

Registered number: 21708

The Medical Defence Union Limited
(A Company Limited by Guarantee)
Annual Report and Financial Statements
for the year ended 31 December 2021



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

Company Information

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

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Report of the Chairman
For the Year Ended 31 December 2021

The chairman presents his statement for the period. Endurance and stamina were defining characteristics of 2021. The easing of public health restrictions in March, and the optimism that came with it, allowed for a greater focus on the pressures facing the healthcare system and the backlogs in part associated with COVID-19. Yet as 2021 drew to a close, the arrival of the Omicron variant led to a renewed emphasis on the vaccination campaign, as well as profound questions about what the 'new normal' may look like for all of us. Our members have and deserve our full recognition and wholehearted thanks for their continuing commitment to their professional activities, not least caring for those unwell from COVID-19, in what was another tumultuous year.

Here at the MDU, we continue to be led by doctors and dentists with real-life experience of the pressures and challenges faced by our members, and they have done their utmost to support, guide and defend those members in matters relating to their clinical work. Similarly, we continue to focus on the need to take great care when setting subscriptions, to control costs, and to continually monitor and improve our investment portfolio.

A clear indication of the stress under which our members have had to work was provided by the survey of our doctor members in December 2021. Of more than 500 respondents, one in four (26%) said tiredness had affected their ability to safely care for patients, including almost 40 near misses and seven cases in which a patient actually sustained harm. In addition, six in ten respondents said their sleep patterns had worsened slightly or significantly during the pandemic. We have been calling on the government and employers to do more to support doctors and other healthcare staff in these particularly difficult times.

The pandemic also increased the need to support doctors and their families. In light of this, our foundation doctor members, joining the MDU for their first post graduate year, donated £5 from their first year's £10 subscription to the Royal Medical Benevolent Fund and the Doctors' Support Network. Over £30,000 was raised and will be equally divided between the charities, which will enable them to support hundreds of doctors and their families when they need it most. On behalf of both charities, we offer sincere thanks and gratitude to our foundation doctor members for their generous donations.

Thanks to the hard work of our membership and sales teams, our membership numbers have grown steadily, and we ended the year with strong new member recruitment. Although COVID-19 presented some barriers to meeting our audiences, during the second half of 2021 a number of large and successful face-to-face events did take place. In view of the changing medico-legal environment, we have adapted our offerings to GPs and their teams in Northern Ireland in order to maintain subscriptions at affordable levels in the face of significant upwards pressure on claims costs. For GPSTs in England, who do not require MDU indemnity because it is provided as part of a group arrangement by Health Education England, we launched a new affiliate membership that provides access to the quality medico-legal content on our website, our journals and our member discounts when using MDU personal development resources such as webinars. Our corporate business also continued to perform strongly, with increasing recognition and appreciation of the expert support provided by our very experienced corporate team.

In 2021 we continued to have excellent outcomes in the management of clinical negligence cases, and more detail is provided in the group strategic report. However, given that very few cases result in a trial, it is worth noting here the achievements of our claims handling and legal teams, who were successful in the two dental claims that made it to trial and in four of the six medical claims.

Our members lead busy lives and so when they have concerns about their clinical practice or membership matters, they deserve for those to be managed promptly, efficiently and effectively. March 2021 was the busiest month on record for our medical advisory team, with demand being driven by a number of factors relating to COVID-19 and the ending of restrictions, including high complaint case numbers commonly relating to access to care and delayed diagnosis or treatment. Despite this increased demand, 98.9% of calls to our medico-legal advice line were answered within 20 seconds; to our dento-legal advice line, it was 99.4%.

The pandemic adversely affected the rate of progress of clinical negligence cases and regulatory investigations in 2020, with the backlog leading to a rise in inquests and hearings at the Medical Practitioners Tribunal Service (MPTS) and the GDC during 2021. Our superb in-house legal team, in partnership with their medical and dental advisory colleagues, have had considerable achievements in 2021 for their work on behalf of our members. Again, more detail of this can be found in the group strategic report.

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In order to provide additional support to members facing the stresses of investigations into their clinical care, our peer support network has been expanded to include members involved in complaints or inquests, as well as GMC procedures and clinical negligence claims. It is our hope that this will be of real value to members going through the various investigatory processes.

Working with Armstrong Watson LLP, a top 30 accountancy firm, we launched a new tax and accountancy service for members at an exclusive rate. Armstrong Watson are an ideal partner with over 150 years' experience and a specialist healthcare team who understand the needs of doctors and dentists. We have seen tremendous interest from members for this new service and we look forward to supporting our members in the coming year through this collaboration.

We recognise the increased complexity of the professional activities of our individual members, with many now having portfolio careers. Consequently, indemnity cover may need to be refined, and we encourage members to make sure we know what clinical and non-clinical work they are doing so that their indemnity cover is suitable for their individual needs.

An important and positive outcome of the COVID-19 pandemic, despite the need for working from home and the difficulties of video meetings, has been a strengthening of collaboration and team working throughout the MDU – ultimately leading to a bolstering of team spirit. The board is committed to providing a supportive environment for our staff and has been fully engaged in monitoring issues such as the approach to home working, whilst ensuring the resilience of our business activities is maintained. Crucial to the support for our staff are our training programmes. During 2021 we were awarded two further Princess Royal Training Awards; one to the medico-legal advisory team and the other to our operations team for their development path within membership services. These awards are something we are very proud of.

Last year's report concluded with Dr Christine Tomkins' retirement as chief executive officer. I am pleased to report that at the end of September there was a very smooth handover following the appointment of Dr Matthew Lee as chief executive officer, and subsequently the appointment of Dr Hugh Stewart as Matt's successor as professional services director. These appointments reiterate our ethos of being a 'doctors for doctors' organisation.

Earlier in the year there was a similarly smooth handover from Mr Nicholas Dungay, who retired as marketing and sales director, to Mr Andrew Archibald, who was appointed to the board as our new commercial director. Nick was an MDU stalwart, having joined the company in 2000. He was appointed to the board in 2009, having attended as an observer since 2003. Whilst at the MDU he oversaw a 50% growth in our individual membership, maintenance of our position as market leader for doctors in the UK, development of our position as market leader for young dentists, and strong consolidation of our corporate business. His warmth, approachability, kindness and positive manner will be greatly missed by his colleagues. We all wish him a long and happy retirement.

Mr Owen Sparrow stepped down from the board having served for six years, also having served on council and cases committee for 13 years and as chairman of the benefits of membership committee. Mr Graeme McAusland, an actuary with extensive audit experience, Mr Kevin Miller, our operations director, and Professor Peter Clark, an oncologist and clinical lead for the NHS England Cancer Drugs Fund, were appointed to the board.

Professor Martin Brown, Dr Paul Goldsmith and Dr Alan Middleton have stepped down from council and cases committee. Martin and Alan served for 22 and 19 years respectively. Professor Peter Whitfield and Dr Dominic Paviour joined council and cases committee.

For 136 years, the MDU has indemnified healthcare professionals for incidents arising from their clinical care of patients. Our heritage is important, as it attests to our ability to provide an excellent service to our members, but more important are the present and the future. We are constantly striving to shape our products and services to best meet the changing needs of our members. On behalf of the board, I offer sincere thanks to all of the MDU's staff for their hard work throughout 2021.

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Report of the Chairman
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This being my last report, I wish to record the immense value of the security provided by my own membership, which began in 1982, and the honour and privilege it has been to serve on committees, on the board and as chairman. I am confident that the MDU will continue to flourish. I wish the MDU and my successor every success, as our business continues to be owned and run for the benefit of our members.


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

25 May 2022

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Group Strategic Report
For the Year Ended 31 December 2021

It is with enormous pride that I begin this group strategic report for 2021 - my first as chief executive officer of the MDU. I take over the leadership of your company at a time when the mission and purpose of the MDU is as clear as it has ever been.

