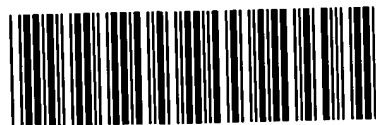


The Medical Defence Union Limited
(A Company Limited by Guarantee)
Annual Report and Financial Statements
for the year ended 31 December 2020

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

Company Information

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

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

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Report of the Chairman
For the Year Ended 31 December 2020

The chairman presents his statement for the period. The COVID-19 pandemic caused profound changes in the work of our members in 2020, but the MDU continued to provide them with the excellent service they deserve and has been there for them at every stage of this most unpredictable of years.

Every member's experience has been unique. Increased workload, decreased workload, working outside customary areas of practice, remote triage, virtual consultations, restrictions on practice, delayed appointments, long waiting lists, anxiety about becoming ill from the virus – these are all just some of the many consequences of the pandemic.

Inevitably, all of this has taken a toll on the physical and psychological wellbeing of many of our members. Our 2020 survey of medical members revealed that 55% felt anxious and/or stressed on a weekly basis. For dental members, with the added concern of restrictions on their practice, that figure rose to 67%.

We have continually provided timely advice to our members - both in general terms as new guidance and ways of working have constantly come on stream during the pandemic, and in response to specific issues raised by members themselves. The MDU and DDU websites provide a wealth of expert guidance and practical advice to help you practise with confidence. At the height of the first wave of the pandemic, the advisory team instituted weekly video podcasts covering the frequently asked questions of our members. Despite being unable to see members and prospective members face-to-face for much of the year, our liaison managers found other ways to support doctors and dentists with their membership. Seminars were delivered electronically across all sectors of the market, while the team used a range of electronic channels to keep in contact with individual members.

Our dental members had a particularly difficult year, with their practices essentially closed to face-to-face consultations and their service being limited to telephone triage and advice with provision of analgesia and antibiotics, as required from 25 March 2020. In addition, they had to assimilate a great deal of rapidly changing information from the NHS and professional bodies.

Thankfully, our team of dento-legal advisers and dental telephone advisers were on hand to guide them through it all. Unsurprisingly, our advisers were dealing with unprecedented volumes of member requests for advice via our 24-hour telephone advisory service and by email. The DDU team switched from face-to-face to online risk management teaching and provided member updates via a variety of media.

The first national lockdown in March required an immediate alteration to our working practices at the MDU. At every stage, our priority has been to maintain the quality of service to our members at a time of great uncertainty for them.

Our advisory staff has been an established homeworking team for many years, alongside, more recently, some of our in-house legal team, but for the majority of staff at our company the move to homeworking was both new and sudden. It was an immense and complex task, yet a true testament to the versatility and exceptional skill of our IT team that it was successfully accomplished within a few days - with video conferencing, enhanced telephone functionality and the essential connectivity and security for the increased digital traffic also being implemented. The rollout of homeworking could not have been achieved without the hard work of our facilities team, and the adaptability of all our staff.

Our services to members have also relied upon the exceptional work of our membership team and case administration and information services teams. They know how busy our members are, and have worked hard to ensure they can get in touch with us quickly and receive a service unimpaired by the pandemic.

We are conscious that while homeworking has been a welcome innovation for many of our colleagues, for some, it has had adverse consequences. We are committed to ensuring that the wellbeing of all our staff is constantly monitored and supported. This is a priority for our human resources team, who have worked especially diligently this year in that regard.

Through the Coronavirus Act 2020, all four nations of the UK were empowered to create additional indemnity arrangements to capture instances where existing arrangements would not be applicable to treatment in the pandemic. Although this was welcome, the measure on its own fails to address the distress and anxiety that practitioners involved in an investigation of potential clinical negligence during the pandemic may feel, and the cost to the NHS - and hence to taxpayers - of coronavirus-related negligence cases.

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Report of the Chairman
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According to its 2019/20 Annual Report and Accounts, NHS Resolution's provision for claims as of 31 March 2020 was already £84bn. As discussed in the Group Strategic Report, we are campaigning for the NHS and its workforce throughout the UK to be exempt from COVID-19 clinical negligence claims. We also have our long-term 'fair compensation' campaign for legal reform to address the cost of clinical negligence. Among our proposals is the repeal of S2(4) of the 1948 Law Reform Act, which requires patients who have been negligently harmed to be compensated by provision of funds for private and not NHS care. We believe that personal injury defendants should be able to purchase care packages from public providers, which would reduce the diversion of funds from NHS services, demonstrate that the same level of care should be available to everyone with the same injury or disability, whether or not it arose from clinical negligence, and allow overall improvements in health and care services.

Dialogue continues with the Department of Health and Social Care (DHSC) and the Welsh government about GP indemnity, specifically the Existing Liabilities Scheme for England and Wales. As those discussions continue, our GP members need to bear in mind that NHS indemnity does not provide support for complaints, coronial inquests or various career-critical matters such as GMC, performers list or criminal investigations. It is vital that our members working in primary care understand the need to maintain their MDU membership to access support in these areas, so their reputations and careers can be protected.

Regulatory proceedings with the General Medical Council (GMC) and General Dental Council (GDC) have not been immune from the effects of the pandemic and the numerous lockdowns. It is difficult enough for our members to face such investigations or hearings in normal circumstances, but it is made much worse by fragmentation of the process and uncertainty of knowing when it will be completed.

The realities of a GMC investigation are highlighted in an interview in the winter 2020 issue of the MDU journal. The support we offer members in this regard is among the most important aspects of our work, and last year we rolled out our peer support network for members undergoing medico-legal processes. This provides enhanced support from fellow MDU members who have had previous experience of similar circumstances and situations, as well as demonstrating the value of being a member of a mutual organisation.

Throughout the pandemic we have worked closely with the GMC, assisting members with ongoing cases and feeding back to the GMC the practical impact of the pandemic on our members' practice, as well as on their professional and personal lives more widely. We welcome the GMC's adoption of a proportionate approach to its fitness to practise (FTP) procedures throughout the pandemic and hope that this approach continues as the NHS and other providers also adapt to new ways of working. Again, there is further discussion on this in the Group Strategic Report.

During 2020 we introduced electronic renewals for all our members who pay by continuous payment. In addition to saving costs and avoiding delays of postage, the new process offers ease of use and data security benefits to members. The MDU mobile app has been enhanced to allow members to view their membership card and proof of membership, with the facility to send the latter to whichever institution needs to see it.

In the summer we introduced our first ever group scheme for dental practices – Dental **GROUPCARE**. The scheme is similar to the one we have operated for general medical practices including a free employment advice line. Where all dentists in a practice are DDU members, they can enjoy a 10% reduction on their annual subscriptions and the principal has access to a vicarious liability indemnity extension at no extra cost. Thanks to the hard work of our sales and membership teams, new member recruitment ended the year above target in almost every sector, and during 2020 we were able to obtain market-leading shares of young doctors and dentists entering the profession. Our Scottish membership numbers also continued to increase for GPs, hospital consultants and dentists.

Our approach to supporting our corporate members is to provide a personalised service built around excellent relationship management and tailored indemnity solutions relevant to their evolving needs. Our success in 2020 and in previous years reflects the expertise of our corporate business team, who between them have nearly 50 years' experience providing gold standard support to corporate members. This approach is especially valued in times of uncertainty and change. In a competitive market, over 50% of our corporate business proposals issued are taken up, which is a real testament to the strength of our offer in this area.

