work they do that is not NHS indemnified, for advisory assistance through our 24-hour medico-legal helpline, and with matters such as GMC and criminal investigations, complaints and disciplinary procedures. For more information see the 'Mind the gap' page on our website.

The good news for GPs is that they will no longer have the burden of indemnity costs for claims, which will shift from 1 April to NHS Resolution and increase that body's total estimated liabilities, which stood at £77bn at 31 March 2018. I started this report highlighting the extraordinarily high awards that NHS Resolution is currently agreeing and we can only hope that the combination of these awards and additional indemnity costs arising from primary care will focus the government on the pressing need to address the problem and to do so urgently and effectively. In designing a solution it will need to bear in mind that the principal causes of high volumes of claims and large awards do not lie with individual practitioners or even the health service. In September 2017, in reporting on its value for money audit of the NHS Litigation Authority, the National Audit Office (NAO) identified:

'Some of the biggest factors influencing costs fall within the remit of more than one government department or are largely outside of the health system's control. These include developments in the legal market, the increasing level of damages awarded for high-value claims, and changes in the discount rate used by courts to calculate lump sum payments for future damages.'

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Group Strategic Report (continued)
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To address the problem of the inexorable rise in claims costs, the only workable solution for the government will be to change personal injury law. I have written previously about the anomalous 1948 law (Law Reform (Personal Injuries) Act 1948) that requires bodies representing defendants, such as the MDU, to disregard the availability of NHS services when awards are calculated and that results in compensation payments intended to fund only private care. This dramatically inflates compensation awards year on year as care and other costs continue to rise. That compensation is paid from NHS funds and would be far better spent improving access to, and the standard of, NHS care for all patients. The Public Accounts Committee (PAC) recognised this when it recommended in December 2017 that the government:

‘must take urgent and coordinated action to address the rising costs of clinical negligence. This includes: reviewing whether current legislation remains adequate and reporting back to the Committee by April 2018’.

A cross-governmental working party on clinical negligence costs was set up as a joint initiative between the Department of Health and Social Care and the Ministry of Justice. It has yet to report and make recommendations but has promised to do so in 2019. Members will not be surprised that the MDU's view remains that tort reform must be top of the list.

Finally, on the subject of claims costs, I have mentioned previously the persistent problem of disproportionate costs in lower value claims. This was not addressed, as had been hoped, by legal reforms introduced by the Legal Aid, Sentencing and Punishment of Offenders Act 2012. To illustrate the problem, here are two examples of medical settlements the MDU agreed on behalf of members in 2018 that were concluded before proceedings were issued. The bills presented were disproportionate, resulting in time and money spent in disputing them, and even then the agreed costs are still disproportionately high.

Damages £1,000. Bill of costs £31,000. Costs paid £19,000.

Damages £2,250. Bill of costs £32,000. Costs paid £18,000

With the aim of addressing disproportionately high costs in low value claims, a working party was set up in early 2018 as a result of the Department of Health and Social Care's response to Lord Justice Jackson's July 2017 recommendation that the, 'Civil Justice Council should in conjunction with the Department of Health and Social Care set up a working party, including both claimant and defendant representatives, to develop a bespoke process for clinical negligence claims initially up to £25,000.' The MDU is an active member of the working party which includes representatives from claimants and defendants and other organisations. It was intended to report by the autumn of 2018 but this is now expected during 2019. However, even if the working party produces workable recommendations that address the very disproportionate costs described above - and this is not a given - this would not address the fundamental problem with clinical negligence costs as identified by bodies such as the NAO and the PAC, and which requires a far more radical solution.

In 2018 the number of new claims notified was slightly above that of 2017. We were able to maintain our unequalled success in handling members' medical claims and were again able to close over 80% of claims without payment. Our specialist dental claims handlers had their best result on record with a further improvement in our dental claim success rates that resulted in 69% closed without payment.

Our claims team achieve these excellent results because of the diligence, skill and expertise with which they investigate and defend members' claims. They understand that for individual clinicians claims have a wider reach than the civil justice procedure as they can have other professional and personal repercussions. The system often fails to recognise that most times when a healthcare practitioner has been negligent and compensation is paid, it was a one-off incident and highly unlikely to be repeated.

Claims are not usually indicators of poor or unsafe practice, but unfortunately they are often perceived that way. The fact that a settlement has been made can be used against doctors and dentists who are found negligent, so it is fundamentally important for members that our claims handlers close so many claims without admission of liability or payment on their behalf. Because they are personal, claims against our members are a very different prospect to claims against institutions. They need a different approach and our claims handlers' primary motivation is to act in the member's best interests. Our claims team's excellent results, sustained year on year, demonstrate that members are safe in their hands.

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Group Strategic Report (continued)
For the Year Ended 31 December 2018

We never forget that the MDU exists for our members and that our main function is to provide medico- and dento-legal services for you. Our aim is to be the best. When you need us, whether it is because you have a difficult decision to make or you face a medico-legal challenge, nothing less will do.

Our advisory teams have over 50 experienced doctors and dentists whose special training means they are fully equipped to provide vital round-the-clock guidance and support to members on the frontline. During 2018 they saw an increase in demand for their services assisting members, with almost 13,500 new case files and 30,000 telephone enquiries on our 24-hour advice line. Over 98% of calls to our advice-line during the working day (8am to 6pm) were answered within 20 seconds with an average wait time of less than 10 seconds to speak to an adviser, and satisfaction scores collected from members who used the services of the advisory teams hit all-time highs. With doctors and dentists under unprecedented pressures in their jobs, we know how important it is that members are able to speak to a specially trained medical or dental colleague whenever they need guidance or support.

