

The Medical Defence Union Limited
(A Company Limited by Guarantee)

Directors' Report and Financial Statements

for the year ended 31 December 2017



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

Company Information

Registered office One Canada Square
 London
 E14 5GS

Registered number 21708

Auditors BDO LLP
 55 Baker Street
 London
 W1U 7EU

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

Contents

	Page
Report of the Chairman	1 - 2
Group Strategic Report	3 - 12
Directors' Report	13 - 19
Independent Auditor's Report	20 - 22
Consolidated Statement of Comprehensive Income	23
Consolidated Statement of Financial Position	24
Company Statement of Financial Position	25
Consolidated Statement of Changes in Equity	26
Company Statement of Changes in Equity	27
Consolidated Statement of Cash Flows	28
Company Statement of Cash Flows	29
Notes to the Financial Statements	30 - 56

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

Report of the Chairman
For the Year Ended 31 December 2017

The chairman presents his statement for the period.

I am pleased to report that throughout 2017 the MDU thrived. We are the leading Medical Defence Organisation ('MDO') and continued to successfully protect the interests of members and serve their needs.

Our members, whatever their role in medicine or dentistry, deserve the most suitable, effective and timely support at an appropriate price. You need to be able to practise knowing that any clinical negligence claim or investigation (such as by the GMC or GDC) will be handled to your best advantage. We continue to profess our core principle of 'doctors for doctors' and 'dentists for dentists' within a not-for-profit mutual organisation as the only way to fully understand and help you to respond to the challenges of your professional lives.

Whether we are defending our members or determining the company's strategy, the direct involvement of clinicians with personal experience of medical or dental practice is crucial. The circumstances of each clinical negligence claim and each investigation into clinical practice are unique and it is critical to obtaining the best outcome for our members that you are advised by individuals who understand those circumstances and the pressures under which you practise. Having been in clinical practice provides unrivalled insights into the actual situation. Our chief executive, over half of the members of our Board of Management and many of our senior staff, claims handlers and advisory staff have medical or dental qualifications and experience. We understand that our members work around the clock which is why our teams of over 50 expert doctors and dentists are on call 24 hours a day to provide immediate medico-legal advice and support to members in difficulty. A measure of our continuing attention to serving our members was the award of a Princess Royal Training Award for the excellence of our training programme for medico-legal advisers.

The statistics provided in the Group Strategic Report demonstrate the MDU's strength in rebutting clinical negligence claims and defending our members facing regulatory investigations. The GMC has not published its 2017 figures but during 2016 at the GMC, in comparison to the overall outcomes, MDU assisted members were almost twice less likely to suffer a finding of impairment and nearly three times less likely to be suspended or erased from the register. Medical and dental practitioners are subject to increasing scrutiny, and a single incident may result in civil and criminal litigation as well as regulatory and disciplinary investigations. These all take up considerable time causing immense anguish and requiring expert assistance.

This multiple jeopardy of medical and dental practice is receiving greater recognition but is still not adequately taken into account. For example, the recent cases of Mr David Sellu and Dr Hadiza Bawa-Garba have brought into sharp focus the risk of criminal investigation and prosecution for gross negligence manslaughter. We are the only medical defence organisation with an in-house legal team dedicated to assisting members with criminal investigations arising from their clinical practice, so the MDU is in a very strong position to assist you should the worst happen. We can also use the observations we draw from assisting members with these often very lengthy procedures to recommend improvements that would introduce greater consistency and, we hope, result in fewer investigations. We aim to persuade policy makers and other influencers to agree to changes that would result in a fairer and quicker procedure that properly recognises that the circumstances in which clinicians practise puts them in a different category to others who are prosecuted for gross negligence manslaughter.

As discussed in last year's Group Strategic Report, in February 2017 the Ministry of Justice announced a drastic reduction from 2.5% to -0.75% in the personal injury discount rate. In some high value cases, this increased by at least twofold the level of damages for claimants expected to require long term care. Responding to the change in the discount rate, so as to determine the effect on the MDU's liabilities and our investment and reinsurance needs, required exemplary rapid and exhaustive work by our claims and actuarial teams. A major consequence of the change in the discount rate is increasing pressure on the viability of general practice. Since late 2016 the MDU has provided information to the Department of Health and Social Care and NHS England on the likely effect of a reduction of the discount rate on general practice. Following the announcement of the reduction to -0.75% we instigated a 'Save General Practice' campaign, including a survey in which 38% of GPs who responded said that they had already given up certain work, such as out-of-hours sessions, and one third said that they would quit the NHS due to the rising cost of indemnity.

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

Report of the Chairman
For the Year Ended 31 December 2017

General practice has always been a pivotal component of the NHS, thriving on the independence and determination of GPs in their desire to provide high quality medical care to their patients. The increasing proportion of GPs undertaking sessional work as salaried staff, as locums, in primary care hubs and out-of-hours has required increasingly sophisticated underwriting and membership processes to personalise the indemnity provided to our GP members. Providing the relevant information on work patterns and income may seem to be an unnecessary burden to our members, but customising indemnity subscriptions ensures that the right subscription, neither too much nor too little, is received from each member to meet their membership needs. We are undertaking similar refinement of subscription setting for non-GP members.

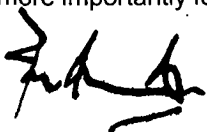
A welcome development for GPs, especially for those who made their views known in our Save General Practice campaign, was the government's announcement in October 2017 that it plans a state-backed indemnity scheme for English primary care. To be workable, it will need to respond to not only new claims but also those relating to past events. In response to the announcement we were able to change the basis of indemnity and have introduced *Transitional Benefits* for our English GP members, with a corresponding 50% reduction in their indemnity subscriptions in the run up to the introduction of the new scheme. This move has been warmly welcomed by our GP members and the logic and good sense behind the initiative are being very well supported.

The MDU is constantly aware of the need to look outwards as well as inwards. We recognise the paramount importance of interaction with government ministers and officials, MPs, members of the House of Lords, the GMC, the GDC, the BMA, the Royal Colleges and many other organisations and influencers with a shared interest that will benefit our members. In turn we are grateful for the wide variety of individuals who have taken the time to collaborate with us in promoting the medico-legal interests of our members. In October 2017 the MDU co-hosted the international conference entitled 'Change and Disruption: Strategies for Managing the Evolution of Medical Liability' of the PIAA (Physician Insurers Association of America), which has an increasingly international view of its role in promoting, protecting, educating, and connecting medical professional liability indemnifiers who support the quality delivery of healthcare and practice of medicine.

In September 2017 Dr Peter Williams stepped down from chairmanship of the Board and presidency of Council having served in these roles for five years; on the Board of Management for 20 years and on Council and Cases Committee since 1995. The MDU is greatly indebted to him and I add my personal thanks for his support and guidance. Mr Peter Webster also completed his tenure as a member of the Board of Management. He will be enormously missed for his insightful contributions to Board discussions, his foundation chairmanship of our Subscription Strategy Committee and his sincere commitment to the welfare of the members, the company and all the members of the Board.