Once again, 2021 was in large part defined by the battle against COVID-19. Many of you have continued to work against the odds to care for patients, and my colleagues and I are in awe of the dedication and professionalism our members have shown across the United Kingdom and the Republic of Ireland. At a time of so much change and uncertainty for healthcare professionals, we have sought to be a constant; providing members with the best possible guidance, support, and where needed, defence.

I am pleased to report that the MDU has performed well this year, and we continue to grow in strength. Your company is properly funded, well resourced, and its financial position is strong. The MDU has a proud history, a thriving present, and a future that is going to be defined by ambition and excellence.

In this group strategic report, I set out our performance in detail. Before doing so, I believe this is an opportune moment – in my first year as chief executive officer – to just briefly reflect on what this company is, and why.

The MDU is a mutual organisation, owned and run for the benefit of its members, providing access to discretionary indemnity for matters arising out of their professional practice. That mutual, member owned, discretionary status is more than just a description. It is an ethos that defines us.

My colleagues and I know who we are here for: you. We are on your side. That is why the range of benefits we provide are so valuable to our members, because our discretion can only be exercised positively, to provide advice and assistance when our members call on us. It is mutuality in practice, and goes a long way to explain why our figure for acceptance when we receive a request for assistance from a member who seeks our help, stands at well over 99%.

Behind that figure is a history of delivering for healthcare professionals. We have been providing unbroken protection for healthcare professionals since 1885 – the oldest medical organisation of our kind in the world. Taken with the fact that the MDU is staffed and led by dozens of doctors and dentists, and as a medical doctor myself, our members have every reason to be confident in the service we provide, now and in the future.

As the delivery of healthcare changes the MDU will continue to evolve, as it has always done, expanding its offering to members – and the robust, expert and reliable service we provide to members around the clock, every day of the year will remain a constant.

Standing up for members

As a member of the MDU, in partnership with other healthcare professionals, you are lending us your collective voice on the medico-legal and dento-legal issues facing the profession. That is something powerful, and we put it to good use. The MDU is an unapologetic and unrelenting champion of healthcare professionals, and together, we ensure your voice is heard by governments, elected representatives, regulators and other oversight bodies.

Amidst the raft of policy announcements made by the Department for Health and Social Care in 2021 was the welcome publication of draft proposals to fundamentally reform the General Medical Council (GMC), General Dental Council (GDC) and other healthcare professional regulators. This reform has been a long time coming. Doctors, dentists and other healthcare professionals have waited years to see their respective regulators reformed, and the MDU's message is clear – now is the time to deliver.

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Healthcare professionals deserve a regulatory regime that is fair, proportionate and managed in a timely manner. Proposed reforms include a brand new fitness to practise regime, changes to the registers of healthcare professionals published by regulators, as well as new governance structures. While there is much in the proposals we welcome, there are some changes that we do not believe would serve the best interest of members, so we have been making a strong case against these and will continue to do so.

The MDU has long campaigned for legal reforms to address the unsustainably high costs of clinical negligence. We believe the law as it stands is outdated. Not only is a vast amount of money being spent on clinical negligence payments – money that could otherwise be spent on improving patient care – but it is having an impact on the cost of indemnity for healthcare professionals. For too long, governments have failed to tackle the issue, but we are now confident some reform may be at hand.

In 2021 the House of Commons Health and Social Care Committee launched an inquiry into NHS clinical negligence litigation, examining the case for reform. We submitted a robust response to that inquiry. One reason clinical negligence costs are so expensive is because a 1948 law still applies - S2(4) of the *Law Reform (Personal Injuries) Act 1948*. This means that personal injury defendants must disregard the availability of NHS treatment when paying compensation, and instead must fund it based on private provision. This is outdated and we are making a concerted case for this law to be repealed, alongside many other reforms.

Medical & Dental Advisory

Whenever you need us, we are here for you - doctor for doctor, dentist for dentist. We know that issues can arise at any time, so our teams are available around the clock, seven days a week. 2021 proved to be another very busy year on our medical and dental advice lines, with over 23,000 calls received.

I know how important it is to members that when they call us, they are able to get through to one of our expert advisers as quickly as possible. I am happy to report that this year, 98.9% of calls to our medico-legal advice line were answered within 20 seconds – with the average call answered within 11 seconds. On the dento-legal advice line, 99.4% of calls were answered within 20 seconds – the average was within eight seconds.

While getting to a member's call promptly is very important, we also place great emphasis on members being advised by a professional colleague; someone who has real life experience of the challenges of clinical practice, and extensive expertise in the legal and regulatory difficulties members can face. That's why feedback such as this means a lot to us:

"I have already recommended the MDU to a colleague since calling the advice line for the first time. Your advisor was excellent, responded very promptly and I felt really well supported throughout. Thanks so much."

"Just a grateful thanks from the bottom of my heart. The advisor put me at ease and I can only commend her."

Our medico-legal and dento-legal advisers care deeply about our members, and it shines through in all they do. We are always looking for ways to expand our offering to members, including providing webinars on a host of topics, from confidentiality to prescribing. Members value the advice and support we provide them with on these topics, and in 2021, we had over 15,000 registering to attend our webinars.

Claims

Being involved in a claim of alleged clinical negligence can be another stressful experience for our members, especially as they can take a number of years to resolve. That is why our claims team builds a relationship with the member(s) involved throughout the process, making sure they are always kept informed and supported through what can sometimes be a long journey.

Our claims handling unit remains thoroughly committed to providing the best possible service to members, defending claims robustly where that is appropriate and advising members on when it is right to settle.

This is a high performing team. During 2021, we closed 85% of medical claims without a payment of damages. In dental claims, the figure was 63%. In total, where cases made it to trial, we defended eight claims, with a 75% success rate.

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In keeping with other institutions, the court system has had to adapt in recent years to comply with various public health regulations. That has seen the MDU working in a more flexible way, with trials being heard primarily in person but with some witnesses being able to give evidence remotely. In some instances, this has been a helpful evolution for our members.

As I explained earlier in this report, the MDU believes there needs to be a concerted package of reform to bring the clinical negligence litigation environment under control. We expect a consultation on a potential package of reforms from the UK government later this year, and we welcome a first step in the form of a long overdue consultation on the introduction of a fixed recoverable costs scheme in clinical negligence claims, which was published at the start of 2022.

This consultation is important, as during 2021 the average sum paid in claimants' legal costs on medical claims settled for up to £10,000 was in excess of £18,500, while for claims settled between £10,000 and £25,000, the average was nearly £35,000. For dental claims, the averages are £13,000 and over £22,500 respectively. I am sure you will agree with me that the case for reform and bringing these costs under control is extremely compelling.

Legal

At the MDU, our front-line teams of doctors, dentists and claims handlers work closely with an outstanding team of in-house lawyers, as well as with UK and Irish panels of specialist law firms. Our in-house team of solicitors works hard to achieve the very best outcomes for members, and this, I am pleased to report, is reflected in the results for 2021.

There has been a concerted effort on the part of all healthcare professional regulators to clear the backlog of cases caused by the onset of the pandemic in 2020. This was reflected in our in-house legal team's experience of a 50% increase in the number of GMC hearing days in 2021 compared to 2019 (after a substantial dip in hearings in 2020).

On a five-year comparison (2016 to 2020), the Medical Practitioners Tribunal Service average outcomes were that only 21.5% of cases were concluded with no finding of impairment. I am pleased to say that the MDU's solicitors' positive outcomes were almost double that for the same period, at 42%.

As always, behind such positive figures is a team that cares deeply about our members and is committed to delivering the best possible service for them. The feedback received from members is a testament to that:

"I cannot express eloquently enough my gratitude. Not only for the excellent advice but, most importantly for me, for your support, understanding and kindness which made an extremely sad and distressing process more tolerable. This has been a long and distressing journey and one I would never have completed without your kindness and support, your professionalism and positivity. I cannot adequately express my thanks."