One of the most stressful situations for our members is facing a disciplinary investigation by their employer. In recognition of this we set up a specialist medical disciplinary team in 2015. The team focuses on helping members to achieve early resolution of concerns. Over 300 disciplinary files were opened in 2018, including the highest ever number of files to assist GPs with investigations under the Performers List (Regulations). In January the team assisted a member at a trust disciplinary hearing convened to consider allegations of gross misconduct arising from the care of a patient. The panel found all but one of the allegations proven, but in acknowledgment of the member's openness, insight and learning from the event, they imposed no sanction and the member returned to work. This story is just one of a number of successes – the majority of MDU members return to work after a disciplinary investigation.

Assisting members with complaints is also a major part of our advisory departments' work, which ranges from advising members on complaints responses at the local stage, through to advice and assistance with ombudsman's investigations. One of our dento-legal advisers had a notable success in 2018 when helping a dental member to challenge a decision from the Parliamentary and Health Service Ombudsman (the PHSO) that was initially critical of our member's treatment of the patient. On reviewing the original decision, at the DDU's request, the PHSO admitted 'we think we got our original decision wrong' and found that the original complaint should not have been upheld. The PHSO also offered our member sincere apologies and £500 in recognition of the distress caused by the initial wrong decision.

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 support they provide to members under investigation. Achieving a positive resolution at the earliest opportunity is paramount. With the GDC, of the 74 cases where our solicitors assisted members with representations to case examiners (who decide if a case should be referred to a hearing), only 13 cases were referred. Likewise, of the 67 GMC cases where we assisted with representations to case examiners, only 10 were referred to the Medical Practitioners Tribunal Service (MPTS), who run the tribunals that adjudicate on a doctor's fitness to practise.

The GMC has for some time had the right to appeal against MPTS determinations. Recently we successfully resisted such an appeal, the matter ultimately coming to the Court of Appeal which expressed regret that the appeal had been brought by the GMC. We hope this will add encouragement to the GMC to think long and hard before appealing tribunal decisions they consider to have been unduly lenient.

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 2018 show the in-house legal team scored an average of 4.88 out of 5 across the four quarters of 2018, which attests to the care they provide.

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Group Strategic Report (continued)
For the Year Ended 31 December 2018

During 2018 we continued to contribute substantially to the development of policy relating to gross negligence manslaughter (GNM). Doctors often have little control over the environment in which they work, but when a patient dies unexpectedly they are often the focus of the blame and can be subjected to unnecessary investigations, many of which can last for a considerable time, and some more than 18 months. It is a scandal that since 2014 we have assisted almost 40 doctors with GNM investigations. The only positive aspect of this is that our in-house team of solicitors are experts in criminal law and are able to defend these members robustly. Our specialist expertise has also allowed us to identify the principal problems with the current procedure and suggest practical solutions, such as changes to the investigation and decision-making process, which could be put in place swiftly without the need for legislative change.

We contributed to the rapid review of gross negligence manslaughter conducted by Professor Sir Norman Williams at the request of the secretary of state for health and social care, and were pleased to see that our main recommendations were included in Sir Norman's June 2018 report and that all his recommendations were accepted by the health secretary. MDU recommendations included the need for:

- updated guidance for coroners in relation to gross negligence manslaughter (GNM) to ensure fewer referrals of cases to the police, and a consistency of approach
- a joint group to set out a clear explanatory statement of the law on GNM - to reassure that only those cases that are truly exceptionally bad should be considered for prosecution.

We continue to work with the team of officials taking forward the review's main recommendations and remain hopeful that when the changes are in place they should lead to far fewer gross negligence manslaughter investigations. At the same time we contributed written and oral evidence to the Independent Review into 'how gross negligence manslaughter and culpable homicide are applied to medical practice' that the GMC asked surgeon Leslie Hamilton to chair. We await with interest the review's report and recommendations that are to be published in 2019.

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. Our role is to ensure what they do is as fair and proportionate towards doctors and dentists as it should be.

Healthcare professional regulators are keen to improve their procedures, to make them quicker and more efficient and to lessen their impact on registrants who are subject to them. Unfortunately, outdated primary legislation continues to prevent these regulators, especially the GMC, from making changes they and we believe are necessary. If this fundamental problem was 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. Equally important, it would allow better and faster procedures for registrants and the regulators should be able to make savings to pass on to registrants.

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 also make sure we 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.

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Group Strategic Report (continued)
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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 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 2018.

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 2018 our membership contact centre maintained its high quality service, answering 80% of the 160,000 member calls within 20 seconds. In addition, we answered 98% of the 95,200 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. The number of member contacts that resulted in a complaint in 2018 reduced to 0.1%.

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 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 our members' experience of service.

In 2018 our Membership Induction Programme was recognised as exceptional, winning a **Princess Royal Training Award** for 2018. Our induction programme for new Membership Service Advisers (MSAs) is key to achieving the standout membership service that sets the MDU apart from other medical defence organisations. The Princess Royal Training Award recognises the hard work and dedication of our learning and development team who are fully qualified through the Chartered Institute of Personnel and Development. The award was formally presented by the Princess Royal at a ceremony at St James' Palace in October.

The introduction of Transitional Benefits membership was designed to help the MDU's general practice members continue to practise despite the potential of the drop in the discount rate to double and even treble the cost of high value claims. It achieved its objectives. Around 40% fewer GP members retired in 2018 compared to 2017 and our GP membership increased by over 4% in the year.

We also had considerable success in securing Health Education England GP specialist trainee bulk schemes in 2018. In addition to renewing all the schemes with which we already had relationships, we obtained new schemes for HEE East of England and HEE London.

In 2018 we relaunched our mobile app for medical and dental members. The new app provides access on-the-move to our medico- and dento-legal advice, case studies and journal articles, with a particular focus on offering bite-sized information on important topics that a member can access quickly.

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Group Strategic Report (continued)
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During 2017 we introduced our first electronic application forms for nurses in GroupCARE schemes and for junior doctors and by the end of 2018 around half of all applications from junior doctors were coming in electronically. We have since introduced on-line forms for GP trainees, foundation doctors, consultants, dentists and GPs.