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Report of the Chairman
For the Year Ended 31 December 2020

2020 was a rollercoaster year for investments, but as shown in the financial statements our end-of-year outcome was extremely good, given the volatility of the global markets. We have been greatly assisted by Mr William Dinning, who has completed his tenure on the board but continues as external adviser to the investments committee.

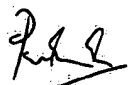
During 2020, two stalwarts of the MDU retired. Mary-Lou Nesbitt first joined the MDU in 1984. As head of governmental and external relations, she was responsible for all our relationships with government and stakeholders, as well as our campaigning and lobbying activity on behalf of members. Mary-Lou's commitment to our members was absolute – a commitment I am pleased to say is thoroughly shared by her successor, Thomas Reynolds, who joined the MDU in August. In 2020 we also said farewell to Jill Harding, who first joined the MDU in 1995. She was head of claims handling and brought immense expertise to the claims department. David Franklin – himself of over 20 years' service with the MDU – has taken over from Jill, and is leading this high performing team forward. Both Mary-Lou and Jill played fundamental roles in the success of the company, for which they deserve great credit, and we wish them long and happy retirements.

In respect of council, Dr Calum Cassie joined council and the dental advisory committee, and Professor Malcolm Lewis stepped down from council and cases committee. Sadly, I have to report the deaths of Mr Hedley Berry, Professor Sir David Hull, Professor Ian Mackenzie and Mr Glenn Neil-Dwyer. Hedley gave immeasurable service to the MDU. He was appointed to council and cases committee in 1982 and to the board of management in 1992, retiring in 2007. He was vice-chairman of the board and vice-president of council, deputy chairman and chairman of cases committee and a pension trustee. Sir David, Ian and Glenn served for 17, 15 and eight years respectively on council and cases committee.

Finally, our chief executive Dr Christine Tomkins is to retire in September 2021. Christine has worked at the MDU for over 35 years and has been chief executive since 2009. She has worked tirelessly for our members, unceasingly campaigning for their best interests. Amongst her numerous achievements, as professional services director she implemented homeworking for our advisory team and transformed our approach to claims handling, while as chief executive she has spearheaded our tort reform campaign to reduce the financial burden on our members and taxpayers of the provision of compensation for clinical negligence claims. Furthermore, Christine has overseen growth in membership and a further strengthening of our financial position, maintained a culture of service excellence, and has always emphasised the company's mutual ethos of 'doctors for doctors, dentists for dentists'.

The hallmark of a good leader in any organisation is the respect and affection in which they are held by those they work alongside; that is why Christine will be greatly missed by all of her colleagues. We all wish her a long and a happy retirement.

The board's paramount concern has been to ensure that there is a smooth handover to a similarly capable individual so that Christine's legacy is preserved, the MDU continues to flourish, and above all the excellent service to our members is maintained.



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

27 April 2021

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Group Strategic Report
For the Year Ended 31 December 2020

I begin this group strategic report for 2020 by reflecting on the scale of the task our members have faced in the battle against COVID-19.

The circumstances many of you have had to cope with have created hitherto unimaginable conditions - affecting you, your families, your patients and your colleagues. No-one has been insulated from the repercussions of the pandemic and you have risen to the extraordinary challenges magnificently. We all have every reason to be proud of you. We are grateful for your dedicated work, day in, day out, in this difficult time.

The MDU is your company. My colleagues and I are totally committed to it - and proud of the work it does - because of who we stand with, and who we stand up for; the doctors, dentists and other healthcare professionals who dedicate themselves to patient care.

As always, when you have needed us we have been there, to guide, support and defend you. This year, this has been more important than ever.

We have worked hard to meet the challenges of 2020, and I am pleased to report that the MDU has performed well this year and that your company continues to grow in strength. In this Group Strategic Report, we set out that performance.

Championing member's interests

Amongst the many adjectives used to describe healthcare professionals, 'adaptable' is high up the list – and in 2020, this is especially true.

As you and your organisations have had to adapt, it has been important for such flexibility to be mirrored by the healthcare regulators, ombudsmen and others dealing with accountability in healthcare.

Throughout 2020 we worked constructively with the GMC and GDC to ensure they adopted a proportionate approach to regulation during the pandemic. For example, we worked closely with the GMC on their COVID19 context guidance for decision makers and case examiners. This guidance lays out that when assessing a doctor's fitness to practise during the pandemic, the GMC will take into account issues such as staff working in unfamiliar settings, the disproportionate impact of the disease on doctors from black and minority ethnic (BME) backgrounds, and the challenges of working with changing and sometimes conflicting guidance.

It is important that full investigations are only opened by the regulators where absolutely necessary. Where that has happened in the past year, with all the constraints of lockdowns, we have worked with the GMC and GDC to make sure that fitness to practise proceedings are fair to our members. In many ways, the use of virtual meeting technology during the pandemic has proved both appropriate and helpful for members involved in GMC or GDC proceedings. Some hearings can be more convenient and less stressful, with members able to take part from their own home or workplace rather than in person. However, in other cases an in-person hearing is still the most appropriate method. As we look to the future, regulators need to build on their pandemic flexibility in the post-lockdown environment.

Unfortunately, the flexibility and agility we have seen – and encouraged – from the regulators does not apply to clinical negligence claims.

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

In terms of purpose, procedure and timing, clinical negligence claims differ considerably from the wide range of medico-legal investigations that can follow a patient safety incident. Clinical negligence claims often arise long after the event, and are usually made at least three to five years after the incident giving rise to them, and sometimes decades after.

That is one reason why, while we have been supporting members through the immediate challenges posed by the pandemic, we have also been looking ahead.

Specifically, we have been calling on the UK government to take action to protect healthcare professionals from clinical negligence claims arising from the pandemic.

The pandemic has meant that many doctors have found themselves working under intense pressure and sometimes well outside their usual roles. Doctors who have responded valiantly to COVID-19 who face COVID-related clinical negligence claims are likely to be judged after the public memory has faded by standards unreflective of the conditions during the pandemic, because the detail of the extraordinary circumstances they had to deal with will have been long forgotten. We are determined to ensure that doesn't happen.

In the decades to come, we want to ensure the courts can properly take into account the COVID-19 pandemic and the environment many members worked in, if a claim of negligence arises. Some other jurisdictions have adopted various forms of claims-exemption measures for cases associated with the pandemic. The MDU has been making the case for this here, and will continue to do so in the interests of our members, who should not have the distress of a claim being made against them years later added to the burden of delivering care in pandemic conditions.

Medical & Dental Advisory

In recent years, I have reported an increase in the number of members seeking our assistance. In the context of the pandemic, that trend has unsurprisingly continued. Our teams have remained very busy in 2020, advising and assisting almost 36,000 members who approached us for help. Our advisory teams were especially busy in the first half of 2020, as the entire healthcare profession found itself consumed by the effects of COVID-19. We were on hand to provide support, as detailed in this example from a letter sent by a dental member:

"I have been with DDU since qualifying. I am pleased I am with DDU. The responses to any issues are virtually instant and that is what is needed at stressful times. Emails are dealt with quickly and questions answered quickly."

We know how important it is that members contacting us for medico-legal or dento-legal advice get through to an expert promptly.