Similarly, of the cases where our solicitors assisted members with representations to the GDC's case examiners, under 10% of cases were referred to a hearing. Of the in-house legal GDC cases that went to a Practice Committee, 50% were concluded with no finding of impairment. The latest GDC figures available relate to 2020, where the Professional Conduct Committee concluded 26% of hearings with no finding of impairment. In the same year, our in-house solicitors concluded 60% of hearings with no finding of impairment. That's what our expertise and commitment to members looks like in practice.

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Group Strategic Report (continued)
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Business Review

Strategy

In our annual reports, we explain the factors that determine how we build the MDU's long term strategy.

The medico-legal climate is harsh and complex. We continue to make every effort to positively influence the development of policy and procedures through which members are scrutinised and held accountable for their treatment of patients. In this work, we engage with a significant number of medical, dental, legal, regulatory and other stakeholders so we can form the clearest view of the environment that members are working within, including the various economic, societal and other pressures, and the impact all this can have on the decisions you make – be they personal or professional.

This forms the foundation of our success in meeting this 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 have to ensure we remain in the best position to provide members with specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise.

Key performance metrics

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

The MDU monitors its business activity by means of management information and performance metrics which the board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. Some of these are described below, in conjunction with relevant results, in order to illustrate the MDU's achievements during 2021.

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.

Membership quality of service

When a member needs to contact the MDU, we aim to get their call, email or letter as quickly as possible. Of the almost 102,000 calls made to our membership contact centre in 2021, 81% of calls were answered within 20 seconds. Looking at the nearly 80,000 emails and letters we received, I am delighted to say that 100% were responded to within five working days. The team in our membership contact centre remains committed to providing an exemplary service to all of our members. On the rare occasions things go wrong, we work hard to get that sorted fully and swiftly. Complaints to the MDU are dealt with courteously, and as a learning organisation we are always looking to identify opportunities to do things better.

Once again, our membership department maintained its accreditation under the *Customer Service Excellence Standard*. The team works hard to retain this prestigious accreditation, which recognises the quality of service we provide to members - reflected in feedback such as this:

"I've always found all dealings to be seamless and excellent, with outstanding admin staff"

and

"The phone service is very effective and one of the reasons why I maintain my membership."

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Group Strategic Report (continued)
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The pressures and strains members have been under during 2021, with the continuance of the pandemic, have been key concerns for the MDU. We have sought to offer our support in a number of ways. We presented our foundation doctor members with the opportunity to donate half of their membership subscription to the Royal Medical Benevolent Fund (RMBF) and the Doctors Support Network. Both charities support the health and wellbeing of doctors. The charities have thanked our foundation doctors for raising over £30,000, which will be used to support doctors in need in the coming year.

Our members were met with many difficult situations and patient interactions during 2021. To provide additional support, we offered over 100 learning resources such as webinars, e-learning and virtual courses on topical issues including conflict resolution, managing complaints and remote consultations.

We saw increased engagement with members linking with our social media channels. Increasingly, social media is a quick and easy way for members to view medico- and dento-legal advice and guidance and receive news updates.

To further our ongoing support for members, we established a new partnership with accountancy firm Armstrong Watson LLP to provide medical and dental members with access to tax and accountancy services. As part of this collaboration, members will receive access to a free, dedicated telephone advice line to discuss financial matters, as well as a preferential rate for Armstrong Watson services. Armstrong Watson have a specialist healthcare team and can advise on a wide range of matters including annual accounts, tax returns, tax planning and compliance.

Our corporate membership numbers continued to grow during 2021. It is heartening to hear just how much members have valued the expert support provided by our corporate business team, helping guide their organisations in turbulent times.

The channels we use to support our members continue to evolve to support our members' needs, and the pandemic has accelerated this evolution. Our liaison managers were able to continue to meet with members either virtually or face-to-face, and our membership numbers continue to grow.

Business engagement

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

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

We engage with members as customers when we provide advice and other benefits of membership, and we conduct member satisfaction surveys and surveys of those who have recently been assisted by us. We invite members to provide suggestions for improvements to our service, which are greatly valued by the MDU.

Press coverage and comments posted on social media are another means of engagement with members and help our awareness of current issues of interest to members.

There is a formal process for investigating complaints and making improvements where required. The KPIs and results we achieve for members referred to in this group strategic report reflect the high priority we place on members' interests.

As the directors' report explains, we also engage with members through the annual report and the annual general meeting (AGM). The participation of members on the board is a particular strength in our governance.

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

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

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Group Strategic Report (continued)
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There is a comprehensive suite of policies relating to employees' interests, wellbeing and safety. Continuing professional development is encouraged and the MDU's reporting concerns procedure provides an opportunity for staff to raise concerns in confidence.

For our suppliers, the MDU has a procurement and supplier management policy and process and relationship managers in relevant departments. Our engagement with suppliers has due regard to risks around bribery and modern slavery.

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

The MDU engages constructively with healthcare regulators, government departments and other institutions in relation to regulation or legislation that affects the interests of members; for example, we respond to consultations and contribute to committees and working groups on relevant matters.

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

Principal risks and uncertainties

The MDU has a risk management approach setting out its risk appetite and how risks are identified and managed. The approach is designed to set out all staff's risk management responsibilities and to ensure that risks are identified, assessed and reported. This approach focuses on the different type of risks arising from our business such as strategic, financial, market and economic, and legal and regulatory.

Risks reports and management information are regularly reviewed by the board to ensure the necessary measures are in place to manage risks. Below is an assessment of the principal risks with specific focus on the financial instruments below.

The MDU continues to monitor geopolitical risks including the effect of uncertainty on investments arising from events in the Ukraine.

Increasing claims cost

A significant increase in claims cost could affect the funding levels of the MDU, and we mitigate this risk in the following ways; by having in place highly trained claims and legal staff who manage claims on behalf of members, by the purchase of a well-established programme of reinsurance cover to protect against unexpected changes to claims frequency and inflation, and by continuing to lobby for reform of the law governing claims.

Meeting members' needs in a changing environment

The MDU is regularly reviewing the needs of its different types of members and their service and product needs in an ever-changing market.

We continue to assess the quality of service provided to our members to differentiate ourselves from the competition.

We undertake customer research and, more recently, targeted customer surveys to understand the future and current needs of our different members and then design new services to meet these needs.

Cyber security

The MDU takes a number of steps to mitigate the risks of increasing and changing cyber threats. This risk is mitigated by a number of information risk policies, security training and awareness and IT security controls. There is regular monitoring of these controls including regular security testing of systems and incident response plans.

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Group Strategic Report (continued)
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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.

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

Risk characteristics of financial instruments

Market risk

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

Credit risk

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

Interest rate risk

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to interest rate risks. This is achieved by holding derivatives and/or bonds which have the required level of interest rate sensitivity deemed necessary to control the MDU's interest rate risk.

Inflation risk

The estimate of the MDU's indemnity provision is influenced by the likely cost of future claims, some of which can take many years to settle and are affected by compensation for future costs and losses, such as loss of earnings and cost of future care. Such costs are affected by inflation. Therefore the MDU will hold such investments in inflation-sensitive financial derivatives and/or UK index linked gilts and bonds which are necessary to mitigate this risk.

Liquidity risk

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

Currency risk

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

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Group Strategic Report (continued)
For the Year Ended 31 December 2021

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 £606.7m (2020: £470.5m) after indemnity, insurance and other provisions of £562.6m (2020: £594.6m). 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 subscriptions collected for the year ended 31 December 2021 was £122.5m (2020: £115.5m), of which 98.5% was received from our UK members, the remainder, amounting to £1.8m, being from our members in Ireland.