Dr Christine Heron stepped down from the Board, Council, and Cases Committee, and from chairing the Claims Management Committee at the end of the year. Her contribution to the work of the MDU on behalf of members is much appreciated. We welcomed to the Board Ms Stella Beaumont with her expertise in strategy and marketing, Ms Chika Aghadiuno with her actuarial expertise, Professor Sunil Shaunak, emeritus professor of infectious diseases at Imperial College, London, and Dr Paul Goldsmith, consultant neurologist in Newcastle. Dr Maureen Richmond, Mr Gerry Jarvis, Mr Alec Fitzgerald O'Connor, and Mr David Stanley stepped down from Council and Cases Committee, and Mr Alasdair Miller from Council and Dental Advisory Committee, all having given many years' service to the MDU.

It is an enormous privilege and honour to be chairman of the Board and president of Council, but also there is great pleasure and fulfilment working with the exceedingly competent and dedicated staff who ensure continuing success for the company - and more importantly for our members, who we aim to Guide, Support and Defend.



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

24 April 2018

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

Group Strategic Report
for the Year Ended 31 December 2017

The cost of claims and indemnity featured prominently in 2017. As members know, because many of you bear the financial burden, the spiralling cost of clinical negligence indemnity has been a problem for many years. Despite the MDU's repeated and strenuous efforts on your behalf to persuade policy makers to address this with the seriousness and urgency it needs, there have been only a few initiatives and none so far that offers a realistic solution. It is ironic, therefore, that the Lord Chancellor's decision to lower the personal injury discount rate (PIDR) by a dramatic 3.25% from 20 March 2017 may be the necessary catalyst for change because it has such a profound financial impact, especially on the NHS.

In his budget speech on 8 March 2017, the Chancellor promised additional funding to cover increased clinical negligence costs: 'We will protect the NHS from the effects of the changed personal injury discount rate, and have set aside £5.9 billion across the forecast period to do so.' That sum is intended to provide additional funds for GPs as well as NHS bodies. The forecast period was just three years, up to the end of that government's term of office. The new government also committed to tackling the cost of clinical negligence claims, but it has taken bodies such as the National Audit Office and the Public Accounts Committee to impress upon it the need to take more urgent and radical action.

Before I discuss clinical negligence costs' initiatives during 2017, there are some important facts to bear in mind. Underlying claims inflation, a combination of claims frequency and size, continued to rise at 10% before taking into account the effect of the change in the PIDR. Although 2017 saw some improvement in reported claims and settlements, this was far outweighed by the impact of the 3.25% PIDR reduction. The main driver of claims inflation is the cost of compensation awards, especially in high value claims. Since March 2017 it is no longer unthinkable to see clinical negligence claims valued at, and settled for, more than £20 million. The size of an award is not punitive. It is no reflection on clinical standards, which remain high, but a result of a 1948 Act, a legal anomaly which requires defendants to disregard the availability of NHS services when funding compensation.

In 2017 the MDU saw a slight decrease in claims numbers compared to 2016 and our excellent claims handling team closed 83% of medical claims without a compensation payment; that means we successfully defended most claims against our members and only paid compensation in 17% of claims. In the last few years our claims department has sustained a tremendously high repudiation rate of over 80%. Dental claims are typically more difficult to defend, but in 2017 our dedicated dental claims handling team successfully defended over 58% of cases closed – our best results with dental claims for 15 years.

While these excellent results are principally an indication of the diligence, skill and expertise with which the teams investigate and defend members' claims, they are also a sad reflection of the unnecessary distress that the pursuit of so many unmeritorious claims causes to defendant doctors and dentists and to claimants who are advised to bring them. Added to that, the MDU is unable to recover the cost of investigating and defending these claims on behalf of members. Those who continue to maintain that claims costs wouldn't be so high if doctors and dentists made fewer mistakes should not disregard these facts.

Some time after a 'pre-consultation' two years earlier, in January 2017 the Department of Health consulted on whether and how it should fix legal costs in clinical negligence claims. This came after a 2016 call for evidence by Lord Justice Jackson, who was asked by the Ministry of Justice (MoJ) to consider extending fixed legal costs to all civil litigation. He reported in July 2017 and recommended that the 'Civil Justice Council should in conjunction with the Department of Health 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 Department of Health consultation also suggested a £25,000 legal costs threshold.

In responding to both consultations, the MDU gave evidence that such a low sum would make no material impact on our costs and would not address the disproportion between solicitors' legal costs and the sums their clients receive in compensation. To illustrate the disproportion that still exists in cases settled under the new legal rules since 1 April 2013, we paid a patient £30,000 in compensation and the solicitor received costs of £52,000.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

In February 2018, the Department of Health and Social Care announced it had asked the Civil Justice Council to set up a working party to take forward Lord Justice Jackson's recommendation on fixed costs for clinical negligence claims. The working party is to report by the autumn and the MDU will take part and provide evidence.

The National Audit Office conducts regular value for money reviews of public bodies and in September 2017 reported on NHS Resolution in 'Managing the cost of clinical negligence claims in trusts'. As experts in clinical negligence, the MDU was asked to contribute to the review and spoke to the NAO team and provided information about clinical negligence claims and costs. Unsurprisingly, the review concluded that the cost of clinical negligence claims was rising year on year, faster than NHS funding and, while the Department of Health and NHS Resolution had taken action to contain the rising cost, it was unlikely to stop the rapid growth of claims costs. The review identified that:

'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.'

It also found that: 'The government lacks a coherent cross-government strategy, underpinned by policy, to support measures to tackle the rising cost of clinical negligence' and recommended, 'The Department, together with the Ministry of Justice and others, should, by September 2018, clearly set out a coordinated strategy to manage the growth in the cost of the Clinical Negligence Scheme for Trusts.'

Because of the NAO's serious concerns about the effect on NHS funding, the Public Accounts Committee (PAC) held an inquiry into clinical negligence costs and took evidence from the Department of Health and MoJ in October 2017. The MDU contributed written evidence, and the PAC's report was published in November. One of its main conclusions was:

'The government has been slow and complacent in its response to the rising costs of clinical negligence... It is clear that tackling the rising costs of clinical negligence requires urgent and far-reaching action by more than one government department, but currently there is no overarching cross-government approach to tackling this issue.' This was accompanied by the recommendation that, 'The Department, the Ministry of Justice, and NHS Resolution 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...'

Lord O'Shaughnessy, the minister responsible for clinical negligence policy, has confirmed there is a cross-government working party considering how to tackle rising claims costs. This includes looking at S2(4) of the Law Reform (Personal Injuries) Act 1948, which is principally responsible for the high cost of damages awards. The MDU has long contended that the only way to solve the problem of spiralling claims costs is through legal reform. We have provided detailed briefings to officials on S2(4) and other areas of reform that are necessary to ensure that patients continue to be compensated fairly but not in a way that damages everyone's access to healthcare, which is what we are seeing now.