In 2020, 99% of calls to our medico-legal advisory team were answered within 20 seconds, as were 98% of calls to our dento-legal advisory team. In fact, the average speed of answering was 11 seconds. While answering a member's call very quickly is important, we also attach great importance to members being answered by a professional colleague, who has real life experience of the challenges of clinical practice and extensive expertise in the legal and regulatory difficulties members can face. Issues can arise at any time and our teams are available around the clock, seven days a week.

Whenever you need us, we are here for you. Doctor for doctor. Dentist for dentist.

It really matters to us to constantly adapt and enhance the service we offer members. When COVID-19 first took hold in the UK, we were quick to respond to members' needs. We moved our educational resources online, instituted weekly videos covering frequently asked COVID-19 questions and also ran several successful webinars - for example, on the topic of remote consulting, we were joined by over 1,500 members.

The compliments we receive mean a lot to us. For instance, this message we recently received from a member echoes the tone of many, and perfectly captures what the MDU is here for:

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

"What I am though entirely sure of, is my overwhelming gratitude to YOU. You will never know how very much your ongoing support has meant to me. Throughout this whole process you have been there, always with a kind word, good advice and immense support. You really made a huge difference. Words cannot quite express how much this meant to me and how much you really helped. You have such a lovely warm manner. I could not have got through this without you. A really heartfelt THANK YOU!"

Legal

Our medical and dental teams work closely with exceptional in-house lawyers and UK and Irish panels of specialist law firms. When a member needs legal support, our in-house team of solicitors strive hard to achieve the very best outcomes, in keeping with our ethos of providing members with the best possible guidance, support and defence. The results achieved by our in-house lawyers firmly reflect this.

In response to the pandemic, both the GMC and GDC temporarily paused the majority of their fitness to practise processes in 2020, before resuming them later in the year. Of the 88 GMC cases where our in-house solicitors assisted with representations to the regulator's case examiners, only 15 were referred to a fitness to practise tribunal run by the Medical Practitioners Tribunal Service (MPTS).

On a five-year comparison (2015 to 2019), the MPTS average outcomes were that only 20.6% of cases were concluded with no finding of impairment. Happily, the MDU's solicitors' positive outcomes were more than double that for the same period, at 43.5%.

Behind such a positive figure sits a team that cares about our members and is passionate about delivering the best possible service. This comes through in the feedback received from members, such as this:

"Thank you for the kind way you have supported me and the excellent service that all of you at the MDU provide. I have been a member of the MDU for 35 years and every time I have needed your services it has been both professional and caring."

Similarly, of the 50 cases at the GDC where our solicitors assisted members with representations to the regulator's case examiners, only nine cases were referred to a hearing. And where cases progressed to a hearing before the GDC's Professional Conduct Committee, our legal team secured overwhelmingly positive outcomes for members. The latest GDC figures available relate to 2019, where the Professional Conduct Committee concluded 35.5% of hearings with no finding of impairment. In the same year, our in-house solicitors concluded 81.8% of hearings with no finding of impairment.

Results from an online satisfaction survey in 2020 show that our team scored an average of 4.6 out of 5 during 2020.

An investigation by either the GMC or GDC can be a distressing time for the member(s) involved. With our in-house legal team by their side, members have legal expertise at their disposal, as well as empathetic support, so they never need to feel alone.

Claims

When dealing with a claim of alleged clinical negligence, we establish a relationship of trust with our members. Going through a claim can be a stressful time, and regrettably claims can take a number of years to resolve, so it is essential that we involve members at each stage to ensure they are fully informed and supported throughout.

As with regulatory proceedings, civil matters before the courts were temporarily halted in 2020 as courts closed during the first lockdown. Inevitably a backlog of cases has built up, and we are concerned about the potential wave of cases that could come following the pressures exerted on the healthcare system because of COVID-19.

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

Where cases did come before the courts in 2020 we achieved very positive results. Effective claims handling is crucial to support members and keep expenditure down. Defensible claims must be defended robustly, while those that ought to be settled should be resolved fairly and without unnecessary delay.

Settlement rates for our cases in 2020 were just 17% for medical claims and 44% for dental - meaning claimants did not succeed in demonstrating they had been negligently damaged (and should therefore be financially compensated) in 83% of medical claims and 56% of dental claims against our members.

The MDU's claims team's excellent outcomes also reflect our recognition that claims against individual members (GPs, dentists and consultants in private practice) can affect reputations. We know how much your professional reputation matters to you. We never settle claims for expediency's sake and members are always involved in decisions about their claims.

In previous reports, I have discussed our ever-growing concern about the cost of clinical negligence in the United Kingdom. The extent of the problem was laid bare in November 2020, when analysis by HM Treasury showed provision for clinical negligence claims is now worth £3,600 per household (in England), compared to £700 per household 10 years ago.

The scale of this increase in the cost of clinical negligence over the past decade does not reflect a decline in clinical standards – instead, the issue is that we have a medical negligence system that is both unfair and unsustainable.

Disproportionate legal costs are just one notable defect of the current system.

For example, a significant proportion of the cases we settled for below £25,000 in 2020 saw legal costs paid to the claimants' lawyers exceed the damages payment paid to claimants by over 500%.

This system cannot remain unreformed any longer. It has multiple defects. We have campaigned for many years for legal reform to address these. As the true cost of COVID-19 on the healthcare system and the economy becomes clear, the impetus for change grows stronger. I can assure you that the MDU will continue to champion positive reform and encourage the government to take ambitious action to change and improve the current system, which is destructive and outdated.

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

Business Review

Strategy

In each annual report I explain the combination of factors that form the foundation on which we need to build the MDU's long-term strategy.

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

This is key to our success in meeting the company's objective of providing the highest quality support to members at the lowest cost compatible with financial security. Our core services must always meet members' needs, and we must ensure we remain in the best position to provide members with specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise.

Key performance indicators

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

The MDU monitors its business activity by means of a number of key performance indicators (KPIs), which the board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2020.

Membership statistics

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

Quality of service

We place considerable importance on the experience of our members when contacting the MDU, including the time it takes us to answer member calls. I am pleased to report that in 2020, our award winning membership team answered more than 116,000 calls with over 83% answered within 20 seconds. In addition, we answered 100% of the 107,000 items of members' correspondence within five days of receipt.

What was particularly pleasing this year was how successfully the contact centre maintained service levels to members at the outbreak of COVID-19, handling an unprecedented volume of calls while themselves adjusting rapidly to a move to homeworking. The team in our membership contact centre are committed to providing exemplary service to our members and did not let the pandemic interfere with this.

They, and the whole company, are aided by a high-performing and expert IT department, who this year, in a very short space of time, ensured that colleagues who required new homeworking arrangements had them – providing a seamless service to members.

We take the quality of our service seriously and aim to provide service of such a high quality that members have no cause for complaint - but we also acknowledge that, occasionally, things do go wrong. Our aim is to keep complaints as low as possible and to ensure we respond swiftly, fully and courteously when members do complain. The proportion of member contacts with our membership department that resulted in a complaint in 2020 was 0.1%.

Our membership department maintained its accreditation under the Customer Service Excellence Standard.

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

This recognises the high standard of service we provide to members, testing in depth the areas that research shows are important to you – timeliness, accuracy, professionalism and staff attitude. It places great emphasis on how well the MDU understands our members' experience of service, which is particularly important to us as a mutual organisation focused on the needs of our members, and we are always pleased to receive feedback. The following is an example of the feedback we have received this year:

"Every contact I have had with your membership Department (and other departments) has been prompt, courteous, helpful and informative. Your staff are professionalism personified!"