Investment result

There were positive changes in the market value of investments in 2021 resulting in an unrealised gain of £74.9m (2020: loss of £3.5m). There was net realised investment income of £7.8m (2020: £0.4m) bringing the total net investment result to a gain of £82.8m (2020: loss of £3.1m).

Expenditure

In 2021 the MDU paid out £93.7m (2020: £82.0m) in discretionary indemnity claims and legal costs, of which £0.7m relates to our Irish members' claims.

Medical and dental advisory costs amounted to £30.1m in 2021 (2020: £30.0m).

Reinsurance premiums in 2021 were £5.3m (2020: £6.7m).

Administrative expenses in 2021 were £20.0m (2020: £20.7m).

Result after tax

The total comprehensive result is a gain of £136.2m (2020: £30.1m).

Assets/indemnity provision

The Statement of Financial Position for the MDU shows total assets less current liabilities of £1,149m, compared to £1,068.0m in 2020.

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 compensation or where legal proceedings have been served. It does not include any case where the board has declined to exercise or to continue to exercise its discretion to assist.

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

The level of indemnity provision (note 19) has been estimated on actuarial advice, taking all of the above factors into consideration, and is shown in the accounts at £560.6m (2020: £592.5m).

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

Group Strategic Report (continued)
For the Year Ended 31 December 2021

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

We focus 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.

This Strategic Report was approved by order of the board of management.



Dr Matthew Lee
Chief executive officer
Date: 25 May 2022
For and on behalf of the board of management.

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

Director's Report
For the Year Ended 31 December 2021

The directors presents their report for the year ended 31 December 2021.

Activities

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

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

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

The MDU continues to develop digital technology and products to support members and their changing needs in professional practice.

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 MEDICAL DEFENCE UNION LIMITED
(A Company Limited by Guarantee)

For the Year Ended 31 December 2021

Directors

The following served as directors in 2021:

Board member		No. of Board meetings attended*
P Riordan-Eva (chairman)	1 3 4 5	6
C Aghadiuno	2 4	6
A Archibald	4 6	2
S E Beaumont	2 4	6
J Buttigieg	2 3 10	0
P Clark	7	2
N A Dungay	4 11	1
P Goldsmith		4
I D Hutchinson	1 2 3 4 5	6
M T Lee	4 5	6
G McAusland	2 4 8	3
K Miller	4 9	2
T J Norfolk	1 5	6
J H Riley	2 4	5
S Shaunak		6
O C E Sparrow	12	5
C M Tomkins	3 4 5 12	6
S W Watkin	1 2 3 4 5	6
E C J Wells	1 4 5	6
A R Wright	4 5	6

- 1 Members of the Remuneration Committee
- 2 Members of the Audit & Risk Committee
- 3 Members of the Nomination Committee
- 4 Directors of MDU Services Limited
- 5 Members of the Investments Committee of MDU Investments Limited
- 6 Appointed on 23 August 2021
- 7 Appointed on 21 September 2021
- 8 Appointed on 27 July 2021
- 9 Appointed on 16 September 2021
- 10 Resigned on 5 February 2021
- 11 Retired on 5 April 2021
- 12 Retired on 21 September 2021
- * 6 meetings were held throughout the year

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

For the Year Ended 31 December 2021

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

S E Beaumont
P Goldsmith
M T Lee
E C J Wells

P Riordan-Eva retires by rotation at the next annual general meeting and will not be standing for re-election. P Clark was appointed by the board during the year, and H H A Stewart after the year end. Both will stand for election at the next annual general meeting in accordance with Article 54.

J Buttigieg resigned on 5 February 2021, N A Dungay retired on 5 April 2021 and O C E Sparrow and C M Tomkins retired on 21 September 2021.

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 2021 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)

For the Year Ended 31 December 2021

Corporate governance

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

The participation of MDU members on the MDU board is a particular feature and strength of the governance arrangements. There are five 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 chair and chief executive officer are separate. This distinguishes the running of the board from executive responsibility for the business. The roles of chair and chief executive officer 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 chair 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; and
- contracts not in the ordinary course of business

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

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

For the Year Ended 31 December 2021

Audit and Risk Committee

The board has an Audit and Risk Committee, which meets as often as necessary. The committee is chaired by Mr Graeme McAusland, a non-executive director without MDU membership. Mr McAusland is an actuary. 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 reviews the indemnity provision and receives and considers a report from consulting actuaries on their peer review.

The Audit and Risk Committee has a written policy, approved by the Board, dealing with any recommendation to the Board concerning the appointment of the external auditors, and with their independence and remuneration.

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 officer. 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. In addition to the Chairman, the committee comprises two non-executive directors who are MDU members and two non-executive directors without MDU membership. 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 risk management and internal control 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 reporting lines. 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 in the business. The principal risks are identified in the Strategic Report on pages 9-10.

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, reviews the effectiveness of the risk management and internal control of the group.

Going concern

The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets and taken account of the discretionary nature of the company's indemnity obligations and other risk factors (discussed on pages 9-10).

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

For the Year Ended 31 December 2021

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 participate in the annual general meeting, either in person or by proxy. The Executive and Members of the Audit and Risk, Remuneration and Nomination committees always remain available to respond to any questions. 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.

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

For the Year Ended 31 December 2021

Staff involvement

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

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

Employees, suppliers, customers and others

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

Greenhouse gas and carbon reporting

Under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, the MDU is required to report on its total energy consumption and greenhouse gas emissions (Streamlined Energy & Carbon Report (SECR)).

Energy consumption has been measured in kilowatt-hours (kWh), and greenhouse gas emissions have been measured in metric tonnes of Carbon Dioxide equivalent (tCO₂e).

In summary, the MDU's direct emissions (combustion of transportation fuels, such as company vehicles and employee-owned vehicles used for business travel) for the year were 27.4 tCO₂e (2020: 31.6tCO₂e), resulting from the direct combustion of 117,150 kWh of fuel (2020:134,119 kWh), an improvement on the previous year's emissions figure.

The MDU's consumption of purchased electricity in day-to-day business operations increased slightly to 557,545 kWh (2020: 556,336 kWh). However, the carbon emissions factor for grid supplied electricity decreased from 0.23314 kgCO₂e in 2020 to 0.21233 kgCO₂e in 2021. This contributed to an overall reduction in the MDU's indirect emissions from 129.7tCO₂e in 2020 to 118.4tCO₂e in 2021.

The intensity metrics were calculated by dividing the 2021 reportable figure for tCO₂e (145.8) by the number of square metres of internal office floor space (4,393 m²). The MDU's operations had an intensity metric of 0.033 tCO₂e per m², an improvement from the previous year's figure of 0.037 tCO₂e per m².

Consumption (kWh) and Greenhouse Gas emissions (tCO₂e) Totals

The MDU's total consumption and greenhouse gas emissions is set out below:

Total consumption (kWh) figures for energy supplies:

Utility and Scope	2021 consumption (kWh)*
Grid- Supplied Electricity (Indirect consumption)	557,545
Gaseous and other fuels (Direct consumption)	0
Transportation (Direct emissions)	117,150
	674,695

The total emission (tCO₂e) figures for energy supplies:

Utility and Scope	2021 consumption (tCO₂e)*
Grid- Supplied Electricity (Indirect consumption)	118.4
Gaseous and other fuels (Direct consumption)	0
Transportation (Direct emissions)	27.4
	145.8

* Consumption and emissions data was calculated in line with the Emission Factor Database 2021, Version 1.0 and is consistent with the 2019 UK Government environmental reporting guidance.

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

For the Year Ended 31 December 2021

All consumption data for the MDU was complete for the reporting year, and no estimations were required.

Energy Efficiency Review and Improvements

The MDU has established a register of energy efficiency measures to facilitate improvements.