In March 2017, recognising that many parties considered the way in which the PIDR was set to be defective, the MoJ consulted on whether and how the methodology should change. The MDU responded robustly, emphasising that the 2017 PIDR reduction had been made without any reliable evidence to back the assumptions on which the Lord Chancellor had relied. We also contended that, although the law was not supposed to consider the effect on defendant organisations, the financial effect of a 3.25% drop in the PIDR on the NHS and more widely was so disastrous that the impact of this artificially low PIDR on public services must be taken into account.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

When responding to this consultation in September, the MoJ also published draft legislation that would change the methodology for setting the PIDR. The MDU welcomed the MoJ's acceptance that the methodology was out of date and the proposal for a new structure for setting the rate that included the creation of an expert group to advise the Lord Chancellor. We were, however, concerned that the legislation as drafted would see the rate set by reference to 'low risk' rather than 'very low risk' investments as at present. This will not go far enough to redress the considerable financial burden on the NHS created by the 3.25% rate drop. The Justice Committee also considered the draft legislation and published a report and recommendations in November. It is hoped the MoJ will introduce amended legislation into parliament during 2018.

During the 2016 Indemnity Review, the Department of Health and NHS England acknowledged the problems GPs were facing with indemnity costs and had undertaken to refund the inflationary element of GPs' indemnity subscriptions retrospectively over a two-year period, with the first refund paid on 1 April 2017. However, the drastic lowering of the discount rate exacerbated the financial difficulties for GPs and I have referred above to the government's promise to protect GPs and primary care through additional funding.

The MDU has been in regular discussion with government departments since December 2016, urging action on behalf of GPs, but for much of 2017 there was no clarity about how they were to be protected from an unsustainable rise in indemnity costs. In May we launched a 'Save General Practice' campaign to ask for urgent government support for GPs and 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 through an NHS indemnity scheme for primary care.

We reflected these views in our many discussions with officials, and in October 2017 the Secretary of State announced the government's plan to introduce a state indemnity scheme for primary care by 1 April 2019. The detail of the scheme is not yet clear and we continue to work with officials in order to ensure that any changes made are practical and workable, and that they properly protect GPs from unacceptable indemnity costs which are not of their making and over which they have no control.

If we had raised GP indemnity subscriptions to reflect the discount rate change they would have been unaffordable, yet failing to take the rate into account would have been irresponsible. Therefore, in light of Mr Hunt's announcement, and the prospect of a state scheme that we believe needs to pick up historic liabilities as well as responding to future claims (as the introduction of NHS indemnity for hospital doctors had done in 1990), we introduced Transitional Benefits for GP members in England in October. This changes the basis of GP members' indemnity from occurrence to claims paid membership from their next renewal and allows us to reduce GP subscriptions by 50%. Transitional Benefits have been well received by GP members.

Although it is important to contribute to and influence medico-legal policy development, we never forget that the main reason the MDU exists is to provide medico- and dento-legal services for members. Our aim - and I believe we succeed - is to be the best. When you need us, whether it is because you have a difficult decision to make or you may be in trouble, nothing else will do.

Members are well served by our medical and dental advisory teams, who responded to over 40,000 requests for advice or assistance from our members in 2017. This included over 800 case files opened on behalf of members needing help with regulatory, disciplinary or criminal investigations and over 1,000 files responding to members seeking advice or support with coroner's inquiries.

As a result of the increase in disciplinary investigations over the last few years we created a dedicated, specialist, disciplinary team. In 2017 it assisted over 300 members facing employer disciplinary investigations or actions under performers list regulations. The team is led by a former NHS consultant and has achieved considerable success in supporting members to resolve concerns and get restrictions on work lifted.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

In August 2017, the excellence of the training we provide for our medico-legal advisers was recognised by a Princess Royal Training Award. The MDU was one of only 40 organisations who received the award from a long list of 116 and the only medical defence organisation to be given this accolade. It's vital that when members call us, the person they speak to is fully trained to advise and assist them as well as able to reassure them personally. All our medico-legal advisers are doctors and the specialist training we have developed is designed to ensure they are fully equipped to provide vital round-the-clock guidance and support to members on the front-line. You want to know that whenever you call us or write to us, you will receive expert and accurate advice from someone who understands.

Our dental advisory team has 18 dentally-qualified dento-legal advisers and in 2017 were busier than ever, opening over 3,000 new case files and taking almost 8,000 calls from members on our 24-hour advice line, responding to 98% of these calls within 20 seconds.

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.

The MDU first had an in-house team of solicitors in the 1990s and its success has resulted in continued growth over the years. Our solicitors cover a wide range of work when assisting medical and dental members and, uniquely among MDOs, includes a specialist criminal law team, who between them have more than 50 years' experience of defending members facing criminal allegations (such as medical manslaughter and assault) arising from their clinical practice. All solicitors assist members with GMC cases and there is also a team assisting dental members with claims and GDC cases. Because of the distress caused by regulators' investigations, we work hard to demonstrate as early as possible that there is no case to answer so members are spared a public hearing. In late 2016 the GDC introduced case examiners who now decide whether a case needs to go to a hearing. Of the 57 cases where our in-house solicitors assisted dental members, there were only 11 referrals to a practice committee. The MDU's in-house team also specialises in defending claims made against our medical and dental members and does so with great professionalism and expertise.

When we are assisting individual members and acting in their best interests, some cases also raise points of principle with wider repercussions for both medical and dental members. In-house legal saw such a notable success in 2017 when an MDU solicitor successfully assisted a GP member with judicial review of the Ombudsman's decision to allow a complaint to be made out of time. The judge found in favour of the MDU member and, in quashing the Ombudsman's decision, concluded the Ombudsman had:

'(i) misdirected herself as to facts and, in consequence, failed properly to take into account the causes of delay in making the complaint; (ii) failed to follow her own policy as to the consideration of the scale of injustice; and (iii) failed to give any consideration to the impact on the Claimant of entertaining the complaint out of time in circumstances where the Ombudsman was, or ought to have been, aware that the Claimant regarded any complaint as concluded.'

One important area where our in-house legal expertise also helped us to contribute substantially in 2017 was in policy relating to gross negligence manslaughter. The chairman explains in his report why we believe it is so important to have in-house expertise in criminal law, in order to provide members with an expert defence if they are unfortunate enough to be investigated by the police.

An additional benefit of our collective experience is that it puts us in a unique position to identify areas of policy or procedure that need to change and to suggest amendments to policy makers based on expert practical knowledge of the law. With gross negligence manslaughter we have identified the principal problems and suggested 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.