We aim for that to be the experience of every member.

After the success of the relaunch of our GP **GROUPCARE** scheme in 2019, we launched a similar scheme for dental practices in 2020. The scheme offers concessions on subscriptions where at least half the dentists working in the practice are DDU members. Where all dentists in the practice are with the DDU, the practice principal benefits from a vicarious liability extension to their membership at no additional cost.

A number of dentists who were unable to work during the first pandemic lockdown were able to place their membership on hold, enabling the DDU to help them by reducing their outgoings at a difficult time. It was heartening that the vast majority of these members had returned to work and reinstated their membership by the end of 2020.

The introduction of electronic renewals for all members who have a continuous payment method in place was timely, as members have become increasingly used to electronic communication in their jobs and generally during the pandemic. We also enhanced our MDU and DDU apps to allow members to access an electronic version of their membership card and proof of membership, with the ability to forward this proof to an employer or third party where needed.

Our liaison manager teams normally conduct thousands of in-person seminars and meetings each year. Sadly this was not possible in 2020, but to keep in touch with current and prospective members we provided a large number of training events and one-to-one connections using digital platforms. As a result, we were able to support our members at a difficult time while continuing to grow our membership.

Our corporate membership remains an attractive option where medical and dental services are being provided through a company structure. In 2020 we continued to grow in this area, including securing a major new scheme for doctors employed by a hospital group.

The MDU has a long history of providing expert medico-legal advice and support to doctors working in the Republic of Ireland. We have launched a new product for consultants working full time in a public hospital, where indemnity for clinical negligence is provided by the State Claims Agency. The product is designed to provide assistance with numerous medico-legal matters, from Medical Council complaints, to disciplinary proceedings, to representation at coroners' courts. It does not include indemnity for clinical negligence claims.

Over the past few years we have expanded our social media activity with an active presence on Facebook, Twitter, Instagram and LinkedIn. Increasingly, members are interacting with us on these platforms to receive the latest medico-legal updates and access our comprehensive advice and guidance.

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Group Strategic Report (continued)
For the Year Ended 31 December 2020

Engagement

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

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 conduct member satisfaction surveys and surveys of those we have recently assisted. We invite members to provide suggestions for improvements to our service, which are greatly valued.

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 them.

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 prioritisation of their interests.

As the Directors' Report explains, we also engage with members through the annual report. 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.

The directors are mindful of the differing pressures of the COVID-19 pandemic on individual members of staff, and also of the fact that these pressures change as the position develops.

There is a comprehensive suite of policies relating to the interests of employees, their 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, responding to consultations and contributing to committees and working groups on relevant matters.

MDU Services Limited (MDUSL) is regulated by the Financial Conduct Authority, for insurance mediation and consumer credit activities. MDU Reinsurance Limited is regulated by the Guernsey Financial Services Commission. Both companies engage appropriately with their respective regulators.

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

Principal risks and uncertainties

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

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Group Strategic Report (continued)
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The MDU has a risk management procedure that includes assessment of reinsurance security, including credit risk, currency risk and risks associated with financial instruments (more information below). The MDU's policies and processes encompass areas such as staff development and training, conflicts of interest, and fair treatment of members.

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

Increasing claims cost

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

Competition and meeting members' needs

The MDU differentiates itself from the competition on the quality of service it provides to its members. We continuously monitor our status in the market and have processes in place to respond quickly to potential threats. We also monitor all areas of membership and evaluate any movements in renewals activity, leavers, junior doctor, graduate and student applications, and recruitment overall. We undertake research to monitor members' service and product needs.

Information management

The MDU has IT and information management and security policies and procedures in place. These are subject to monitoring and review by IT management and the information risk committee. We continue to take steps to review our cyber security arrangements and controls in light of the ongoing threat and increased remote working in the context of COVID-19.

Investment risk

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

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

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.

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

Group Strategic Report (continued)
For the Year Ended 31 December 2020

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.

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 £470.5m (2019: £440.4m) after indemnity, insurance, other provisions and pension liabilities of £594.6m (2019: £673.5m). 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 2020 was £115.5m (2019: £144.3m), of which 98% was received from our UK members, the remainder, amounting to £2.3m, being from our members in Ireland.

Investment result

There were negative changes in the market value of investments in 2020 resulting in an unrealised loss of £3.5m (2019: gain of £58.7m). There was net realised investment income of £0.4m (2019: loss of £7.8m) bringing the total net investment result to a loss of £3.1m (2019: gain of £50.8m).

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

Group Strategic Report (continued)
For the Year Ended 31 December 2020

Expenditure

In 2020 the MDU paid out £82.0m (2019: £83.2m) in discretionary indemnity claims and legal costs, of which £2.2m relates to our Irish members' claims.

Medical and dental advisory costs amounted to £27.1m in 2020 (2019: £31.2m).

Reinsurance premiums in 2020 were £6.7m (2019: £8.8m).

Administration costs in 2020 were £20.7m (2019: £20.8m).

Result after tax

The total comprehensive result is a gain of £30.1m (2019: £36.5m).

Assets/indemnity provision

The Statement of Financial Position for the MDU shows total assets less current liabilities of £1,068.0m, compared to £1,113.8m in 2019.

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 £592.5m (2019: £671.2m).

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 Christine Tomkins

Chief executive

Date: 27 April 2021

For and on behalf of the board of management.

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

DIRECTORS' REPORT
For the Year Ended 31 December 2020

The directors presents their report and the financial statements for the year ended 31 December 2020.

Activities

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

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

Directors

The following served as directors in 2020:

Board member		No. of Board meetings attended*
P Riordan-Eva (Chairman)	1 3 4 5	5
C Aghadiuno	2 4	5
S E Beaumont	2 4	5
J Buttigieg	2 3 6	1
W R J Dinning	1 4 5 7	2
N A Dungay	4	5
P Goldsmith		5
I D Hutchinson	1 2 3 4 5	5
M T Lee	4 5	5
T J Norfolk	5	5
J H Riley	2 4	5
S Shaunak		4
O C E Sparrow	1	5
C M Tomkins	3 4 5	5
S W Watkin	1 2 3 4 5	4
E C J Wells	1 4 6	3
A R Wright	4 5	5

- 1 Members of the Remuneration Committee
- 2 Members of the Audit & Risk Committee
- 3 Members of the Nomination Committee
- 4 Directors of MDU Services Limited
- 5 Members of the Investments Committee of MDU Investments Limited
- 6 Appointed on 28 July 2020
- 7 Retired on 15 September 2020
- * 5 meetings were held throughout the year

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

C Aghadiuno
S Shaunak
S W Watkin
A R Wright
J H Riley

J Buttigieg resigned on 5 February 2021 and N A Dungay retired on 5 April 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 2020 and remain in force) against liabilities incurred in relation to the affairs of the MDU. The group also purchases directors' and officers' liability insurance which gives appropriate cover for legal action brought against directors of group companies.