Over recent years we have expanded our membership base in Scotland substantially through attractive pricing and building strong personal relationships through our field-based sales teams. The strength of personal relationships linked to excellent service has also been a key factor in the continued growth of our corporate business. Revenues were up by nearly a quarter in 2018, with much of our new business coming to us as a result of recommendations.

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 a risk management procedure that includes 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, 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; 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 and pressing the government to take steps to mitigate the impact on members of the reduction in the personal injury discount rate (PIDR).

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 2018 we were in active discussion with the government about the repercussions of the change in the discount rate which led to the Civil Liability Act 2018.

On 1 April 2019 the governments in England and Wales launched 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. At the same time a scheme in England for 'covering claims for historic NHS clinical negligence incidents occurring at any time before 1 April 2019' was announced.

However, this scheme for historic or existing claims currently excludes the vast majority of English GPs, including MDU members who continue to report claims for retrospectively inflated sums 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 substantially reduced subscriptions from members who no longer need indemnity for much of their NHS work.

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Group Strategic Report (continued)
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At the time of writing the board of management is considering a wide range of possible options to address this. However, the board remains firmly of the view that the best solution would be for government to offer terms that 'provide stability, value for money and [which] meet the needs of current and future GPs', thereby honouring the pledge given in February 2017 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' in the context of the government's change to the discount rate.

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 IT and information management and security policies and procedures in place. These are subject to monitoring 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 19(d).

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. The net finance income and cost of these contracts are included in note 4 to the financial statements.

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 a well-diversified AAA Money Market Fund, consequently, the credit risk is considered to be low.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Group Strategic Report (continued)
For the Year Ended 31 December 2018

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 £403.6m (2017: £284.9m) after indemnity, insurance, other provisions and pension liabilities of £738.8m (2017: £858.3m). 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 2018 was £190.7m (2017: £257.3m), of which 98.6% was received from our UK members, the remainder, amounting to £2.6m, being from our members in Ireland.

Investment result

There were negative changes in the market value of investments in 2018 resulting in a loss of £47.6m (2017: gain of £49.8m). There was net realised investment income of £28.6m (2017: £0.2m) bringing the total net investment result to a loss of £19.0m (2017: gain of £50.0m).

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Group Strategic Report (continued)
For the Year Ended 31 December 2018

Expenditure

In 2018 the MDU paid out £77.0m (2017: £62.8m) in discretionary indemnity claims and legal costs, of which £1.9m relates to our Irish members' claims.

Medical and dental advisory costs amounted to £32.8m in 2018 (2017: £29.9m).

Reinsurance premiums in 2018 were £9.3m (2017: £9.7m).

Administration costs in 2018 were £19.5m (2017: £20.8m).

Result after tax

The total comprehensive result is a gain of £118.7m (2017: £63.2m).

Assets/indemnity provision

The Statement of Financial Position for the MDU shows total assets less current liabilities of £1,135.2m, compared to £1,175.4m in 2017. The reduction of £40.2m is largely due to a reduction in the reinsurance recoveries receivable.

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 20) has been estimated on actuarial advice, taking all of the above factors into consideration, and is shown in the accounts at £736.5m (2017: £853.7m).

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

Date: 23 April 2019

For and on behalf of the board of management.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report
For the Year Ended 31 December 2018

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

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 financial statements 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;
- 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 the financial statements 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.

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 the 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 International Insurance Company of Hannover SE. MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the Financial Conduct Authority as an insurance intermediary.

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.

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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report (continued)
For the Year Ended 31 December 2018

Directors

The following served as directors in 2018:

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
H E Clarke	1 2 4 5 11	3
W R J Dinning	1 4 5	3
N A Dungay	4	5
C L A Edginton	1 4 5 11	2
D Flood	6 7	-
M M Gallivan	4 5 9	2
P Goldsmith		4
I D Hutchinson	1 2 3 4 5	5
M T Lee	4	5
J H Riley	4 10	2
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 8	3

- 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 2 January 2018**
- 7 Resigned on 26 February 2018**
- 8 Appointed on 1 May 2018**
- 9 Retired on 30 May 2018**
- 10 Appointed on 18 September 2018**
- 11 Retired on 18 September 2018**

* 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:

P Goldsmith
I D Hutchinson
M T Lee
P Riordan-Eva

J H Riley was 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 2018 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report (continued)
For the Year Ended 31 December 2018

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 five 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 14. 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
- 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report (continued)
For the Year Ended 31 December 2018

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. 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 at pages 9 to 10.

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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report (continued)
For the Year Ended 31 December 2018

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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Director's Report (continued)
For the Year Ended 31 December 2018

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 auditors are 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 auditors are aware of that information.

By order of the board of management.



N J Bowman
Secretary

Date: 23 April 2019

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Independent Auditors' 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 2018, which comprise the group Statement of Comprehensive Income, the group and company Statements of Financial Position, the group Statement of Cash Flows, the group and company Statement of Changes in Equity 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 2018 and of the group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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 director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has 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 director is responsible for the other information. The other information comprises the information included in the annual 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Independent Auditors' Report to the Members of The Medical Defence Union Limited (continued)

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 director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Director's Responsibilities Statement on page 13, the director is 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 director determines 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 director is 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 director either intends to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Independent Auditors' Report to the Members of The Medical Defence Union Limited (continued)

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 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 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 company and the 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



Date: 29 April 2019

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

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Members' subscriptions		190,722	257,267
Medical and dental advisory services		(32,793)	(29,912)
Indemnity, legal and reinsurance costs	6	(5,483)	(170,527)
Administrative costs		(19,495)	(20,810)
Finance cost - indemnity/pension provision	7	(8,612)	(7,471)
Operating surplus	8	124,339	28,547
Changes in fair value of investments	3	(47,595)	49,795
Net investment income	4	28,582	218
Interest payable	5	(2,258)	(8,693)
Income and expenditure before taxation		103,068	69,867
Taxation	10	3,999	(6,368)
Income and expenditure after taxation		107,067	63,499
Other comprehensive income:			
Actuarial gain/(loss) on defined benefit schemes		11,900	(300)
		11,900	(300)
Total comprehensive income for the year		118,967	63,199