The MDU is engaged with Canary Wharf Management Limited's commitment to purchase a fully flexible green purchasing framework for the next 10 years target, to set up a Purchase Power Agreement (PPA), to source and purchase 80% of its renewable energy at a preferred rate direct from a new UK based windfarm.

In 2021, the MDU took measures to replace older vending equipment with more energy efficient models. The MDU has replaced most of its personal computers with energy efficient laptops, and is committed to replacing the remainder. The number of multi-function devices in the office space has been reduced, and the number of printers in individual offices will be reviewed, to reduce energy consumption and paper waste.

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that 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)

For the Year Ended 31 December 2021

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 auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditor is aware of that information.

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



N J Bowman
Secretary

Date: 25 May 2022

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

Independent Auditor's Report to the Members of The Medical Defence Union Limited

Opinion

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 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Medical Defence Union Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Changes in Equity and the Consolidated and Company Statement of Cash Flows, and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

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

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. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the 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 Director's Responsibilities Statement on page 20, 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 Auditor's Report to the Members of The Medical Defence Union Limited (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Audit procedures performed by the engagement team included:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Reading minutes of management meetings and of those charged with governance and reviewing correspondence with regulatory bodies, such as HMRC, and reviewing documentation for indications of non-compliance with laws and regulations;
- Performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatement due to fraud and tested accordingly;
- Assessing whether the accounting policies, treatments and presentation adopted in the financial statements is in accordance with applicable Company Law and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice);
- Assessing whether there are instances of potential bias in areas with significant degrees of judgement. In particular we engaged an internal actuary as auditor's expert to review the assumptions and methodology applied by the Group in the valuation of the Indemnity Claims Provision to check that the methods utilised are appropriate;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud; and
- In addressing the risk of management override of controls, including testing a sample of journals and evaluating whether there was evidence of bias by the Directors that might reasonably represent a risk of material misstatement due to fraud.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

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

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Perry (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London,
United Kingdom

Date:

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 2021

	Note	2021 £000	2020 £000
Members' subscriptions		116,343	102,140
Medical and dental advisory services		(30,144)	(30,026)
Administrative expenses		(19,950)	(20,746)
Indemnity, legal and reinsurance costs	6	(70,225)	(7,363)
Finance cost - indemnity/pension provision	7	(3,307)	(2,856)
Operating surplus		(7,283)	41,149
Changes in fair value of investments	3	74,933	(3,497)
Net investment income	4	7,842	354
Interest payable	5	(10)	(20)
Result before taxation	8	75,482	37,986
Taxation	10	39,030	(8,985)
Result after taxation		114,512	29,001
Other comprehensive income:			
Actuarial gain on defined benefit schemes	21	21,700	1,100
		21,700	1,100
Total comprehensive income for the year		136,212	30,101

The notes on pages 33 to 57 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 2021

	Note	2021 £000	2020 £000
Fixed assets			
Tangible assets	12	10,656	12,341
Fixed asset investments	13	1,111,566	1,034,744
		<u>1,122,222</u>	<u>1,047,085</u>
Current assets			
Debtors: amounts falling due after more than one year	15	15,839	27,971
Debtors: amounts falling due within one year	15	13,789	32,367
Cash at bank and in hand		39,075	48,334
		<u>68,703</u>	<u>108,672</u>
Creditors: amounts falling due within one year	17	(42,085)	(87,788)
Net current assets		<u>26,618</u>	<u>20,884</u>
Total assets less current liabilities		<u>1,148,840</u>	<u>1,067,969</u>
Creditors: amounts falling due after more than one year	16	(6,097)	(7,439)
Provisions for liabilities			
Indemnity provision	19	(560,646)	(592,467)
Other provisions	19	(1,987)	(2,101)
Net assets excluding pension asset		<u>580,110</u>	<u>465,962</u>
Pension asset	21	26,557	4,493
Net assets		<u><u>606,667</u></u>	<u><u>470,455</u></u>
Capital and reserves			
Revaluation reserve		130,769	60,463
Retained earnings		475,898	409,992
		<u><u>606,667</u></u>	<u><u>470,455</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 May 2022.



M T W Lee
Chief executive officer



P Riordan-Eva
Chairman

The notes on pages 33 to 57 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 2021

	Note	2021 £000	2020 £000
Fixed assets			
Fixed asset investments	13	25,160	25,160
		<u>25,160</u>	<u>25,160</u>
Current assets			
Debtors: amounts falling due after more than one year	15	15,839	27,971
Debtors: amounts falling due within one year	15	927,603	951,158
Cash at bank and in hand		4,580	7,272
		<u>948,022</u>	<u>986,401</u>
Creditors: amounts falling due within one year	17	(20,240)	(74,093)
Net current assets		<u>927,782</u>	<u>912,308</u>
Total assets less current liabilities		<u>952,942</u>	<u>937,468</u>
Provisions for liabilities			
Indemnity provision	19	(560,646)	(592,467)
		<u>(560,646)</u>	<u>(592,467)</u>
Net assets excluding pension asset		<u>392,296</u>	<u>345,001</u>
Pension asset	21	26,557	4,493
Net assets		<u>418,853</u>	<u>349,494</u>
Capital and reserves			
Retained earnings		418,853	349,494
		<u>418,853</u>	<u>349,494</u>

The Statement of Comprehensive Income for the year ended 31 December 2021 for the parent company only was a gain of £69.5m (2020: gain of £29.8m).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 May 2022.


M T W Lee
Chief executive officer


P Riordan-Eva
Chairman

The notes on pages 33 to 57 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 2021

	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2021	60,463	409,992	470,455
Result after taxation	-	114,512	114,512
Actuarial gains on pension scheme	-	21,700	21,700
Fair value adjustments from revaluation reserve	-	4,627	4,627
Fair value adjustments to retained earnings	(4,627)	-	(4,627)
Transfer to/from retained earnings	74,933	(74,933)	-
At 31 December 2021	130,769	475,898	606,667

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020

	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1 January 2020	68,217	372,137	440,354
Result after taxation	-	29,001	29,001
Actuarial gains on pension scheme	-	1,100	1,100
Fair value adjustments from revaluation reserve	-	4,257	4,257
Fair value adjustments to retained earnings	(4,257)	-	(4,257)
Transfer to/from retained earnings	(3,497)	3,497	-
At 31 December 2020	60,463	409,992	470,455

The notes on pages 33 to 57 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 2021

	Retained earnings £000	Total equity £000
At 1 January 2021	349,494	349,494
Result after taxation	47,659	47,659
Actuarial gains on pension scheme	21,700	21,700
At 31 December 2021	418,853	418,853

Company Statement of Changes in Equity
For the Year Ended 31 December 2020

	Retained earnings £000	Total equity £000
At 1 January 2020	319,735	319,735
Result after taxation	28,659	28,659
Actuarial gains on pension scheme	1,100	1,100
At 31 December 2020	349,494	349,494

The notes on pages 33 to 57 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
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Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Result after taxation		114,512	29,001
Adjustments for:			
Depreciation of tangible assets	12	2,787	2,956
Loss on disposal of fixed assets	12	7	-
Foreign exchange differences	4	2,331	(2,090)
Net changes in fair value of investments	3	(74,933)	3,497
(Decrease) in indemnity and other provisions	19	(31,935)	(78,940)
Loss on disposal of investments	4	110	4,502
Non cash investment expense	13	5,096	5,323
Finance credit on pension scheme	21	(100)	(100)
Movement in deferred taxation	20	12,297	(2,918)
Decrease in debtors	15	30,579	19,971
Increase in creditors	17	4,093	12,477
Past service cost on pension scheme	21	(300)	(1,300)
Corporation tax (credit)/charge		(51,327)	11,903
Corporation tax paid		(11,942)	(3,366)
Net cash from operating activities		<u>1,275</u>	<u>916</u>
Cash flows from investing activities			
Purchase of tangible fixed assets	12	(1,108)	(1,063)
Purchase of investments	13	(70,000)	(76,274)
Sale of investments	13	42,313	159,614
Movement in other liquid resources	13	18,261	(91,752)
Net cash from investing activities		<u>(10,534)</u>	<u>(9,475)</u>
Net (decrease) in cash and cash equivalents		<u>(9,259)</u>	<u>(8,559)</u>
Cash and cash equivalents at beginning of year		<u>48,334</u>	<u>56,893</u>
Cash and cash equivalents at the end of year		<u><u>39,075</u></u>	<u><u>48,334</u></u>

The notes on pages 33 to 57 form part of these financial statements.