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

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

Corporate governance

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

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

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

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

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

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

The board met five times in the year. The attendance record of the directors at the board meetings is set out on page 15. 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)

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

Audit and Risk Committee

The board has an Audit and Risk Committee, which meets as often as necessary. The committee is chaired by Mr I D Hutchinson, a non-executive director without MDU membership. Mr Hutchinson is a chartered accountant. The committee includes four other non-executive members of the board. The committee meets, and spends time alone with, the internal and external auditors. The committee reviews risk management and internal control arrangements, and their effectiveness. It guides the activities and reviews the results of internal audit. The committee also reviews the scope and results of the external audit, and reviews the annual financial statements and other information in the annual report before publication. The committee 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. Other board members may be co-opted by the committee according to the nature of the vacancy under consideration. The committee prepares a description of the role and capabilities required for a particular appointment. It selects a shortlist of candidates for consideration by the board, on merit and against objective criteria.

Remuneration Committee

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

Internal control

The board is ultimately responsible for the internal control and risk management of the MDU and for the effectiveness of these systems. The Audit and Risk Committee has authority to advise the board on these matters. Management is responsible for identifying, assessing, managing and monitoring risk, and for developing, operating and monitoring the system of internal control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The board considers regular reports on the risks inherent in the business. The principal risks are identified in the Strategic Report on page 12.

The internal control and risk management systems cannot eliminate risks to the business, but they are designed to manage them. Internal controls can provide only reasonable and not absolute assurance against material misstatement or loss. The board, with advice from the Audit and Risk Committee, review the effectiveness of the risk management and internal control of the group.

Going concern

The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets and taken account of the discretionary nature of the company's indemnity obligations and other risk factors (discussed on page 13).

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

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

Relations with members

The MDU uses the annual report 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 notice for the AGM is sent to members at least 14 days before the meeting. The Executive and Members of the Audit and Risk, Remuneration and Nomination committees are available to respond to any questions.

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)

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

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 this first year of reporting were 31.6 tCO₂e, resulting from the direct combustion of 134,119 kWh of fuel.

The MDU's indirect emissions (purchased electricity) for this first year of reporting were 129.7 tCO₂e, resulting from the consumption of 556,336 kWh of electricity in day to day business operations.

The intensity metrics were calculated by dividing the 2020 reportable figure for tCO₂e (161.3) by the number of square metres of internal office floor space (4,393 m²). The MDU's operations had an intensity metric 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	2020 consumption (kWh)*
Grid- Supplied Electricity (Indirect consumption)	556,336
Gaseous and other fuels (Direct consumption)	0
Transportation (Direct emissions)	134,119
	690,455

The total emission (tCO₂e) figures for energy supplies:

Utility and Scope	2020 consumption (tCO₂e)*
Grid- Supplied Electricity (Indirect consumption)	129.7
Gaseous and other fuels (Direct consumption)	0
Transportation (Direct emissions)	31.6
	161.3

* Consumption and emissions data was calculated in line with the Emission Factor Database 2020, Version 1.0 and is consistent with the 2019 UK Government environmental reporting guidance.

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

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

DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

Energy Efficiency Review and Improvements

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

In 2020, a review of all Passive Infra-Red sensors was completed and, where necessary, these were replaced or re-coded in meeting room management systems in order to reduce wasted electricity consumption in unoccupied areas.

As this is the first SECR for the MDU Group, there is no comparative data available for the previous reporting year.

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
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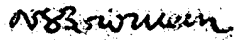
DIRECTORS' REPORT (CONTINUED)
For the Year Ended 31 December 2020

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: 27 April 2021

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

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

Opinion

We have audited the financial statements of The Medical Defence Union Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statement of Changes in Equity and the Consolidated and Company Statement of Cash Flows, and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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 Report of the Chairman, Group Strategic Report and Directors' Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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:

Based on our understanding of the Company and the industry in which it operates, we identified that the principal laws and regulations that directly affect the financial statements to be the UK Companies Act and relevant tax legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: FCA regulations; Health & Safety; Data Protection Legislation (ie. GDPR). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence if any.

Audit procedures performed by the engagement team included:

- 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 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) and Financial Reporting Standard 103 Insurance Contracts and whether there are instances of potential bias in areas with significant degrees of judgement;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meeting of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the FRS 102 Claims provision;
- In addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments, in particular any journals posted by senior management or with unusual accounts combinations; and
- Carrying out detailed testing, on a sample basis, of material transactions, financial statement categories and balances to appropriate documentary evidence to verify the completeness, occurrence and accuracy of the reported financial statements.

We did not identify any matters relating to irregularities, including fraud.

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

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

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.

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 2020

	Note	2020 £000	2019 £000
Members' subscriptions		102,140	144,349
Medical and dental advisory services		(27,070)	(31,223)
Administrative expenses		(20,746)	(20,784)
Indemnity, legal and reinsurance costs	6	(10,319)	(33,659)
Finance cost - indemnity/pension provision	7	(2,856)	(6,688)
Operating surplus	8	41,149	51,995
Changes in fair value of investments	3	(3,497)	58,651
Net investment income/(expense)	4	354	(7,808)
Interest payable	5	(20)	(15)
Result before taxation	8	37,986	102,823
Taxation	10	(8,985)	(58,067)
Result after taxation		29,001	44,756
Other comprehensive income:			
Actuarial gain/(loss) on defined benefit schemes	21	1,100	(8,300)
		1,100	(8,300)
Total comprehensive income for the year		30,101	36,456

The notes on pages 33 to 60 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 2020

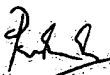
	Note	2020 £000	2019 £000
Fixed assets			
Tangible assets	12	12,341	14,235
Fixed asset investments	13	1,034,744	1,037,624
		<u>1,047,085</u>	<u>1,051,859</u>
Current assets			
Debtors: amounts falling due after more than one year	15	27,971	42,298
Debtors: amounts falling due within one year	15	32,367	35,753
Cash at bank and in hand		48,334	56,893
		<u>108,672</u>	<u>134,944</u>
Creditors: amounts falling due within one year	17	(87,788)	(73,022)
Net current assets		<u>20,884</u>	<u>61,922</u>
Total assets less current liabilities		<u>1,067,969</u>	<u>1,113,781</u>
Creditors: amounts falling due after more than one year	16	(7,439)	(1,919)
Provisions for liabilities			
Indemnity provision	19	(592,467)	(671,220)
Other provisions	19	(2,101)	(2,288)
Net assets excluding pension asset		<u>465,962</u>	<u>438,354</u>
Pension asset	21	4,493	2,000
Net assets		<u><u>470,455</u></u>	<u><u>440,354</u></u>
Capital and reserves			
Revaluation reserve		60,463	68,217
Retained earnings		409,992	372,137
		<u><u>470,455</u></u>	<u><u>440,354</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 April 2021.

C M Tomkins
Chief executive



P Riordan-Eva
Chairman



The notes on pages 33 to 60 form part of these financial statements.

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

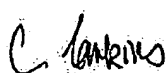
Company Statement of Financial Position
As at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Fixed asset investments	13	<u>25,160</u>	<u>25,160</u>
		25,160	25,160
Current assets			
Debtors: amounts falling due after more than one year	15	27,971	42,298
Debtors: amounts falling due within one year	15	951,158	963,905
Cash at bank and in hand		<u>7,272</u>	<u>7,945</u>
		986,401	1,014,148
Creditors: amounts falling due within one year	17	<u>(74,093)</u>	<u>(50,353)</u>
Net current assets		912,308	963,795
Total assets less current liabilities		937,468	988,955
Provisions for liabilities			
Indemnity provision	19	<u>(592,467)</u>	<u>(671,220)</u>
		(592,467)	(671,220)
Net assets excluding pension asset		345,001	317,735
Pension asset	21	<u>4,493</u>	<u>2,000</u>
Net assets		349,494	319,735
Capital and reserves			
Retained earnings		<u>349,494</u>	<u>319,735</u>
		349,494	319,735

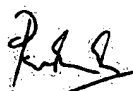
The Statement of Comprehensive Income for the year ended 31 December 2020 for the parent company only was a gain of £29.8m (2019: loss of £10.8m).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 April 2021.