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)
Registered number:21708

Consolidated Statement of Financial Position
As at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	12	15,916	17,050
Investments	13	974,073	1,317,985
Derivative assets	19	-	27,747
		<u>989,989</u>	<u>1,362,782</u>
Current assets			
Debtors: amounts falling due after more than one year	15	76,303	137,618
Debtors: amounts falling due within one year	15	46,273	27,129
Cash at bank and in hand		43,326	48,056
		<u>165,902</u>	<u>212,803</u>
Creditors: amounts falling due within one year	17	(20,389)	(400,156)
Net current assets/(liabilities)		<u>145,513</u>	<u>(187,353)</u>
Total assets less current liabilities		<u>1,135,502</u>	<u>1,175,429</u>
Creditors: amounts falling due after more than one year	16	(2,077)	(32,218)
Provisions for liabilities			
Indemnity provision	20	(736,549)	(853,687)
Other provisions	20	(2,278)	(2,493)
Net assets excluding pension asset/(liability)		<u>394,598</u>	<u>287,031</u>
Pension asset/(liability)	22	9,300	(2,100)
Net assets		<u><u>403,898</u></u>	<u><u>284,931</u></u>
Capital and reserves			
Revaluation reserve		15,623	68,818
Retained earnings		388,275	216,113
		<u><u>403,898</u></u>	<u><u>284,931</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 23 April 2019 by:

C M Tomkins
Chief executive

P Riordan-Eva
Chairman

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)
Registered number:21708

Company Statement of Financial Position
As at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Investments	13	25,160	25,160
		<u>25,160</u>	<u>25,160</u>
Current assets			
Debtors: amounts falling due after more than one year	15	76,303	137,618
Debtors: amounts falling due within one year	15	954,758	871,279
Cash at bank and in hand		2,982	18,899
		<u>1,034,043</u>	<u>1,027,796</u>
Creditors: amounts falling due within one year	17	(1,395)	(435)
Net current assets		<u>1,032,648</u>	<u>1,027,361</u>
Total assets less current liabilities		<u>1,057,808</u>	<u>1,052,521</u>
Provisions for liabilities			
Indemnity provision	20	(736,549)	(853,687)
		<u>(736,549)</u>	<u>(853,687)</u>
Net assets excluding pension asset/(liability)		<u>321,259</u>	<u>198,834</u>
Pension asset/(liability)	22	9,300	(2,100)
Net assets		<u>330,559</u>	<u>196,734</u>
Capital and reserves			
Retained earnings		330,559	196,734
		<u>330,559</u>	<u>196,734</u>

The Statement of Comprehensive Income for the year ended 31 December 2018 for the parent company only was a gain of £133.8m (2017: £23.8m).

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 23 April 2019 by:

C M Tomkins
Chief executive

P Riordan-Eva
Chairman

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

**Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2018**

	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2018	68,818	216,113	284,931
Comprehensive gain for the year			
Result after taxation	-	107,067	107,067
Actuarial gain 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	15,623	388,275	403,898

**Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2017**

	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2017	24,363	197,369	221,732
Comprehensive gain for the year			
Result after taxation	-	63,499	63,499
Actuarial loss on pension scheme	-	(300)	(300)
Fair value adjustments from revaluation reserve	-	5,340	5,340
Fair value adjustments to retained earnings	(5,340)	-	(5,340)
Transfer to/from retained earnings	49,795	(49,795)	-
At 31 December 2017	68,818	216,113	284,931

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

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

Company Statement of Changes in Equity
For the Year Ended 31 December 2017

	Retained earnings £000	Total equity £000
At 1 January 2017	172,929	172,929
Result after taxation	24,105	24,105
Actuarial losses on pension scheme	(300)	(300)
At 31 December 2017	196,734	196,734

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Income and expenditure after taxation		107,067	63,499
Adjustments for:			
Depreciation of tangible assets	12	3,288	3,259
Loss on disposal of tangible assets	12	112	191
Foreign exchange differences		(384)	(1,121)
Net changes in fair value of investments		47,594	(49,795)
(Decrease)/increase in provisions (indemnity & other)	20	(117,353)	126,603
(Gain)/loss on disposal of investments		(29,170)	3,289
Non cash investment expense		4,842	1,511
Finance charge on pension scheme	22	100	100
(Decrease)/increase in deferred taxation		(4,065)	3,755
Decrease/(increase) in debtors (excluding taxation)		42,554	(22,850)
Increase/(decrease) in creditors		3,275	(4,460)
Payments made - other provisions		-	(4)
Pension contributions made in excess of service cost		-	(3,600)
Past service cost on pension scheme	22	400	-
Decrease in corporation tax		(1,237)	(304)
Net cash generated from operating activities		<u>57,023</u>	<u>120,073</u>
Cash flows from investing activities			
Purchase of tangible fixed assets	12	(2,267)	(2,435)
Purchase of investments		(592,488)	(905,918)
Sale of investments		799,895	843,588
Movement in other liquid resources		8,425	346
Purchase of derivative contracts		(1,085)	(21,335)
Net cash from investing activities		<u>212,480</u>	<u>(85,754)</u>
Cash flows from financing activities			
Decrease in bank borrowings		(221,857)	(4,175)
Decrease in other bank borrowings		(52,376)	(19,520)
Net cash used in financing activities		<u>(274,233)</u>	<u>(23,695)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(4,730)</u>	10,624
Cash and cash equivalents at beginning of year		<u>48,056</u>	<u>37,432</u>
Cash and cash equivalents at the end of year		<u><u>43,326</u></u>	<u><u>48,056</u></u>