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

Company Statement of Cash Flows
As at 31 December 2021

		2021	2020
		£000	£000
Cash flows from operating activities			
Income and expenditure after taxation		47,659	28,658
Adjustments for:			
Decrease in debtors (excl. amounts owed by subsidiaries)	15	31,422	21,073
Increase in creditors (excl. corporation tax)	17	4,750	14,491
Decrease in amounts receivable from subsidiary undertakings	15	6,265	5,995
Decrease in indemnity provision	19	(31,821)	(78,753)
Finance credit on pension scheme	21	(100)	(100)
Corporation tax paid		(3,651)	(1,579)
Corporation tax (credit)/charge		(57,216)	9,542
Net cash generated from operating activities		(2,692)	(673)
 Net (decrease) in cash and cash equivalents		 (2,692)	 (673)
Cash and cash equivalents at beginning of year		7,272	7,945
Cash and cash equivalents at the end of year		4,580	7,272

The notes on pages 33 to 57 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 2021

1. Accounting policies

1.1 Basis of preparation of financial statements

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

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. In preparing these financial statements, the directors consider the significant judgements and key estimates to be the indemnity provision. Further details are provided in note 1.6.

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

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

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The group Statement of Comprehensive Income and Financial Position consolidate the financial results of the company and its subsidiary undertakings for the year ended 31 December 2021. 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. For member segments with an indemnity dominant income profile, subscriptions are accounted for on the basis of amounts received/ receivable by the group before the Statement of Financial Position date, without apportionment.

For member segments with an advisory services dominant income profile, subscriptions are accounted for on an accruals basis and apportioned to accounting periods based upon the renewal term.

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

Notes to the Financial Statements
For the Year Ended 31 December 2021

1. Accounting policies (continued)

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.

1.5 Indemnity, legal and reinsurance costs

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

1.6 Indemnity provision

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

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

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

1.7 Other provisions

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

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

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.8 Tangible fixed asset

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

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

The estimated useful economic life ranges are as follows:

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

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

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

1.9 Foreign currencies

Transactions in foreign currencies are translated at a budgeted exchange rate, which applies for the entirety of the year. The budgeted exchange rate is a proxy for the transaction date rate. Monetary assets and liabilities denominated in foreign currencies are recorded at the prevailing rate of exchange at each month end. All foreign exchange differences are taken to the Consolidated Statement of Comprehensive Income. The consolidated financial statements are presented in sterling, which is the company's functional and the group's presentation currency.

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 2021

1. Accounting policies (continued)

1.11 Investments

(i) Recognition

Initial recognition of investment financial assets 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 at the Statement of Financial Position date are subsequently measured at market value or amortised cost.

Financial assets at fair value:

Financial assets 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 at amortised cost:

Financial assets 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, or control of the asset is transferred to that party such that the other party will be able to sell the whole asset externally without any restrictions.

(iv) Derivatives

Derivative financial instruments ("derivatives") are held and traded in conjunction with the groups' risk management objectives. Derivatives are defined as a financial instrument that derives its value from the price or rate of some underlying item. Derivatives are carried on the Statement of Financial Position at market value ("marked to market"). Derivatives with a positive market value are included within investments, those with a negative market value are shown as liabilities. Changes in that value are recognised in the Consolidated Statement of Comprehensive Income. This method is used for all derivatives which are held for trading purposes.

1.12 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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2021

1. Accounting policies (continued)

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. The liability in respect of 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 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 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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.15 General information

The Medical Defence Union Limited is a private company limited by guarantee without share capital incorporated in England and Wales (registered number: 00021708) with registered office One Canada Square, Canary Wharf, London, E14 5GS.

2. Employee information

	2021 £000	2020 £000
Salaries	28,822	29,150
Social security costs	3,417	3,448
Pension costs - defined contribution scheme	3,116	3,111
Other staff costs	1,016	859
	36,371	36,568
	2021	2020
Average number of employees in the year	436	445
	436	445

There are no staff employed by the parent company.

3. Changes in fair value of investments

	2021 £000	2020 £000
Changes in fair value	74,933	(3,497)
	74,933	(3,497)

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

Notes to the Financial Statements
For the Year Ended 31 December 2021

4. Net investment income

	2021 £000	2020 £000
Bond and interest income	184	432
Difference on exchange	(2,331)	2,090
Other investment income	15,454	8,566
(Loss) on disposal of investments	(110)	(4,502)
Investment management fees and related costs	(5,355)	(6,232)
	<u>7,842</u>	<u>354</u>

Investment income from listed investments in the year was £8.18m (2020: £4.97m)

5. Interest payable

	2021 £000	2020 £000
Bank interest payable	10	20
	<u>10</u>	<u>20</u>

6. Indemnity, legal and reinsurance costs

	2021 £000	2020 £000
Reinsurance premiums	5,318	6,678
Increase/(decrease) in incurred costs (see note 19)	32,926	(23,750)
Premium element adjustment (see note 1.4)	(2,292)	(21,520)
Legal costs	25,556	24,046
Reinsurance recoveries (including the movement in reinsurance provision)	8,717	21,909
	<u>70,225</u>	<u>7,363</u>

7. Finance cost - indemnity/pension provision

	2021 £000	2020 £000
Finance cost relating to indemnity provision (see note 19)	3,407	2,956
Finance income relating to pension provision (see note 21)	(100)	(100)
	<u>3,307</u>	<u>2,856</u>

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

8. Result before taxation

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

	2021	2020
	£000	£000
Depreciation of tangible fixed assets (see note 12)	2,787	2,956
Operating lease rentals - land and buildings	1,182	1,201
Operating lease rentals - motor vehicles	185	191
Defined contribution pension cost	3,116	3,111
	<u> </u>	<u> </u>

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

Notes to the Financial Statements
For the Year Ended 31 December 2021

9. Directors' remuneration

	2021	2020
	£000	£000
Fees	477	472
Directors' emoluments	1,247	1,369
Amounts due and receivable under long-term incentive plans	340	306
	2,064	2,147

The highest paid director in the year earned:

	2021	2020
	£000	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	518	622
Accrued annual pension (excluding indexation)*	167	165

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

There are no retirement benefits accruing to directors under a defined benefit scheme (2020: zero).

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 (2020: four) of the non-executive directors received fees totalling £26,444 (2020: £15,229) for acting as expert witnesses on behalf of members.