C M Tomkins
Chief executive



P Riordan-Eva
Chairman



The notes on pages 33 to 60 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 2020

	Revaluation reserve	Retained earnings	Total equity
	£000	£000	£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

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2019

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

The notes on pages 33 to 60 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 2020

	Retained earnings	Total equity
	£000	£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

Company Statement of Changes in Equity
For the Year Ended 31 December 2019

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

The notes on pages 33 to 60 form part of these financial statements.

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

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2020

	Note	2020 £000	2019 £000
Cash flows from operating activities			
Result after taxation		29,001	44,756
Adjustments for:			
Depreciation of tangible assets	12	2,956	3,247
Foreign exchange differences	4	(2,090)	1,594
Net changes in fair value of investments	3	3,497	(58,651)
(Decrease) in indemnity and other provisions	19	(78,940)	(65,319)
Loss on disposal of investments	4	4,502	2,174
Non cash investment expense		5,323	6,611
Finance charge on pension scheme	21	(100)	(200)
(Increase)/decrease in deferred taxation		(2,918)	669
Decrease in debtors		19,971	44,143
Increase/(decrease) in creditors		12,477	(828)
Past service cost on pension scheme	21	(1,300)	(800)
Increase in corporation tax		8,537	53,015
Net cash generated from operating activities		916	30,411
Cash flows from investing activities			
Purchase of tangible fixed assets	12	(1,063)	(1,566)
Purchase of investments	13	(76,274)	(172,135)
Sale of investments	13	159,614	167,441
Movement in other liquid resources	13	(91,752)	(10,584)
Net cash from investing activities		(9,475)	(16,844)
Net (decrease)/increase in cash and cash equivalents		(8,559)	13,567
Cash and cash equivalents at beginning of year		56,893	43,326
Cash and cash equivalents at the end of year		48,334	56,893

The notes on pages 33 to 60 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 2020

	2020	2019
	£000	£000
Cash flows from operating activities		
Income and expenditure after taxation	28,658	(2,524)
Adjustments for:		
Decrease/(increase) in debtors (excl. amounts owed by subsidiaries)	21,073	42,542
Increase/(decrease) in creditors (excl. corporation tax)	14,491	(1,075)
Decrease/(increase) in amounts receivable from subsidiary undertakings	5,995	(17,996)
Decrease in indemnity provision	(78,753)	(65,329)
Finance charge on pension scheme	(100)	(200)
Past service cost on pension scheme	-	(800)
Movement in corporation tax	7,963	50,345
Net cash generated from operating activities	(673)	4,963
 Net (decrease)/increase in cash and cash equivalents	 (673)	 4,963
Cash and cash equivalents at beginning of year	7,945	2,982
Cash and cash equivalents at the end of year	7,272	7,945

The notes on pages 34 to 61 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 2020

1. Accounting policies

1.1 Basis of preparation of financial statements

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

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

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

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

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

The following principal accounting policies have been applied:

1.2 Basis of consolidation

The group Statement of Comprehensive Income and Financial Position consolidate the financial results of the company and its subsidiary undertakings for the year ended 31 December 2020. No Statement of Comprehensive Income is presented for the Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006.

1.3 Going concern

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.4 Members' subscription

Members' subscriptions consist of subscriptions for members' services. These subscriptions can be for indemnity and advisory services combined or advisory services only. For members receiving combined indemnity and advisory services, subscriptions are accounted for on the basis of amounts received/receivable by the group before the Statement of Financial Position date, without apportionment.

For subscription income received for advisory only services, the income is accounted for on an accruals basis and is apportioned to accounting periods based upon the membership inception date.

1.5 Insurance premiums payable

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

1.6 Indemnity, legal and reinsurance costs

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

1.7 Indemnity provision

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

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

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.8 Other provisions

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

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

1.9 Tangible fixed asset

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

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

The estimated useful economic life ranges are as follows:

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

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

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

1.10 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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.11 Taxation

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

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

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.12 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.

1.13 Investment income

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.14 Operating lease

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

Lease incentives

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

1.15 Pension costs

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

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

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

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

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

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

Actuarial gains and losses are recognised in other comprehensive income.

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

1. Accounting policies (continued)

1.16 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

	2020 £000	2019 £000
Salaries	29,150	28,268
Social security costs	3,448	3,352
Pension costs-defined benefit scheme	-	2,200
Pension costs-defined contribution scheme	3,111	1,865
Other staff costs	859	1,136
	36,568	36,821
	2020 445	2019 453
Average number of employees in the year	445	453

There are no staff employed by the parent company.

3. Changes in fair value of investments

	2020 £000	2019 £000
Changes in fair value	(3,497)	58,651
	(3,497)	58,651

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

4. Net investment income/(expense)

	2020	2019
	£000	£000
Bond and interest income	432	955
Difference on exchange	2,090	(1,594)
Other investment income	8,566	1,804
(Loss) on disposal of investments	(4,502)	(2,174)
Investment management fees and related costs	(6,232)	(6,799)
	354	(7,808)

Investment income from listed investments in the year was £4.97m (2019: £2.1m)

5. Interest payable

	2020	2019
	£000	£000
Other interest payable	20	15
	20	15

6. Indemnity, legal and reinsurance costs

	2020	2019
	£000	£000
Reinsurance premiums	6,678	8,757
Decrease in incurred costs (see note 19)	(20,794)	(13,057)
Premium element adjustment (see note 1.5)	(21,520)	(16,418)
Legal costs	24,046	24,072
Reinsurance recoveries (including the movement in reinsurance provision)	21,909	30,305
	10,319	33,659

7. Finance cost - indemnity/pension provision

	2020	2019
	£000	£000
Finance cost relating to indemnity provision (see note 19)	2,956	6,888
Finance cost relating to pension provision (see note 21)	(100)	(200)
	2,856	6,688

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

8. Result before taxation

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

	2020	2019
	£000	£000
Depreciation of tangible fixed assets (see note 12)	2,956	3,247
Operating lease rentals - land and buildings	1,201	1,184
Operating lease rentals - motor vehicles	191	208
Defined contribution pension cost	3,111	1,865
Defined benefit pension cost (see note 21)	-	2,200
	<u><u> </u></u>	<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 2020

9. Directors' remuneration

	2020	2019
	£000	£000
Fees	472	471
Directors' emoluments	1,369	1,276
Amounts due and receivable under long-term incentive plans	306	367
	2,147	2,114

The highest paid director in the year earned:

	2020	2019
	£000	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	622	646
Accrued annual pension (excluding indexation)*	165	162

* 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 (2019: two).

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 four (2019: five) of the non-executive directors received fees totalling £15,229 (2019: £22,345) for acting as expert witnesses on behalf of members.