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Company Statement of Cash Flows
For the Year Ended 31 December 2018

	2018	2017
	£000	£000
Cash flows from operating activities		
Income and expenditure after taxation	121,925	24,105
Adjustments for:		
Decrease/(increase) in debtors (excl. amounts owed by subsidiaries)	45,232	(22,785)
Increase in creditors (excl. corporation tax)	1,252	50
Increase in amounts receivable from subsidiary undertakings	(67,084)	(112,069)
Pension contributions made in excess of service cost	-	(3,600)
(Decrease)/increase in indemnity provision	(117,138)	126,536
Finance charge on pension scheme	100	100
Past service cost on pension scheme	400	-
Decrease in corporation tax	(604)	(286)
Net cash generated from operating activities	<u>(15,917)</u>	<u>12,051</u>
Net (decrease)/increase in cash and cash equivalents	(15,917)	12,051
Cash and cash equivalents at beginning of year	<u>18,899</u>	<u>6,848</u>
Cash and cash equivalents at the end of year	<u><u>2,982</u></u>	<u><u>18,899</u></u>

The notes on pages 29 to 55 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

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.

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;
- 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 2018. 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 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.

1.4 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Accounting policies (continued)

1.5 Indemnity, legal and reinsurance costs

The charge for indemnity costs, including indemnity payments, including the movement on the indemnity provision between the beginning and end of the year, and on legal charges covers 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.

1.6 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.

1.7 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Accounting policies (continued)

1.8. Tangible fixed assets

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 range 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.

1.9 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.

1.10 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Accounting policies (continued)

1.11 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 measured at amortised cost, include; commercial real estate loans, certain loans receivable and cash 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, in addition, 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.

When some significant risks and rewards are retained by the entity and the entity retains control of the asset, this does not result in derecognition of the asset, but instead the recognition of a financial liability for the consideration received. These are not offset. On derecognition, the proceeds are compared to the carrying value and the resulting gain or loss, credited or charged to the Consolidated Statement of Comprehensive Income.

(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 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.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Accounting policies (continued)

1.12 Investment income

Investment income includes; interest, dividends, coupons, foreign exchange gains/(losses), swap settlements and deferred arrangement fees (see note 1.11).

Investment income is accounted for on an accruals basis.

1.13 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. Rent free periods are not discounted.

1.14 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 MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

1. Accounting policies (continued)

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.

2. Employee information

	2018	2017
	£000	£000
Salaries	27,928	27,216
Social security costs	3,324	3,191
Pension costs-defined benefit scheme	3,100	2,600
Pension costs-defined contribution scheme	1,780	1,678
Other staff costs	1,384	1,688
	37,516	36,373
	2018	2017
Average number of employees in the year	457	461
	457	461

There are no staff employed by the parent company.

3. Changes in fair value of investments

	2018	2017
	£000	£000
Changes in fair value - assets	(50,522)	25,606
Changes in fair value - liabilities	2,927	24,189
	(47,595)	49,795

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

4. Net investment income

	2018	2017
	£000	£000
Bond and interest income	4,638	8,780
Exchange rate movements	384	1,121
Bank interest	1,763	143
Other investment expenses	(801)	(579)
Gain/(loss) on disposal of investments	29,170	(3,289)
Investment management fees/expenses	(6,572)	(5,958)
	<u>28,582</u>	<u>218</u>

Investment income from listed investments in the year was £2.6m (2017: £6.4m)

5. Interest payable

	2018	2017
	£000	£000
Bank interest payable	788	929
Other loan interest payable	1,465	7,764
Other interest payable	5	-
	<u>2,258</u>	<u>8,693</u>

6. Indemnity, legal and reinsurance costs

	2018	2017
	£000	£000
Reinsurance premiums	9,275	9,730
Increase in indemnity provision (see note 20)	(70,474)	161,175
Premium element adjustment (see note 1.4)	(19,645)	2,283
Legal costs	21,855	20,760
Reinsurance recoveries (including the movement in reinsurance provision)	64,472	(23,421)
	<u>5,483</u>	<u>170,527</u>

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

7. Finance cost - indemnity/pension provision

	2018	2017
	£000	£000
Finance cost relating to indemnity provision (see note 20)	8,512	7,371
Finance cost relating to pension provision (see note 22)	100	100
	8,612	7,471

8. Result before taxation

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

	2018	2017
	£000	£000
Research & development taxation credit	(152)	(213)
Depreciation of tangible fixed assets (see note 12)	3,288	3,259
Loss on disposal of fixed assets	112	191
Operating lease rentals - land and buildings	1,184	1,184
Operating lease rentals - motor vehicles	202	199
Defined contribution pension cost	1,780	1,678
Defined benefit pension cost (see note 22)	3,100	2,600

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

9. Directors' remuneration

	2018	2017
	£000	£000
Fees	470	464
Directors' emoluments	1,309	1,157
Amounts due and receivable under long-term incentive plans	314	421
	<u>2,093</u>	<u>2,042</u>

The highest paid director in the year earned:

	2018	2017
	£000	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	628	581
Accrued annual pension (excluding indexation)*	157	151

* 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 (2017: 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 (2017: five) of the non-executive directors received fees totalling £31,389 (2017: £33,091) for acting as expert witnesses on behalf of members.