For example, doctors often have little control over the environment in which they work, but can be subjected to unnecessary investigations, many of which can last for a considerable time, and some more than 18 months. We have identified changes that, if they were made, could reduce the number of unnecessary investigations and speed up the process. We undertook this important work during 2017 - for example, in providing comments to the Sentencing Council review of sentencing for gross negligence manslaughter - and will continue to do so.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

It is unfortunate it has taken the tragic circumstances surrounding the case of Dr Bawa-Garba to have brought the inconsistencies in gross negligence manslaughter prosecutions and findings into sharp focus. Doctors have a particular vulnerability, trying to do their best for patients while frequently being unable to control the environment in which they work. The Secretary of State for Health and Social Care has asked Professor Sir Norman Williams to conduct a review of gross negligence manslaughter, including advising, 'how we ensure that there is clarity about where the line is drawn between gross negligence manslaughter and ordinary human error in medical practice'. The GMC has also announced a review led by Dame Clare Marx, and for both reviews, the MDU will draw upon our experience to suggest changes that if implemented should improve the position of doctors.

We continue the work our legal, advisory and other colleagues do with the regulators and especially the General Medical and General Dental Councils. We use our experience from assisting members to identify and suggest to regulators ways in which they can improve the speed and effectiveness of their fitness to practise procedures for doctors and dentists. The success of the initiatives we help the regulators to develop and implement won't just be experienced by practitioners who are subject to fitness to practise (FTP) investigations. We also focus on helping the regulators to improve their triage procedures so they are able to identify early on allegations that are not going to amount to impaired fitness to practise even if proven, and can thus spare increasing numbers of registrants from FTP investigations.

Our main frustration during 2017 arose not with the regulators themselves, which are keen to improve their procedures, but with the outdated legislation preventing them from making changes both they and we believe are necessary. The regulators' legislation was scheduled for reform some years ago and the Law Commission provided the Department of Health with reform proposals and a draft Bill in 2014, but this went no further. Regulatory reform was on the agenda during 2017 and we continued to pursue it actively, but it was only late in the year that the Department of Health published proposals for consultation.

While the consultation was wide-ranging and canvassed views on several high-level proposals, the MDU remained focused. We suggested officials should concentrate only on addressing the inflexibility of the regulators' legislation that prevents them from responding to changes in the regulatory environment and innovating in the performance of their core functions in a timely manner. If this fundamental problem was solved, it would give the GMC and GDC freedom to perform their FTP functions more efficiently and cost-effectively. This would satisfy their remit to provide greater protection for the public and patients and, equally important, allow better and faster procedures for registrants. Furthermore, the regulators could make savings which they could then pass on to registrants through a reduced registration fee. We will continue to pursue this important change.

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.

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.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

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 2017.

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 understand how important it is to members that your calls are answered as quickly as possible. I am pleased to report that our 2017 membership statistics showed an improvement on the high quality service we provided the previous year. Membership staff answered 80% of the 172,000 calls they received within 20 seconds. In addition, we answered 98.5% of the 96,500 items of members' correspondence within five days of receipt.

We take the quality of our membership department service seriously and only 0.14% of these contacts from our members resulted in a complaint. We 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 therefore to keep complaints from members as low as possible and when members do complain, to ensure we respond swiftly, fully and courteously.

In recognition of the high standard of service we provide to members, our membership department was again successfully re-accredited under the Customer Service Excellence Standard, a recognised independent benchmark of excellent service. 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.

Following the announcement by the Secretary of the State for Health that the government was planning to implement a state-backed indemnity scheme for GPs and primary care staff, the MDU was able to respond rapidly with the introduction of a new form of membership for its GP members as they renewed from November 2017 onwards – Transitional Benefits.

It was possible to introduce Transitional Benefits so effectively due to the work we have done in recent years to improve the flexibility of our computer systems as well as to build project management skills across the organisation.

The new product caused much interest in the market and our regional GP liaison managers were available to answer members' questions, while also responding to the substantial number of GPs interested in joining.

In the same way that the MDU demonstrated its flexibility in responding to changing member needs for GPs with Transitional Benefits, we also responded to the changing shape of the NHS by providing bespoke and sustainable corporate indemnity solutions for organisations. By the end of 2017 we had corporate indemnity arrangements with over 70 GP federations, including all of the federations in Northern Ireland. Demand for the MDU's solutions has never been stronger.

The consultant and dental markets remain highly competitive, with traditional and new insurance providers seeking to build market share. The MDU met these challenges with our focus on high-quality advisory services provided by experienced clinicians, and we continued to expand member numbers in 2017.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

We continue to build our digital capabilities and during 2017 introduced online applications for nurses and hospital doctors. By the end of 2018 we anticipate having online forms in place for most categories of clinician.

As more and more junior doctors are attracted to work in Australia, we have established an arrangement with Avant, the leading indemnifier in Australia, and are able to introduce travelling members to them.

Principal risks and uncertainties

The MDU is always looking at the options open to us to ensure 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 which 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. An assessment is given below 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: first, by having in place highly trained claims and legal staff, managing claims on behalf of members; second, 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; third, 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 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. We are in active discussion with the government about the repercussions of the change in the PIDR and the proposed introduction of a state indemnity scheme for primary care by April 2019.

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.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

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 18(d).

During the year the fund managers held derivative financial instruments in order to achieve the group's financial risk management objective.

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.

Interest and inflation rate risk

The estimate of the MDU Group'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 costs of future care.

Such costs are affected by inflation and interest rate movements and therefore to mitigate this risk the company holds a range of financial instruments, including UK index linked gilts and derivatives.

These instruments are sensitive to changes in interest rate and inflation rate expectations. The resulting exposure and sensitivity of these financial instruments is regularly reviewed.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

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 seek to realise neither profit nor 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 £285m (2016: £222m) after indemnity, insurance, other provisions and pension liabilities of £858m (2016: £735m). 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 2017 was £257.3m (2016: £261.8m), of which 99.0% was received from our UK members, the remainder, amounting to £2.6m, being from our members in Ireland.

Investment result

There were positive changes in the market value of investments in 2017 resulting in a gain of £49.8m (2016: £41.6m). In addition there was net realised investment income of £0.2m (2016: £20.2m) bringing the total net investment result to £50.0m (2016: 61.8m).

Expenditure

In 2017 the MDU paid out £62.8m (2016: £51.4m) in discretionary indemnity claims and legal costs, of which £2.4m relates to our Irish members' claims.

Medical and dental advisory costs amounted to £29.9m in 2017 (2016: £28.7m).

Reinsurance premiums in 2017 were £9.7m (2016: £11.4m).

Administration costs in 2017 were £20.8m (2016: £19.8m).

Result after tax

The total comprehensive result is a gain of £63.2m (2016: loss of £31.4m).