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

9. Directors remuneration (continued)

	Fee/Salary £000	Benefits [i] £000	STIP/ LTIP [ii] £000	Cash alternative [iii] £000	2020 £000	2019 £000
Executive directors						
C M Tomkins	342	22	258	-	622	646
N A Dungay	111	14	115	35	275	250
M T Lee	225	17	140	45	427	395
A R Wright	200	17	118	15	350	352
	878	70	631	95	1,674	1,643
Non-executive directors						
			Fees/Salary £000	Other [iv] £000	2020 £000	2019 £000
P Riordan-Eva			86	-	86	84
J Buttigieg			17	-	17	-
W R J Dinning			28	-	28	43
E Wells			17	-	17	-
I D Hutchinson			51	-	51	57
O C E Sparrow			11	22	33	39
S W Watkin			55	10	65	83
J H Riley			40	1	41	40
C Aghadiuno			40	-	40	41
S Beaumont			40	-	40	41
P Goldsmith			11	3	14	20
S Shaunak			11	2	13	15
T J Norfolk			19	7	26	8
			426	45	471	471

- [i]** Benefits include car allowances, medical and other benefits in kind or their equivalent monetary value.
- [ii]** STIP represents those amounts that have been paid in 2020 and amounts accrued in respect of the year to 31 December 2020. The STIP is determined by comparing actual performance against set targets for the key performance indicators over the year.
LTIP represents those amounts that have been paid in 2020 and amounts accrued in respect of the year ended 31 December 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.

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

Notes to the Financial Statements
For the Year Ended 31 December 2020

10. Taxation

	2020	2019
	£000	£000
Corporation tax		
Current tax on result for the year	2,175	7,926
Adjustments in respect of prior periods	9,728	49,473
Total current tax	11,903	57,399
Deferred tax		
Timing differences	(2,995)	1,231
Adjustments in respect of prior periods	-	(563)
Effect of tax rate change on opening balance	77	-
Total deferred tax	(2,918)	668
Taxation on profit on ordinary activities	8,985	58,067

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2019 - the same as) the standard rate of corporation tax in the UK of 19% (2019 - 19%). Reconciling items are explained below:

	2020	2019
	£000	£000
Profit on ordinary activities before tax	37,986	102,823
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	7,217	19,536
Effects of:		
Net mutual income not subject to corporation tax	(35)	(9,349)
Expenses not deductible for tax	2,274	2
Adjustments in respect of prior periods	2,415	48,909
Non-taxable income	-	(2,150)
Difference in tax rate on deferred tax movement	77	(145)
Fixed asset differences	78	92
Capital (losses)/gains	(3,041)	1,172
Total tax charge/(credit) for the year	8,985	58,067

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11. Auditor's remuneration

	2020 £000	2019 £000
Fees payable to the Group's auditor and its associates	309	547
Fees payable to the Group's auditor and its associates in respect of:		
- for the audit of the group's annual accounts	128	127
- for tax services	163	400
- fees in respect of the audit of the MDU Services Limited pension scheme	18	20

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 2020	10,265	1,082	17,282	28,629
Additions	-	1	1,062	1,063
Disposals	-	-	(745)	(745)
At 31 December 2020	10,265	1,083	17,599	28,947
Depreciation				
At 1 January 2020	3,398	1,012	9,985	14,395
Charge for the year on owned assets	684	43	2,229	2,956
Disposals	-	-	(745)	(745)
At 31 December 2020	4,082	1,055	11,469	16,606
Net book value				
At 31 December 2020	6,183	28	6,130	12,341
At 31 December 2019	6,867	71	7,297	14,235

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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 2020	35,867	1,001,757	1,037,624
Additions	-	76,274	76,274
Disposals	-	(159,614)	(159,614)
Foreign exchange movement	-	1,819	1,819
Revaluation of investments	-	(3,497)	(3,497)
Net movement of cash & accrued income	91,752	(5,112)	86,640
Loss on disposal	-	(4,502)	(4,502)
	<u>127,619</u>	<u>907,125</u>	<u>1,034,744</u>
At 31 December 2020			

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Notes to the Financial Statements
For the Year Ended 31 December 2020

13. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2020	25,160
	<hr/>
At 31 December 2020	25,160
	<hr/> <hr/>

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

	2020 %	2020 £000	2019 %	2019 £000
Pooled funds [i]	94.5	856,962	95.4	955,815
Private credit [ii]	5.4	48,950	4.4	44,516
Commercial real estate loans [iii]	0.1	1,214	0.2	1,426
	<hr/> 100 <hr/>	<hr/> 907,126 <hr/>	<hr/> 100 <hr/>	<hr/> 1,001,757 <hr/>

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Notes to the Financial Statements
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Analysis of funds held by investment managers (continued)

	2020	2019
	£000	£000
Valuation basis of investments		
Fair value	905,912	1,000,331
Amortised cost [iv]	1,214	1,426
	907,126	1,001,757

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

15. Debtors

	Group	Group	Company	Company
	2020	2019	2020	2019
	£000	£000	£000	£000
Due after more than one year				
Reinsurance recoveries	27,971	42,298	27,971	42,298
	27,971	42,298	27,971	42,298
	Group	Group	Company	Company
	2020	2019	2020	2019
	£000	£000	£000	£000
Due within one year				
Reinsurance recoveries	3,055	12,714	3,055	12,714
Amounts owed by subsidiary undertakings	-	-	926,684	932,677
Other debtors	647	1,583	-	-
Prepayments and accrued income	6,521	5,122	1,533	2,180
Premium element adjustment	19,886	16,334	19,886	16,334
Deferred taxation	2,258	-	-	-
	32,367	35,753	951,158	963,905

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

	Group 2020 £000	Group 2019 £000
Payments received on account	1,362	1,545
Other creditors and accruals	6,077	374
	<u>7,439</u>	<u>1,919</u>

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

17. Creditors: Amounts falling due within one year

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Corporation tax*	61,178	52,641	59,576	50,034
Taxation and social security	920	928	28	38
Deferred taxation (see note 20)	-	661	-	-
Deferred subscription income	13,643	-	13,643	-
Accruals and deferred income	12,047	18,792	846	281
	<u>87,788</u>	<u>73,022</u>	<u>74,093</u>	<u>50,353</u>

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

* Of the £61.2m corporation tax liability, £57.5m (2019: £49.5m) relates to a tax tribunal decision we are seeking to appeal.

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Notes to the Financial Statements
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18. Net funds held by investment managers

	2020 £000	2019 £000
Financial assets: investments (see note 13)	907,125	1,001,757
	907,125	1,001,757

The historic cost of net funds held by investment managers is £847.0m (2019: £933.0m).

(a). Fair value hierarchy

Of the investments held, £905.9m were held at fair value (note 14), the following fair value hierarchy was used to estimate the value of these investments:

	2020 £000	2019 £000
Quoted prices - Level 1	-	-
Recent quoted prices - Level 2	905,912	1,000,331
Valuation technique (Unobservable inputs) - Level 3	-	-
Total net assets	905,912	1,000,331

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

Credit Risk

Source and exposure:

Credit risk is the risk that the MDU suffers losses, as a result of issuer default or that an issuer fails to meet contractual obligations.

Objectives, policies and processes:

The MDU manages credit risk through its investment policy, managing exposure to asset classes and diversifying investments. This is regularly reviewed and monitored. Cash deposits are largely held within well-diversified AAA Money Market Funds, consequently the credit risk is considered to be low. Where applicable this exposure is minimised by obtaining collateral held as security and other credit enhancements (see note 14).