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

9. Directors remuneration (continued)

	Fee/Salary £000	Benefits [i] £000	STIP/LTIP [ii] £000	Cash alternative [iii] £000	Pension [v] £000	2021 £000	2020 £000
Executive Directors							
C M Tomkins	248	16	254	-	-	518	622
N A Dungay	29	4	14	9	-	56	275
M T Lee	249	13	168	54	-	484	427
A R Wright	211	17	137	18	-	383	350
A R Archibald	51	-	16	-	5	72	-
K Miller	42	-	27	-	5	74	-
	830	50	616	81	10	1,587	1,674

	Fees/Salary £000	Other [iv] £000	2021 £000	2020 £000
Non-executive directors				
P Riordan-Eva	86	-	86	86
J Buttigieg	4	-	4	17
W R J Dinning	-	-	-	28
E Wells	40	-	40	17
I D Hutchinson	51	-	51	51
O C E Sparrow	8	21	29	33
S W Watkin	55	6	61	65
J H Riley	40	-	40	41
C Aghadiuno	40	-	40	40
S Beaumont	40	-	40	40
P Goldsmith	11	1	12	14
S Shaunak	11	2	13	13
T J Norfolk	19	13	32	26
P I Clark	3	7	10	-
G S McAusland	17	-	17	-
	425	50	475	471

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

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

- [ii] STIP represents those amounts accrued in respect of the year to 31 December 2021, and over/under accruals for 2020. The STIP is determined by comparing actual performance against set targets for the key performance indicators over the year.
 LTIP represents those amounts accrued in respect of the year to 31 December 2021, and over/under accruals for 2020. 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] Payments made as cash alternative to company contributions, to defined contribution pension scheme.
- [iv] "Other" represents expenses paid to board members and any fees and expenses for attendance at council and committee meetings other than MDU board and its related committees.
- [v] Pension costs represents company contributions to defined contribution pension scheme

10. Taxation

	2021	2020
	£000	£000
Corporation tax		
Current tax on result for the year	8,075	2,175
Adjustments in respect of prior periods	(59,403)	9,728
Total current tax	(51,328)	11,903
Deferred tax		
Timing differences	9,888	(2,995)
Effect of tax rate change	2,410	77
Total deferred tax	12,298	(2,918)
Taxation	(39,030)	8,985

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2020 - the same as) the standard rate of corporation tax in the UK of 19% (2020 - 19%). Reconciling items are explained below:

	2021 £000	2020 £000
Profit on ordinary activities before tax	<u>75,482</u>	<u>37,986</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	14,342	7,217
Effects of:		
Net mutual income not subject to corporation tax	(22,589)	(3,224)
Expenses not deductible for tax	24,523	2,283
Adjustments in respect of prior periods	(59,403)	9,718
Non-taxable income	(8,492)	(4,123)
Difference in tax rate on deferred tax movement	2,410	77
Recognition of deferred tax liability/(asset) in respect of unrealised gains/(losses) on equity investments	9,913	(3,041)
Fixed asset differences	-	78
Allocation from transparent funds	301	-
Restrictions of release of deferred income from landlord contribution	(35)	-
Total tax (credit)/charge for the year	<u>(39,030)</u>	<u>8,985</u>

The March 2021 Budget announced an increase in corporation tax rate from 19% to 25% effective from 1 April 2023. This has been substantively enacted on 24 May 2021 and will affect the tax charge for the company in the future accordingly.

11. Auditor's remuneration

	2021 £000	2020 £000
Fees payable to the Group's auditor and its associates	<u>234</u>	<u>309</u>
Fees payable to the Group's auditor and its associates:		
- for the audit of the group's annual accounts	131	128
- for tax services	81	163
- in respect of the audit of the MDU Services Limited pension scheme	24	18

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

12. Tangible fixed assets

Group

	Long-term leasehold property £000	Furniture and office equipment £000	Computer equipment and software £000	Total £000
Cost or valuation				
At 1 January 2021	10,265	1,083	17,600	28,948
Additions	-	8	1,100	1,108
Disposals	-	(511)	(2,582)	(3,093)
At 31 December 2021	10,265	580	16,118	26,963
Depreciation				
At 1 January 2021	4,082	1,055	11,469	16,606
Charge for the year on owned assets	685	17	2,085	2,787
Disposals	-	(511)	(2,575)	(3,086)
At 31 December 2021	4,767	561	10,979	16,307
Net book value				
At 31 December 2021	5,498	19	5,139	10,656
At 31 December 2020	6,182	28	6,131	12,341

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

13. Fixed asset investments

Group

	Investments in cash & cash equivalents £000	Funds held by Investment Managers £000	Total £000
Cost or valuation			
At 1 January 2021	127,619	907,125	1,034,744
Additions	-	70,000	70,000
Disposals	-	(42,313)	(42,313)
Foreign exchange movement	-	(2,331)	(2,331)
Revaluation of investments	-	74,933	74,933
Net movement of cash & accrued income	(18,261)	(5,096)	(23,357)
Loss on disposal	-	(110)	(110)
	<u>109,358</u>	<u>1,002,208</u>	<u>1,111,566</u>
At 31 December 2021			

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

13. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2021	25,160
	25,160
At 31 December 2021	25,160

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

Dormant companies are disclosed in note 25.

14. Analysis of funds held by investment managers

	2021 %	2021 £000	2020 %	2020 £000
Pooled funds [i]	94.9	951,069	94.5	856,962
Private credit [ii]	5.0	49,925	5.4	48,950
Commercial real estate loan [iii]	0.1	1,214	0.1	1,214
	100	1,002,208	100	907,126

THE MEDICAL DEFENCE UNION LIMITED
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Notes to the Financial Statements
For the Year Ended 31 December 2021

Analysis of funds held by investment managers (continued)

	2021 £000	2020 £000
Valuation basis of investments		
Fair value	1,000,994	905,912
Amortised cost [iv]	1,214	1,214
	1,002,208	907,126

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

15. Debtors

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Due after more than one year				
Reinsurance recoveries	15,839	27,971	15,839	27,971
	15,839	27,971	15,839	27,971
Due within one year				
Reinsurance recoveries	2,268	3,055	2,268	3,055
Amounts owed by subsidiary undertakings	-	-	920,419	926,684
Other debtors	2,705	647	-	-
Prepayments and accrued income	4,397	6,521	1,297	1,533
Premium element adjustment	2,292	19,886	2,292	19,886
Corporation tax	2,127	-	1,327	-
Deferred taxation	-	2,258	-	-
	13,789	32,367	927,603	951,158

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

	Group 2021 £000	Group 2020 £000
Payments received on account	1,181	1,362
Other creditors and accruals	4,916	6,077
	<u>6,097</u>	<u>7,439</u>

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

17. Creditors: Amounts falling due within one year

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Corporation tax*	-	61,178	-	59,576
Taxation and social security	912	920	30	28
Deferred taxation (see note 20)	10,040	-	-	-
Deferred subscription income	19,852	13,643	19,852	13,643
Accruals and deferred income	11,281	12,047	358	846
	<u>42,085</u>	<u>87,788</u>	<u>20,240</u>	<u>74,093</u>

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

* During 2021, the Upper Tribunal reversed the First-Tier Tribunal's decision in relation to an ongoing HMRC investigation in the Company's favour. As a result, the prior year provision was reversed (2020: £57.5m).

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18. Net funds held by investment managers

	2021 £000	2020 £000
Financial assets: investments (see note 13)	1,002,208	907,125
	<u>1,002,208</u>	<u>907,125</u>

The historic cost of net funds held by investment managers is £874.8m (2020: £847.0m).

(a). Fair value hierarchy

Of the investments held, £1,001m were held at fair value (note 14), the following fair value hierarchy was used to estimate the value of these investments:

	2021 £000	2020 £000
Quoted prices - Level 1	-	-
Recent quoted prices - Level 2	1,000,994	905,912
Valuation technique (Unobservable inputs) - Level 3	-	-
Total net assets	<u>1,000,994</u>	<u>905,912</u>

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

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

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19. Provisions - indemnity

	2021	2020
	£000	£000
Group and company		
At 1 January	592,467	671,220
Finance costs	3,407	2,956
Indemnity and insurance paid	(68,154)	(57,958)
Increase/(decrease) in incurred costs (see note 6)	32,926	(23,751)
At 31 December	560,646	592,467

The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 0.62% (2020: 0.5%) per annum.