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

Group Strategic Report (continued)
For the Year Ended 31 December 2017

Assets/indemnity provision

The Statement of Financial Position for the MDU shows total assets less current liabilities of £1,175.4m, compared to £1,007.7m in 2016. The growth of £167.7m is largely due to an increase in the amount of funds invested, investment performance in the year, and an increase in reinsurance recoveries.

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

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

The level of indemnity provision (note 19) has been estimated on the advice of the company actuary, taking all of the above factors into consideration, and is shown in the accounts at £853.7m (2016: £727.2m).

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: 24 April 2018

For and on behalf of the Board of Management.

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

Directors' Report
For the Year Ended 31 December 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

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 advice of the company actuary, 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)

Directors' Report (continued)
For the Year Ended 31 December 2017

Directors

The following served as directors in 2017:

Board member		<u>No. of Board meetings attended*</u>
P R Williams (Chairman)	1 3 4 5 6	4
P Riordan-Eva (Chairman)	1 2 3 4 5 8	6
C Aghadiuno	4 10	1
S E Beaumont	2 4 9	2
H E Clarke	1 2 4 5	6
W R J Dinning	4 5	6
N A Dungay	4	6
C L A Edginton	1 4 5	4
M M Gallivan	4 5	5
P Goldsmith	7	2
C W Heron	1 2 4 11	5
I D Hutchinson	1 2 3 4 5	6
M T Lee	4	6
S Shaunak	9	1
O C E Sparrow		6
C M Tomkins	1 3 4 5	6
S W Watkin	1 2 4 5	6
P D Webster	1 2 4 5 6	4

- 1 **Members of the Remuneration Committee**
- 2 **Members of the Audit Committee**
- 3 **Members of the Nomination Committee**
- 4 **Directors of MDU Services Limited**
- 5 **Members of the Investments Committee of MDU Investments Limited**
- 6 **Retired on 19 September 2017**
- 7 **Appointed on 25 July 2017**
- 8 **Appointed as Chairman on 19 September 2017**
- 9 **Appointed on 19 September 2017**
- 10 **Appointed on 27 November 2017**
- 11 **Resigned on 31 December 2017**

* **6 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:

W R J Dinning
N A Dungay
S Watkin

C L A Edginton retires by rotation under article 49 but will not put himself forward for re-election.

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 2017 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)

Directors' Report (continued)
For the Year Ended 31 December 2017

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 six 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 six 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)

Directors' Report (continued)
For the Year Ended 31 December 2017

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 four 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 meets the company actuary each year, reviews the results of his work 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.

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)

Directors' Report (continued)
For the Year Ended 31 December 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Group Strategic Report, the Directors' 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.

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

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

Directors' Report (continued)
For the Year Ended 31 December 2017

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' 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
Company secretary

Date: 24 April 2018

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') for the year ended 31 December 2017, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the statement of financial position, the statement of changes in equity, the consolidated statement of cash flows, the statement of cash flows, and notes to the financial statements, 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 2017 and of the group's profit 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. These 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern.

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. This opinion on the financial statements does not cover the information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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

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 strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' 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 strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

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.

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. The description forms part of our auditor's report.



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

30 April 2018

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 2017

	Note	2017 £000	2016 £000
Members' subscriptions		257,267	261,821
Less			
Medical and dental advisory services		(29,912)	(28,699)
Indemnity, legal and reinsurance costs	6	(170,527)	(271,161)
Administrative costs		(20,810)	(19,794)
Finance cost - indemnity/pension provision	7	(7,471)	(6,516)
Operating surplus/(deficit)		<u>28,547</u>	<u>(64,349)</u>
Changes in fair value of investments	3	49,795	41,551
Net investment income	4	218	20,186
Interest payable	5	(8,693)	(6,082)
Income and expenditure before taxation	8	<u>69,867</u>	<u>(8,694)</u>
Taxation	10	(6,368)	(8,625)
Income and expenditure after taxation		<u>63,499</u>	<u>(17,319)</u>
Other comprehensive income			
Actuarial loss on pension scheme	21	(300)	(14,100)
Total other comprehensive loss		<u>(300)</u>	<u>(14,100)</u>
Total comprehensive income/(loss) for the year		<u>63,199</u>	<u>(31,419)</u>

The notes on pages 30 to 56 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 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	11	17,050	18,065
Investments	12	1,317,985	1,213,847
Derivative assets	18	27,747	26,598
		<u>1,362,782</u>	<u>1,258,510</u>
Current assets			
Debtors: amounts falling due after more than one year	14	137,618	116,830
Debtors: amounts falling due within one year	14	27,129	25,066
Cash at bank and in hand		48,056	37,432
		<u>212,803</u>	<u>179,328</u>
Creditors: amounts falling due within one year	16	(400,156)	(430,118)
Net current liabilities		<u>(187,353)</u>	<u>(250,790)</u>
Total assets less current liabilities		<u>1,175,429</u>	<u>1,007,720</u>
Creditors: amounts falling due after more than one year	15	(32,218)	(51,107)
Provisions			
Indemnity provision	19	(853,687)	(727,151)
Other provisions	19	(2,493)	(2,430)
Net assets excluding pension scheme		<u>287,031</u>	<u>227,032</u>
Pension liability	21	(2,100)	(5,300)
Net assets including pension scheme		<u>284,931</u>	<u>221,732</u>
Capital and reserves			
Revaluation reserve		68,818	24,363
Retained earnings		216,113	197,369
		<u>284,931</u>	<u>221,732</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 24 April 2018 by:

C M Tomkins
Chief executive

P Riordan-Eva
Chairman

The notes on pages 30 to 56 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 2017

	Note	2017 £000	2016 £000
Fixed assets			
Investments	12	25,160	25,160
		<u>25,160</u>	<u>25,160</u>
Current assets			
Debtors: amounts falling due after more than one year	14	137,618	116,830
Debtors: amounts falling due within one year	14	871,279	757,213
Cash at bank and in hand		18,899	6,848
		<u>1,027,796</u>	<u>880,891</u>
Creditors: amounts falling due within one year	16	(435)	(671)
Net current assets		<u>1,027,361</u>	<u>880,220</u>
Total assets less current liabilities		<u>1,052,521</u>	<u>905,380</u>
Provisions			
Indemnity provision	19	(853,687)	(727,151)
		<u>(853,687)</u>	<u>(727,151)</u>
Net assets excluding pension scheme		<u>198,834</u>	<u>178,229</u>
Pension liability	21	(2,100)	(5,300)
Net assets including pension scheme		<u>196,734</u>	<u>172,929</u>
Reserves			
Retained earnings		196,734	172,929
		<u>196,734</u>	<u>172,929</u>

The Statement of Comprehensive Income for the year ended 31 December 2017 for the parent company only was a gain of £24.1m (2016: loss of £68.1m).

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by: 24 April 2018.