THE MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

Notes to the Financial Statements
For the Year Ended 31 December 2018

Directors remuneration (continued)

	Fee/Salary £000	Benefits [i] £000	STIP/ LTIP [ii] £000	Pension [iii] £000	2018 £000	2017 £000
Executive directors						
C M Tomkins	325	20	283	-	628	581
M M Gallivan	87	8	48	-	143	413
N A Dungay	132	17	95	-	244	227
M T Lee	214	16	153	-	383	357
A R Wright	120	11	83	11	225	-
	878	72	662	11	1,623	1,578
Non-executive directors						
			Fees/Salary £000	Other [iv] £000	2018 £000	2017 £000
P R Williams			-	-	-	59
H E Clarke			37	3	40	51
W R J Dinning			38	2	40	42
C L A Edginton			27	1	28	41
C W Heron			-	-	-	27
I D Hutchinson			45	3	48	50
P Riordan-Eva			82	1	83	62
O C E Sparrow			11	19	30	17
S W Watkin			50	24	74	49
P D Webster			-	-	-	31
C Aghadiuno			38	1	39	4
S Beaumont			38	1	39	11
P Goldsmith			11	11	22	13
S Shaunak			11	5	16	7
J H Riley			11	-	11	-
			399	71	470	464

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

[ii] STIP represents those amounts that have been paid in 2018 and amounts accrued in respect of the year to 31 December 2018. 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 2018 and amounts accrued in respect of the year ended 31 December 2018. 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.

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

- [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.
- [v] Deidre Flood served as an executive director for the period 2nd January 2018 to 26th February 2018 and received remuneration totalling £142,000.

10. Taxation

	2018	2017
	£000	£000
Corporation tax		
Current tax on result for the year	-	2,461
Adjustments in respect of previous periods	65	151
Total current tax	65	2,612
Deferred tax		
Timing differences	(4,065)	3,897
Adjustments for prior periods	1	(141)
Total deferred tax	(4,064)	3,756
Taxation on (loss)/profit on ordinary activities	(3,999)	6,368

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). Reconciling items are explained below:

	2018	2017
	£000	£000
Profit on ordinary activities before tax	103,068	69,867
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	19,583	13,449
Effects of:		
Net mutual income not subject to corporation tax	(23,160)	(5,031)
Expenses not deductible for tax	3,368	-
Capital allowances for year in excess of depreciation	124	119
Adjustments in respect of prior periods	66	10
Non-taxable income	(35)	(6,074)
Difference in tax rate on deferred tax movement	478	(525)
Recognition of deferred tax (asset)/liability in respect of unrealised (losses)/gains on equity investments	(4,421)	4,420
Other timing differences leading to a (decrease)/increase in taxation	(2)	-
Total tax (credit)/charge for the year	(3,999)	6,368

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

11. Auditor's remuneration

	2018 £000	2017 £000
Total fees paid to the group's auditors and associates	<u>420</u>	<u>551</u>
Fees payable to the group's auditor and its associates:		
- for the audit of the group's annual accounts	153	134
- for tax services	243	391
- fees in respect of the audit of the MDU Services Limited pension scheme	24	19

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 2018	10,492	954	16,363	27,809
Additions	21	15	2,231	2,267
Disposals	(140)	-	(583)	(723)
Transfers between classes	(108)	108	-	-
At 31 December 2018	<u>10,265</u>	<u>1,077</u>	<u>18,011</u>	<u>29,353</u>
Depreciation				
At 1 January 2018	2,058	582	8,120	10,760
Charge for the year on owned assets	684	214	2,390	3,288
Disposals	(28)	-	(583)	(611)
At 31 December 2018	<u>2,714</u>	<u>796</u>	<u>9,927</u>	<u>13,437</u>
Net book value				
At 31 December 2018	<u>7,551</u>	<u>281</u>	<u>8,084</u>	<u>15,916</u>
At 31 December 2017	<u>8,434</u>	<u>373</u>	<u>8,243</u>	<u>17,050</u>

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

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 2018	31,834	1,286,151	1,317,985
Additions	-	867,806	867,806
Disposals	-	(799,895)	(799,895)
Foreign exchange movement	-	384	384
Revaluation of investments	-	(47,594)	(47,594)
Net movement of cash and accrued income	(6,551)	(6,717)	(13,268)
Profit on disposal	-	29,170	29,170
Transfer to pooled fund	-	(380,515)	(380,515)
At 31 December 2018	<u>25,283</u>	<u>948,790</u>	<u>974,073</u>
Net book value			
At 31 December 2018	<u>25,283</u>	<u>948,790</u>	<u>974,073</u>
At 31 December 2017	<u>31,834</u>	<u>1,286,151</u>	<u>1,317,985</u>

Throughout the year, MDUIL changed the way in which it held some of its investments, transitioning from segregated holdings to a pooled fund arrangement. The transfer to pooled fund amount of £380,515, represents the market value, as at 31st December 2017, of derivatives and liabilities, that were previously held within a segregated mandate, that were transferred into the new pooled fund throughout the year. It was considered appropriate to use the opening value of the derivatives and liabilities (value as at 31st December 2017), as this then provides a reconciliation of the movements for the whole year, on the same basis of accounting as will be used going forwards.

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2018

13. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2018	<u>25,160</u>
At 31 December 2018	<u>25,160</u>
Net book value	
At 31 December 2018	<u>25,160</u>
At 31 December 2017	<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 and MDU Investments Limited both incorporated in England and Wales (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 Bordaige, St. Peter Port, Guernsey, GY1 4AU).

Dormant companies are disclosed in note 27.

14. Analysis of funds held by investment managers

	2018 %	2018 £000	2017 %	2017 £000
UK index-linked government gilts [i]	-	-	21.7	279,567
Cash and liquidity balances	-	-	0.3	4,391
Pooled funds [ii]	94.3	894,751	59.9	770,169
Private credit [iii]	3.2	30,007	0.8	10,078
Commercial real estate loans [iv]	2.5	24,032	3.8	48,614
Loans receivable [v]	-	-	13.5	173,331
	<u>100</u>	<u>948,790</u>	<u>100</u>	<u>1,286,151</u>

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	2018 £000	2017 £000
Valuation basis of investments		
Fair value	924,758	1,049,737
Amortised cost [vi]	24,032	236,414
	<u>948,790</u>	<u>1,286,151</u>

- [i] Index linked gilts include the assets with a carrying value of £nil (2017: £222.1m) provided as collateral against the bank borrowings detailed in note 17.
- [ii] 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.
- [iii] Private credit represents investments in funds in order to access private secure income assets.
- [iv] 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.
- [v] Loans receivable are loans made to banks. Collateral of £nil (2017: £173.3m) was provided by the counterparties.
- [vi] Fixed asset investments at amortised cost include: commercial real estate loans, loans receivable and cash and cash equivalents with investment managers.