The principal financial assumptions used in the actuary's calculation of the gross indemnity provision for the company are that medium/large claims inflation will be 8% per annum (2020: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 1.04% per annum (2020: 0.19%) is used to discount the claims payments to the Statement of Financial Position date.

Provisions - other

	2021	2020
	£000	£000
Group		
At 1 January	2,101	2,288
Increase in the year	(114)	(187)
At 31 December*	1,987	2,101

*Building dilapidations are recognised on two (2020: two) buildings.

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20. Deferred taxation

	2021	2020
	£000	£000
Group		
At 1 January	(2,258)	660
Charged/(credited) to profit or loss	12,297	(2,918)
At 31 December	10,039	(2,258)

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

	Group	Group
	2021	2020
	£000	£000
Fixed asset timing differences	714	567
Capital gains	9,325	(2,825)
	10,039	(2,258)

The deferred tax liability is largely attributable to the unrealised gains on capital assets.

The March 2021 Budget announced an increase in corporation tax rate from 19% to 25% effective from 1 April 2023. This has been substantively enacted on 24 May 2021, which means that the substantively enacted rate at the balance sheet date of 31 December 2021 is 25%. We have therefore used the 25% tax rate for calculating the deferred tax position at 31 December 2021.

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Notes to the Financial Statements
For the Year Ended 31 December 2021

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, and, after 31 December 2019, for employees who accepted employment before 1 January 2003. The assets of both pension schemes are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 1 April 2018 and has been updated to 31 December 2021 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2021 reflects the status of the defined benefit section of the scheme only.

The major assumptions made by the actuary were:

	2021	2020	2019	2018
Rate of increase in salaries	3.5%	3.2%	3.3%	3.5%
Rate of increase in pension pre 16 February 2009 retirees	2.6%	2.3%	2.1%	2.2%
Rate of increase in pensions post 16 February	3.1%	2.8%	2.9%	3.1%
Discount rate	2.0%	1.5%	2.0%	2.9%
RPI inflation assumption	3.3%	2.9%	3.0%	3.3%
CPI inflation assumption	2.7%	2.3%	2.1%	2.2%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 22.5 years if they are male and a further 24.8 years if they are female. Members currently aged 45 are expected to live for a further 24.1 years from age 65 if they are male and for a further 26.5 years from age 65 if they are female.

Fair value of scheme assets:

	2021	2020	2019	2018
	£000	£000	£000	£000
Equities	18,400	19,500	17,700	14,600
Property	20,600	16,900	20,600	21,700
Government bonds	82,100	45,700	28,900	20,500
Corporate bonds	34,000	91,900	89,400	83,100
Other	25,100	1,700	200	100
	180,200	175,700	156,800	140,000

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For the Year Ended 31 December 2021

21. Pension costs (continued)

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

	2021 £000	2020 £000	2019 £000	2018 £000
Total market value of assets	180,200	175,700	156,800	140,000
Present value of scheme liabilities	(153,600)	(171,200)	(154,800)	(130,700)
Pension asset	<u>26,600</u>	<u>4,500</u>	<u>2,000</u>	<u>9,300</u>

	2021	2020	2019	2018
Assets as a percentage of liabilities	<u>117.3%</u>	<u>102.6%</u>	<u>101.3%</u>	<u>107.1%</u>

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

	2021 £000	2020 £000
Opening defined benefit obligations	171,200	154,800
Interest cost	2,500	3,000
Actuarial (gain)/loss on the scheme liabilities	(15,700)	17,900
Net benefits paid out	(4,400)	(4,500)
Closing defined benefit obligations	<u>153,600</u>	<u>171,200</u>

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

	2021 £000	2020 £000
Opening fair value of scheme assets	175,700	156,800
Expected return on scheme assets	2,600	3,100
Actuarial gain on scheme assets	6,000	19,000
Contributions by employer	300	1,300
Net benefits paid out	(4,400)	(4,500)
Closing fair value of scheme assets	<u>180,200</u>	<u>175,700</u>

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Notes to the Financial Statements
For the Year Ended 31 December 2021

21. Pension costs (continued)

The total estimated pension expense in 2021 is £nil (2020: £nil). This is because the DB pension scheme closed with effect from 1 January 2020.

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 credited to other finance credits

	2021	2020
	£000	£000
Expected return on scheme assets	(2,600)	(3,100)
Interest on scheme liabilities	2,500	3,000
Net return	<u>(100)</u>	<u>(100)</u>

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Notes to the Financial Statements
For the Year Ended 31 December 2021

21. Pension costs (continued)

Analysis of amounts recognised in other comprehensive income:

	2021	2020
	£000	£000
Actuarial gains on scheme assets	6,000	19,000
Actuarial gains/(losses) on scheme liabilities	15,700	(17,900)
Actuarial gains recognised in other comprehensive income	21,700	1,100

22. Members liability

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

23. Related party transactions

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

24. Commitments under operating leases

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

	Group	Group	Company	Company
	2021	2020	2021	2020
	£000	£000	£000	£000
Not later than 1 year	1,343	1,382	-	-
Later than 1 year and not later than 5 years	4,807	4,827	-	-
Later than 5 years	2,913	4,078	-	-
	9,063	10,287	-	-

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25. Dormant Companies

The MDU group had the following dormant companies as at 31 December 2021:

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

All of the above are wholly owned subsidiaries of the Medical Defence Union Limited, incorporated in England and Wales and included in the consolidation. The companies are exempt from an audit.



MDU

Medical Defence Union Ltd
One Canada Square
London
E14 5GS

Telephone: 020 7202 1854
Email: anthony.wright@themdu.com

BDO LLP
55 Baker Street
London
W1U 7EU

Dear Madam/Sirs

Financial Statements of Medical Defence Union Limited for the period ended 31 December 2021

We confirm that the following representations given to you in connection with your audit of the Consolidated and parent company's financial statements (together the "financial statements") for the year ended 31 December 2021 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other directors and officials of the company and other group companies as appropriate.

We have fulfilled our responsibilities as directors for the preparation and presentation of the consolidated and parent company financial statements as set out in the terms of the audit engagement letter, and in particular that the financial statements give a true and fair view of the financial position of the group and the parent company as at 31 December 2021 and of the results of the group's and the company's operations and cash flows for the year then ended in accordance with the applicable financial reporting framework and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the company have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings have been made available to you.

Going concern

We have made an assessment of the group's and the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment, we consider that the group and company are able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the group's and the company's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which our business is conducted, and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing, and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge, we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge, we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators, or any other party.

Misstatements

You have not advised us of any unadjusted misstatements in the financial statements or other information in the annual report.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable accounting framework.

Other than as disclosed in note 23 to the financial statements, there were no loans, transactions or arrangements between any group or company and the company's directors or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the company are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the consolidated and parent financial statements.

Accounting Estimates

A provision of £560.65m (2020: £592.5m) is made for the outstanding cost of settlement and related claimant costs for indemnity cases from all reported incidents noted as at the balance sheet date in accordance with the requirements of FRS 102.

No provision is made for claims that may arise from incidents incurred before the balance sheet date but not reported to the Medical Defence Union nor for defendant legal costs. We are satisfied that the data and assumptions used in calculating the provision are reasonable.

The group financial statements also include an estimate of reinsurance recoverable by the MDU in relation to the estimated outstanding claim cost liabilities due to the Medical Defence Union. We are not aware of any circumstances that may give rise to any shortfalls in such recoveries.

Defined Benefit Pension Scheme

In determining the pension cost and the defined benefit obligation of MDU's defined benefit pension schemes, a number of assumptions are used. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates.

Based on the reports received from our advisors on this matter, we confirm that we are satisfied that the assumptions used in calculating the defined benefit pension asset of £26.557m (2020: £4.493m) are appropriate and reasonable based on the information currently available to us.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully



(Signed on behalf of the board of directors)

Date: 25 May 2022