C M Tomkins
Chief executive

P Riordan-Eva
Chairman

The notes on pages 30 to 56 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 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

**Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2016**

	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2016	(17,188)	270,339	253,151
Comprehensive loss for the year			
Result after taxation	-	(17,319)	(17,319)
Actuarial loss on pension scheme	-	(14,100)	(14,100)
Transfer to/from retained earnings	41,551	(41,551)	-
At 31 December 2016	24,363	197,369	221,732

The notes on pages 30 to 56 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 2017

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

Company Statement of Changes in Equity
For the Year Ended 31 December 2016

	Retained earnings £000	Total equity £000
At 1 January 2016	255,172	255,172
Result after taxation	(68,143)	(68,143)
Actuarial loss on pension scheme	(14,100)	(14,100)
At 31 December 2016	172,929	172,929

The notes on pages 30 to 56 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 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Income and expenditure after taxation	63,499	(17,319)
Adjustments for:		
Depreciation of tangible assets	3,259	3,038
Loss on disposal of tangible assets	191	68
Foreign exchange differences	(1,121)	(4,441)
Net changes in fair value of investments	(49,795)	(41,551)
Increase in provisions (indemnity & other)	126,603	319,600
Loss/(gain) on disposal of investments	3,289	(8,517)
Non cash investment expense	1,511	1,396
Finance charge/(credit) on pension scheme	100	(200)
Increase in deferred taxation	3,755	6,328
Increase in debtors (excluding taxation)	(22,850)	(99,863)
(Decrease)/increase in creditors	(4,460)	10,227
Payments made - other provisions	(4)	(9)
Pension contributions made in excess of service cost	(3,600)	(4,500)
(Decrease)/increase in corporation tax creditor	(304)	1,167
Net cash generated from operating activities	120,073	165,424
Cash flows from investing activities		
Purchase of tangible fixed assets	(2,435)	(2,618)
Purchase of investments	(905,918)	(739,707)
Sale of investments	843,588	486,381
Movement in other liquid resources	346	(19,182)
Purchase of derivative contracts	(21,335)	70
Net cash from investing activities	(85,754)	(275,056)
Cash flows from financing activities		
(Decrease)/increase in bank borrowings	(4,175)	85,244
(Decrease)/increase in other bank borrowings	(19,520)	44,406
Net cash used in financing activities	(23,695)	129,650
Net increase in cash and cash equivalents	10,624	20,018
Cash and cash equivalents at beginning of year	37,432	17,414
Cash at bank and in hand	48,056	37,432

The notes on pages 30 to 56 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 2017

	2017	2016
	£000	£000
Cash flows from operating activities		
Income and expenditure after taxation	24,105	(68,143)
Adjustments for:		
Increase in debtors (excl. amounts owed by subsidiaries)	(22,785)	(99,511)
Increase/(decrease) in creditors (excl. corporation tax)	50	(77)
Increase in amounts receivable from subsidiary undertakings	(112,069)	(134,019)
Pension contributions made in excess of service cost	(3,600)	(4,500)
Increase in indemnity provision	126,536	319,500
Finance charge/(credit) on pension scheme	100	(200)
(Decrease)/increase in corporation tax creditor	(286)	578
Net cash generated from operating activities	<u>12,051</u>	<u>13,628</u>
Cash flows from investing activities		
Purchase of ordinary shares in subsidiary undertaking	-	(10,000)
Net cash from investing activities	<u>-</u>	<u>(10,000)</u>
Net increase in cash and cash equivalents	12,051	3,628
Cash and cash equivalents at beginning of year	<u>6,848</u>	<u>3,220</u>
Cash at bank in hand	<u><u>18,899</u></u>	<u><u>6,848</u></u>

The notes on pages 30 to 56 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 2017

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 2017. 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.

Subscriptions support the funding of indemnity payments and the provision of advisory services to members. It is not practical to allocate a separate fair value to these two components.

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 2017

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 company actuary 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 company actuary. 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 2017

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 2017

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 2017

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 2017

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

	2017 £000	2016 £000
Salaries	27,216	26,419
Social security costs	3,191	3,064
Pension costs-defined benefit scheme	2,600	2,000
Pension costs-defined contribution scheme	1,678	1,529
Other staff costs	1,688	1,899
	<u>36,373</u>	<u>34,911</u>
	2017	2016
Average number of employees in the year	461	454
	<u>461</u>	<u>454</u>

There are no staff employed by the parent company.

3. Changes in fair value of investments

	2017 £000	2016 £000
Changes in fair value - assets	25,606	39,961
Changes in fair value - liabilities	24,189	1,590
	<u>49,795</u>	<u>41,551</u>

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

4. Net investment income

	2017	2016
	£000	£000
Bond and interest income	8,780	7,882
Exchange rate movements	1,121	4,441
Bank interest	143	327
Other investment expenses/income	(579)	3,735
(Loss)/gain on disposal of investments	(3,289)	8,517
Investment management fees/expenses	(5,958)	(4,716)
	218	20,186

Investment income from listed investments in the year was £6.4m (2016: £7.0m)

5. Interest payable

	2017	2016
	£000	£000
Bank loan interest payable	929	1,131
Other loan interest payable	7,764	4,951
	8,693	6,082

6. Indemnity, legal and reinsurance costs

	2017	2016
	£000	£000
Reinsurance premiums	9,730	11,406
Increase in indemnity provision (see note 19)	161,175	343,876
Premium element adjustment (see note 1.4)	2,283	(12,271)
Legal costs	20,760	20,261
Reinsurance recoveries (including the movement in reinsurance provision)	(23,421)	(92,111)
	170,527	271,161

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

7. Finance cost - indemnity/pension provision

	2017	2016
	£000	£000
Finance cost relating to indemnity provision (see note 19)	7,371	6,716
Finance credit/(cost) relating to pension provision (see note 21)	100	(200)
	7,471	6,516

8. Result before taxation

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

	2017	2016
	£000	£000
Research & development taxation credit	(213)	-
Depreciation of tangible fixed assets (see note 11)	3,259	3,038
Loss on disposal of fixed assets	191	68
Operating lease rentals - land and buildings	1,184	1,184
Operating lease rentals - motor vehicles	199	200
Defined contribution pension cost	1,678	1,529
Defined benefit pension cost (see note 21)	2,600	2,000
Fees payable to the Company's auditors and its associates:		
- for the audit of the company's accounts	62	59
- for the audit of accounts of subsidiaries	72	68
- for tax services	391	359

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

9. Directors' remuneration

	2017	2016
	£000	£000
Fees	464	468
Directors' emoluments	1,157	1,082
Amounts due and receivable under long-term incentive plans	421	518
	<u>2,042</u>	<u>2,068</u>

The highest paid director in the year earned:

	2017	2016
	£000	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	581	617
Accrued annual pension (excluding indexation)*	151	148

* 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 (2016: 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 (2016: five) of the non-executive directors received fees totalling £33,091 (2016: £51,000) 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 2017

Directors remuneration (continued)