15. Debtors

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due after more than one year				
Reinsurance recoveries	76,303	137,618	76,303	137,618
	<u>76,303</u>	<u>137,618</u>	<u>76,303</u>	<u>137,618</u>
	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due within one year				
Reinsurance recoveries	10,719	13,608	10,719	13,608
Amounts owed by subsidiary undertakings	-	-	914,681	847,597
Other debtors	2,768	1,258	-	-
Deferred taxation (note 21)	9	-	-	-
Prepayments and accrued income	5,626	4,635	2,269	2,446
Premium element adjustment	26,777	7,628	26,777	7,628
Corporation tax	374	-	312	-
	<u>46,273</u>	<u>27,129</u>	<u>954,758</u>	<u>871,279</u>

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16. Creditors: Amounts falling due after more than one year

	Group 2018 £000	Group 2017 £000
Payments received on account	1,727	1,908
Other creditors and accruals	350	342
Derivative contracts [i]	-	29,968
	<u>2,077</u>	<u>32,218</u>

- [i] Derivative contracts are held by investment managers within investment portfolios managed for the group.

17. Creditors: Amounts falling due within one year

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Bank borrowings [note i,iii]	-	222,085	-	-
Short sold government bonds [note ii, iii]	-	156,209	-	-
Corporation tax	-	863	-	292
Taxation and social security	899	927	26	27
Deferred taxation (see note 21)	-	4,056	-	-
Other creditors and accruals	19,490	16,016	1,369	116
	<u>20,389</u>	<u>400,156</u>	<u>1,395</u>	<u>435</u>

- [i] Bank borrowings are secured against index-linked gilts with a market value of £nil (2017: £222.1m) as part of a sale and repurchase agreement, with repurchase to occur within one year. Bank borrowing are measured at amortised cost.
- [ii] As at 31st December 2018, there is a commitment to purchase government bonds, within one year, with a current market value of £nil (2017: £156.2m).
- [iii] Current creditors include £nil (2017: £378.3m) of financial liabilities held within investment portfolios managed by investment managers for the group.

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18. Creditors: Valuation basis

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Fair value [i]	-	186,177	-	-
Amortised cost	22,466	246,197	1,395	435
	22,466	432,374	1,395	435

[i] Financial liabilities at fair value include derivative contracts and short sold government bonds.

19. Net funds held by investment managers

	2018 £000	2017 £000
Financial assets: investments (see note 13)	948,790	1,286,151
Financial assets: derivatives*	-	27,747
Financial liabilities: current (see note 17)	-	(378,294)
Financial liabilities: non-current (see note 16)	-	(29,968)
	948,790	905,636

The historic cost of net funds held by investment managers is £930.8m (2017: £834.6m).

*Derivative contracts are held by investment managers within investment portfolios managed for the group.

(a). Financial assets/(liabilities) valuation basis

	2018 £000	2017 £000
Fair value (see note 19b)	924,758	891,307
Amortised cost (see note 19b)	24,032	14,329
	948,790	905,636

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(b). Financial assets/(liabilities) valuation basis by category

	2018 £000	2017 £000
Fair value:		
UK index linked government gilts	-	279,567
Pooled funds	894,751	770,170
Private credit	30,007	-
Derivative contracts	-	(2,221)
Short sold government bonds	-	(156,209)
Total net financial assets	924,758	891,307
Amortised cost:		
Cash and liquidity balances	-	4,391
Private credit	-	10,078
Commercial real estate loans	24,032	48,614
Loans receivable	-	173,331
Bank borrowings	-	(222,085)
Total net financial assets	24,032	14,329

(c). Fair value hierarchy

The following hierarchy was used to estimate the value of the investments held:

	2018 £000	2017 £000
Quoted prices - Level 1	-	242,837
Recent quoted prices - Level 2	924,758	650,691
Valuation technique (Unobservable inputs) - Level 3	-	(2,221)
Total net assets	924,758	891,307

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.

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(d). 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 a well-diversified AAA Money Market Fund, 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. Details of financial liabilities, including a maturity analysis, are shown below:

Maturity Analysis - Financial liabilities

	2018	2017
	£000	£000
Derivatives:		
Less than 1 year	-	-
More than 1 year, less than 5 years	-	4,612
More than 5 years, less than 10 years	-	8,469
More than 10 years	-	16,887
	<hr/>	<hr/>
Total	-	29,968
Non-derivatives:		
Less than 1 year*	-	378,294
	<hr/>	<hr/>
Total	-	378,294

*Non derivatives financial liabilities include the bank borrowings and short sold government bonds detailed in note 17.

Objectives, policies and processes:

The MDU 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 the MDU 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.

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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.

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.

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(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.

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 %	2018 £000	2017 £000
Market risk			
Interest rate	+1	(8,179)	(5,760)
	-1	9,290	7,793
Inflation rate	+1	17,497	12,387
	-1	(8,293)	(2,464)
Credit spread	+1	(17,398)	(14,479)
	-1	18,679	15,500
Equity	+25	22,097	26,224
	-25	(22,097)	(26,224)

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% (2017: 19.25%).

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(e). 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.

20. Provisions - indemnity

	2018	2017
	£000	£000
Group and company		
At 1 January	853,687	727,151
Finance costs	8,512	7,371
Indemnity and insurance paid	(55,176)	(42,010)
(Decrease)/increase in indemnity provision (see note 6)	(70,474)	161,175
At 31 December	736,549	853,687

The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 1.26% (2017: 1.13%) 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 (2017: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 1.36% per annum (2017: 1.15%) is used to discount the claims payments to the Statement of Financial Position date.