	Fee/Salary £000	Benefits [i] £000	STIP/ LTIP [ii] £000	2017 £000	2016 £000
Executive directors					
C M Tomkins	319	20	242	581	617
M M Gallivan	205	18	190	413	370
N A Dungay	129	16	82	227	238
M T Lee	209	16	132	357	375
	862	70	646	1,578	1,600
	Fees/Salary £000	Other [iii] £000		2017 £000	2016 £000
Non-executive directors					
P R Williams	59	-		59	77
K A V Cartwright	-	-		-	36
H E Clarke	45	6		51	43
W R J Dinning	37	5		42	40
C L A Edginton	37	4		41	40
C W Heron	10	17		27	37
I D Hutchinson	44	6		50	47
P Riordan-Eva	51	11		62	52
O C E Sparrow	10	7		17	27
S W Watkin	25	24		49	28
P D Webster	26	5		31	41
C Aghadiuno	4	-		4	-
S Beaumont	11	-		11	-
P Goldsmith	5	8		13	-
S Shaunak	3	4		7	-
	367	97		464	468

[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 2017 and amounts accrued in respect of the year to 31 December 2017. 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 2017 and amounts accrued in respect of the year ended 31 December 2017. 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] "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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

10. Taxation

	2017	2016
	£000	£000
Corporation tax		
Current tax on result for the year	2,461	2,297
Adjustments in respect of previous periods	151	-
Total current tax	2,612	2,297
Deferred tax		
Timing differences	3,897	6,453
Adjustments for prior periods	(141)	(125)
Total deferred tax	3,756	6,328
Taxation on profit on ordinary activities	6,368	8,625

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). Reconciling items are explained below:

	2017	2016
	£000	£000
Result from mutual activities before taxation	69,867	(8,694)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	13,449	(1,739)
Effects of:		
Net mutual expense/(income) not subject to corporation tax	(5,031)	13,294
Non allowable depreciation	119	130
Adjustments in respect of prior periods	10	(125)
Non-taxable income	(6,074)	(2,959)
Difference in tax rate on deferred tax movement	(525)	(717)
Other timing differences leading to an increase (decrease) in taxation	4,420	-
Capital gains	-	741
Total tax charge for the year	6,368	8,625

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

11. 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 2017	10,492	908	14,502	25,902
Additions	-	46	2,389	2,435
Disposals	-	-	(529)	(529)
At 31 December 2017	10,492	954	16,362	27,808
Depreciation				
At 1 January 2017	1,367	373	6,097	7,837
Charge for the year	691	208	2,360	3,259
Disposals	-	-	(338)	(338)
At 31 December 2017	2,058	581	8,119	10,758
Net book value				
At 31 December 2017	8,434	373	8,243	17,050
At 31 December 2016	9,125	535	8,405	18,065

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

12. Fixed asset investments

Group

	Investments in cash & cash equivalents £000	Funds held by Investment Managers £000	Total £000
Cost or valuation			
At 1 January 2017	6,652	1,207,195	1,213,847
Additions	-	905,918	905,918
Disposals	-	(843,588)	(843,588)
Foreign exchange movement	-	1,121	1,121
Revaluation of investments	-	25,606	25,606
Net movement of cash and accrued income	25,182	(30,285)	(5,103)
Profit on disposal	-	20,184	20,184
At 31 December 2017	<u>31,834</u>	<u>1,286,151</u>	<u>1,317,985</u>

Net book value

At 31 December 2017	<u>31,834</u>	<u>1,286,151</u>	<u>1,317,985</u>
At 31 December 2016	<u>6,652</u>	<u>1,207,195</u>	<u>1,213,847</u>

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2017	<u>25,160</u>
At 31 December 2017	<u>25,160</u>
Net book value	
At 31 December 2017	<u>25,160</u>
At 31 December 2016	<u>25,160</u>

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

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 (registered offices: One Canada Square, London, E14 5GS) and indirectly MDU Reinsurance Limited, an insurance company, incorporated in Guernsey (registered office: PO Box 34, St. Martins House, Le Bordage, St. Peter Port, Guernsey, GY1 4AU).

Dormant companies are disclosed in note 26.

13. Analysis of funds held by investment managers

	2017 %	2017 £000	2016 %	2016 £000
UK index-linked government gilts [i]	21.7	279,567	26.2	317,204
Sterling index-linked corporate bonds	-	-	4.7	56,469
Sterling fixed interest corporate bonds	-	-	0.2	1,908
Cash and liquidity balances	0.3	4,391	2.5	29,902
Pooled funds [ii]	59.9	770,169	48.6	586,095
Private credit [iii]	0.8	10,078	-	-
Commercial real estate loans [iv]	3.8	48,614	4.0	48,614
Loans receivable [v]	13.5	173,331	13.8	167,003
	100	1,286,151	100	1,207,195

	2017 £000	2016 £000
Valuation basis of investments		
Fair value	1,049,737	961,676
Amortised cost [vi]	236,414	245,519
	1,286,151	1,207,195

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

- [i] Index linked gilts include the assets with a carrying value of £222.1m (2016: £226.2m) provided as collateral against the bank borrowings detailed in note 16.
- [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 £173.3m (2016: £167.0m) 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.

14. Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due after more than one year				
Other debtors	137,618	116,830	137,618	116,830
	137,618	116,830	137,618	116,830
	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due within one year				
Trade debtors	13,608	9,364	13,608	9,364
Amounts owed by group undertakings	-	-	847,597	735,528
Other debtors	1,258	1,795	-	-
Prepayments and accrued income	4,635	3,996	2,446	2,410
Amounts recoverable on long term contracts	7,628	9,911	7,628	9,911
	27,129	25,066	871,279	757,213

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Deferred income (see note 1.13)	1,908	2,090	-	-
Other creditors and accruals	342	401	-	-
Derivative contracts [i]	29,968	48,616	-	-
	32,218	51,107	-	-

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

16. Creditors: Amounts falling due within one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Bank borrowings [note i,iii]	222,085	226,216	-	-
Trade creditors	-	36	-	-
Derivative contracts [note iii]	-	2,658	-	-
Short sold government bonds [note ii, iii]	156,209	178,631	-	-
Corporation tax	863	1,167	292	578
Taxation and social security	927	872	27	34
Deferred taxation (see note 20)	4,056	301	-	-
Other creditors and accruals	16,016	20,237	116	59
	400,156	430,118	435	671

- [i] Bank borrowings are secured against index-linked gilts with a market value of £222.1m (2016: £226.2m) 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 2017, there is a commitment to purchase government bonds, within one year, with a current market value of £156.2m (2016: £178.6m).
- [iii] Current creditors include £378.3m (2016: £407.5m) of financial liabilities held within investment portfolios managed by investment managers for the group.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

17. Creditors: Valuation basis

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Fair value [i]	186,177	229,905	-	-
Amortised cost	246,196	251,320	435	671
	432,373	481,225	435	671

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

18. Net funds held by investment managers

	2017 £000	2016 £000
Financial assets: investments (see note 12)	1,286,151	1,207,195
Financial assets: derivatives*	27,747	26,598
Financial liabilities: current (see note 16)	(378,294)	(407,505)
Financial liabilities: non-current (see note 15)	(29,968)	(48,616)
	905,636	777,672

The historic cost of net funds held by investment managers is £834.6m (2016: £756.0m).

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

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

	2017 £000	2016 £000
Fair value (see note 18b)	891,307	758,369
Amortised cost (see note 18b)	14,329	19,303
	905,636	777,672

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

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

	2017	2016
	£000	£000
Fair value:		
UK index linked government gilts	279,567	317,204
Sterling index linked corporate bonds	-	56,469
Sterling fixed interest corporate bonds	-	1,908
Pooled funds	770,170	586,095
Derivative contracts	(2,221)	(24,676)
Short sold government bonds	(156,209)	(178,631)
	891,307	758,369
Total net financial assets		
Amortised cost:		
Cash and liquidity balances	4,391	29,902
Private credit	10,078	-
Commercial real estate loans	48,614	48,614
Loans receivable	173,331	167,003
Bank borrowings	(222,085)	(226,216)
	14,329	19,303
Total net financial assets		

(c). Fair value hierarchy

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

	2017	2016
	£000	£000
Quoted prices - Level 1	242,837	381,669
Recent quoted prices - Level 2	650,691	401,376
Valuation technique (Unobservable inputs) - Level 3	(2,221)	(24,676)
	891,307	758,369
Total net assets		

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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

(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 13).

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

	2017	2016
	£000	£000
Derivatives:		
Less than 1 year	-	2,657
More than 1 year, less than 5 years	4,612	1,104
More than 5 years, less than 10 years	8,469	7,004
More than 10 years	16,887	40,508
	<hr/>	<hr/>
Total	29,968	51,273
Non-derivatives:		
Less than 1 year*	378,294	404,847
	<hr/>	<hr/>
Total	378,294	404,847

*Non derivatives financial liabilities include the bank borrowings and short sold government bonds detailed in note 16.

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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

(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 13).

(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 %	2017 £000	2016 £000
Market risk			
Interest rate	+1	(5,760)	(2,580)
	-1	7,793	2,674
Inflation rate	+1	12,387	7,284
	-1	(2,464)	(5,156)
Credit spread	+1	(14,479)	(16,250)
	-1	15,500	17,379
Equity	+25	26,224	19,541
	-25	(26,224)	(19,541)

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 19.25% (2016: 20.00%).

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

(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.

19. Provisions - indemnity

	2017	2016
	£000	£000
Group and company		
At 1 January	727,151	407,651
Finance costs	7,371	6,716
Indemnity and insurance paid	(42,010)	(31,092)
Increase in indemnity provision (see note 6)	161,175	343,876
At 31 December	853,687	727,151

The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 1.13% (2016: 1.72%) 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 (2016: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 1.15% per annum (2016: 1.38%) is used to discount the claims payments to the Statement of Financial Position date.

Provisions - other

	2017	2016
	£000	£000
Group		
At 1 January	2,430	2,330
Increase in the year	67	109
Payments	(4)	(9)
At 31 December*	2,493	2,430

*Building dilapidations are recognised on two (2016: two) buildings.

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

20. Deferred taxation

	2017	2016
	£000	£000
Group		
At 1 January	(301)	6,027
Charged to profit or loss	(3,755)	(6,328)
At 31 December	(4,056)	(301)

The deferred tax liability is made up as follows:

	Group	Group
	2017	2016
	£000	£000
Accelerated capital allowances	(436)	(461)
Tax losses carried forward	284	160
Short term timing differences	(3,904)	-
	(4,056)	(301)

21. 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 31 March 2015 and has been updated to 31 December 2017 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2017 reflects the status of the defined benefit section of the scheme only.

The major assumptions made by the actuary were:

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

Fair value of scheme assets:

	2017	2016	2015	2014
	£000	£000	£000	£000
Equities	16,900	14,700	11,900	12,000
Property	20,500	16,500	16,600	14,700
Government bonds	16,300	16,800	20,000	19,300
Corporate bonds	90,100	81,900	57,700	60,200
Other	400	1,800	3,700	600
	144,200	131,700	109,900	106,800

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

	2017	2016	2015	2014
	£000	£000	£000	£000
Total market value of assets	144,200	131,700	109,900	106,800
Present value of scheme liabilities	146,300	137,000	105,800	111,800
Pension (liability)/asset	(2,100)	(5,300)	4,100	(5,000)

	2017	2016	2015	2014
Assets as a percentage of liabilities	98.6%	96.1%	103.9%	95.5%

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

	2017	2016
	£000	£000
Opening defined benefit obligations	137,000	105,800
Current service cost	2,600	2,000
Interest cost	3,700	3,900
Contributions by scheme participants	200	200
Actuarial gains/(losses) on the scheme liabilities	5,800	28,700
Net benefits paid out	(3,000)	(3,600)
Closing defined benefit obligations	146,300	137,000

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

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

	2017	2016
	£000	£000
Opening fair value of scheme assets	131,700	109,900
Expected return on scheme assets	3,600	4,100
Actuarial gains on scheme assets	5,500	14,600
Contributions by employer	6,200	6,500
Contributions by scheme participants	200	200
Net benefits paid out	(3,000)	(3,600)
	<hr/> 144,200 <hr/>	<hr/> 131,700 <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

	2017	2016
	£000	£000
Current service cost	2,600	2,000
	<hr/> 2,600 <hr/>	<hr/> 2,000 <hr/>

The total estimated pension expense in 2018 is £2.7m.

Analysis of the amount charged to other finance costs

	2017	2016
	£000	£000
Expected return on scheme assets	(3,600)	(4,100)
Interest on scheme liabilities	3,700	3,900
	<hr/> 100 <hr/>	<hr/> (200) <hr/>
Net return		

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

Analysis of amounts recognised in other comprehensive income:

	2017	2016
	£000	£000
Actuarial gains on scheme assets	5,500	14,600
Actuarial losses on scheme liabilities	(5,800)	(28,700)
Actuarial loss recognised in other comprehensive income	(300)	(14,100)

22. 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 £47.2m.

23. Members liability

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

24. 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.

25. 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
	2017	2016	2017	2016
	£000	£000	£000	£000
Not later than 1 year	1,329	1,319	-	-
Later than 1 year and not later than 5 years	4,846	4,820	-	-
Later than 5 years	7,696	8,880	-	-
	13,871	15,019	-	-

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

Notes to the Financial Statements
For the Year Ended 31 December 2017

26. Dormant Companies

The MDU group had the following dormant companies as at 31 December 2017:

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 the UK and included in the consolidation.