Provisions - other

	2018	2017
	£000	£000
Group		
At 1 January	2,493	2,430
(Decrease)/increase in the year	(215)	67
Payments	-	(4)
At 31 December*	2,278	2,493

*Building dilapidations are recognised on two (2017: two) buildings.

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21. Deferred taxation

	2018	2017
	£000	£000
Group		
At 1 January	(4,056)	(301)
Charged to profit or loss	4,065	(3,755)
At 31 December	9	(4,056)

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

	Group	Group
	2018	2017
	£000	£000
Accelerated capital allowances	(399)	(436)
Tax losses carried forward	355	284
Short term timing differences in respect of unrealised (gain)/loss on equity investments	53	(3,904)
	9	(4,056)

22. Pension costs

As explained in accounting policy note 1.14 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 2018 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2018 reflects the status of the defined benefit section of the scheme only.

The major assumptions made by the actuary were:

	2018	2017	2016	2015
Rate of increase in salaries	3.5%	3.5%	3.6%	3.4%
Rate of increase in pension pre 16 February 2009 retirees	2.2%	2.2%	2.2%	2.1%
Rate of increase in pensions post 16 February	3.1%	3.1%	3.1%	3.0%
Discount rate	2.9%	2.5%	2.7%	3.8%
RPI inflation assumption	3.3%	3.3%	3.3%	3.2%
CPI inflation assumption	2.2%	2.2%	2.2%	2.1%

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Fair value of scheme assets:

	2018	2017	2016	2015
	£000	£000	£000	£000
Equities	14,600	16,900	14,700	11,900
Property	21,700	20,500	16,500	16,600
Government bonds	20,500	16,300	16,800	20,000
Corporate bonds	83,100	90,100	81,900	57,700
Other	100	400	1,800	3,700
	140,000	144,200	131,700	109,900

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

	2018	2017	2016	2015
	£000	£000	£000	£000
Total market value of assets	140,000	144,200	131,700	109,900
Present value of scheme liabilities	130,700	146,300	137,000	105,800
Pension asset/(liability)	9,300	(2,100)	(5,300)	4,100

	2018	2017	2016	2015
Assets as a percentage of liabilities	107.1%	98.6%	96.1%	103.9%

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

	2018	2017
	£000	£000
Opening defined benefit obligations	146,300	137,000
Current service cost	2,700	2,600
Interest cost	3,700	3,700
Contributions by scheme participants	200	200
Actuarial (losses)/gain on the scheme liabilities	(18,500)	5,800
Net benefits paid out	(4,100)	(3,000)
Past service cost (incl. curtailments)	400	-
Closing defined benefit obligations	130,700	146,300

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

	2018 £000	2017 £000
Opening fair value of scheme assets	144,200	131,700
Expected return on scheme assets	3,600	3,600
Actuarial (losses)/gain on scheme assets	(6,600)	5,500
Contributions by employer	2,700	6,200
Contributions by scheme participants	200	200
Net benefits paid out	(4,100)	(3,000)
	<hr/> 140,000 <hr/>	<hr/> 144,200 <hr/>
Closing fair value of scheme assets		

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

	2018 £000	2017 £000
Current service cost	2,700	2,600
Past service cost (incl. curtailments)	400	-
	<hr/> 3,100 <hr/>	<hr/> 2,600 <hr/>

The total estimated pension expense in 2019 is £2.3m.

Analysis of the amount charged to other finance costs

	2018 £000	2017 £000
Expected return on scheme assets	(3,600)	(3,600)
Interest on scheme liabilities	3,700	3,700
	<hr/> 100 <hr/>	<hr/> 100 <hr/>
Net return		

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Analysis of amounts recognised in other comprehensive income:

	2018	2017
	£000	£000
Actuarial (losses)/gains on scheme assets	(6,600)	5,500
Actuarial gains/(losses) on scheme liabilities	18,500	(5,800)
Actuarial gain/(loss) recognised in other comprehensive income	11,900	(300)

23. Contingent liabilities

Claims are made against The Medical Defence Union Limited in the ordinary course of business. Having obtained legal advice on such claims and on the basis of the information available, in the opinion of the directors no provision is needed for such claims.

The MDU is currently the subject of tax appeals in respect of the years 2007 onwards. The MDU has independently sought advice from two Leading Tax Counsel who are both of the opinion that the MDU has a robust case and that HMRC's challenge can be successfully defended. The amount of tax involved including interest is estimated to be £48.5m.

24. Members liability

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

25. 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.

26. Commitments under operating leases

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

	Group	Group	Company	Company
	2018	2017	2018	2017
	£000	£000	£000	£000
Not later than 1 year	1,369	1,329	-	-
Later than 1 year and not later than 5 years	4,831	4,846	-	-
Later than 5 years	6,512	7,696	-	-
	12,712	13,871	-	-

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27. Dormant Companies

The MDU group had the following dormant companies as at 31 December 2018:

Hospital and Community Services Limited
Dental Defence Union Limited
General Practitioner Defence Union Limited
MDU Risk Management Limited
MDU Healthcare Risk Management Limited
Medical Defence Risk Management Limited
Medical Defence Healthcare Risk Management Limited
Healthcare Risk Management Limited
MDU Medirisk Limited
Nursing and Midwifery Defence Union Limited
Nursing and Midwifery Defence Limited
Dental Auxiliaries Defence Union Limited
Dental Hygienists Defence Union Limited
Practice Nurse Defence Union Limited
Practice Nurse Defence Limited
Nursing Defence Limited
Nursing Defence Union Limited
Nurse Practitioners Defence Limited
Community Nurse Defence Union Limited
Community Nurse Defence Limited
Nurse Practitioners Defence Union Limited
The Doctors Bank Limited
Doctors and Dentists Bank Limited
Just for Doctors Limited
MDU Healthcare Limited
Medical Liability Services Limited
The Dentists Bank 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.