Liquidity Risk

Source and exposure:

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

Objectives, policies and processes:

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

Currency Risk

Source and exposure:

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

Objectives, policies and processes:

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

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

Market Risk

Source and exposure:

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

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

Objectives, policies and processes:

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

(i). Interest risk

Source and exposure:

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

Objectives, policies and processes:

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

(ii). Inflation risk

Source and exposure:

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

Objectives, policies and processes:

The MDU group's financial risk management objective is to invest in a range of financial instruments. 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.

(iii). Credit spread risk

Source and exposure:

Credit risk is the risk that the MDU suffer losses as a result of issuer default or that an issuer fails to meet contractual obligations. Associated with this, is credit spread risk, which is the change in fair value of fixed income assets held, due to changes in expectations of the risk of the issuer.

Objectives, policies and processes:

The MDU manages credit spread risk through its investment policy, managing exposure to asset classes and diversifying investments. This is regularly reviewed and monitored. Where applicable exposure is minimised by obtaining collateral as security and other credit enhancements.

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

Objectives, policies and processes:

The MDU manages credit and credit spread risk through its investment policy, which sets a maximum exposure to any particular asset class and holdings within. This is regularly reviewed and updated. All loans receivable are with banks with a long-term Standard & Poor's credit rating greater than or equal to BBB+.

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

(iv). Equity risk

Source and exposure:

Equity risk is the financial risk involved in holding equity in an investment and that the fair value of financial instruments held by the MDU will diminish to the changing prices of equity investments.

Objectives, policies and processes

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

(v). Sensitivity analysis

	Change %	2020 £000	2019 £000
Market risk			
Interest rate	+1	3,912	5,587
	-1	18,961	(5,271)
Inflation rate	+1	(7,034)	5,399
	-1	11,236	1,034
Credit spread	+1	(20,009)	(19,330)
	-1	21,548	20,811
Equity	+25	25,069	24,868
	-25	(25,069)	(24,868)

Sensitivity analysis assumptions:

- [i] When calculating the impact of a movement in any one market risk factor, it is assumed that all other variables remain constant.
- [ii] The impact above is net of the standard rate of corporation tax in the UK of 19% (2019: 19%).

(c). Capital management

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

No external capital requirements are imposed on the MDU group.

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19. Provisions - indemnity

	2020	2019
	£000	£000
Group and company		
At 1 January	671,220	736,549
Finance costs	2,956	6,888
Indemnity and insurance paid	(60,915)	(59,160)
(Decrease) in incurred costs (see note 6)	(20,794)	(13,057)
At 31 December	592,467	671,220

The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 0.5% (2019: 1.09%) per annum.

The principal financial assumptions used in the actuary's calculation of the gross indemnity provision for the company and large claims inflation will be RPI plus 4.5% per annum (2019: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 0.19% per annum (2019: 0.81%) is used to discount the claims payments to the Statement of Financial Position date.

Provisions - other

	2020	2019
	£000	£000
Group		
At 1 January	2,288	2,278
(Decrease)/increase in the year	(187)	10
Payments	-	-
At 31 December*	2,101	2,288

*Building dilapidations are recognised on two (2019: two) buildings.

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20. Deferred taxation

	2020	2019
	£000	£000
Group		
At 1 January	660	(9)
Over/ (under) provided in the prior year	-	(563)
Charged to profit or loss	(2,918)	1,232
At 31 December	(2,258)	660

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

	Group	Group
	2020	2019
	£000	£000
Fixed asset timing differences	567	467
Capital gains	(2,825)	193
	(2,258)	660

The deferred tax asset is largely attributable to the unrealised losses on capital assets.

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21. Pension costs

As explained in accounting policy note 1.15 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002, 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 2020 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2020 reflects the status of the defined benefit section of the scheme only.

The major assumptions made by the actuary were:

	2020	2019	2018	2017
Rate of increase in salaries	3.2%	3.3%	3.5%	3.5%
Rate of increase in pension pre 16 February 2009 retirees	2.3%	2.1%	2.2%	2.2%
Rate of increase in pensions post 16 February	2.8%	2.9%	3.1%	3.1%
Discount rate	1.5%	2.0%	2.9%	2.5%
RPI inflation assumption	2.9%	3.0%	3.3%	3.3%
CPI inflation assumption	2.3%	2.1%	2.2%	2.1%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23.4 years if they are male and a further 25.3 years if they are female. Members currently aged 45 are expected to live for a further 25.2 years from age 65 if they are male and for a further 27.1 years from age 65 if they are female.

Fair value of scheme assets:

	2020 £000	2019 £000	2018 £000	2017 £000
Equities	19,500	17,700	14,600	14,600
Property	16,900	20,600	21,700	21,700
Government bonds	45,700	28,900	20,500	20,500
Corporate bonds	91,900	89,400	83,100	83,100
Other	1,700	200	100	100
	175,700	156,800	140,000	140,000

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21. Pension costs (continued)

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

	2020 £000	2019 £000	2018 £000	2017 £000
Total market value of assets	175,700	156,800	140,000	144,200
Present value of scheme liabilities	(171,200)	(154,800)	(130,700)	(146,300)
Pension asset	4,500	2,000	9,300	(2,100)

	2020	2019	2018	2017
Assets as a percentage of liabilities	102.6%	101.3%	107.1%	98.6%

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

	2020 £000	2019 £000
Opening defined benefit obligations	154,800	130,700
Current service cost	-	2,200
Interest cost	3,000	3,800
Contributions by scheme participants	-	200
Actuarial gain on the scheme liabilities	17,900	21,700
Net benefits paid out	(4,500)	(3,800)
Closing defined benefit obligations	171,200	154,800

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

	2020 £000	2019 £000
Opening fair value of scheme assets	156,800	140,000
Expected return on scheme assets	3,100	4,000
Actuarial gain on scheme assets	19,000	13,400
Contributions by employer	1,300	3,000
Contributions by scheme participants	-	200
Net benefits paid out	(4,500)	(3,800)
Closing fair value of scheme assets	175,700	156,800

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21. Pension costs (continued)

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

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

Analysis of the amount charged to Statement of Comprehensive Income

	2020 £000	2019 £000
Current service cost	-	2,200
	<u>-</u>	<u>2,200</u>

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

Analysis of the amount charged to other finance costs

	2020 £000	2019 £000
Expected return on scheme assets	(3,100)	(4,000)
Interest on scheme liabilities	3,000	3,800
Net return	<u>(100)</u>	<u>(200)</u>

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Notes to the Financial Statements
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21. Pension costs (continued)

Analysis of amounts recognised in other comprehensive income:

	2020 £000	2019 £000
Actuarial gains on scheme assets	19,000	13,400
Actuarial (losses) on scheme liabilities	(17,900)	(21,700)
Actuarial gains/(losses) recognised in other comprehensive income	<u>1,100</u>	<u>(8,300)</u>

22. Members liability

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

23. Related party transactions

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

24. Commitments under operating leases

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

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Not later than 1 year	1,373	1,404	-	-
Later than 1 year and not later than 5 years	4,782	4,860	-	-
Later than 5 years	4,078	5,328	-	-
	<u>10,233</u>	<u>11,592</u>	<u>-</u>	<u>-</u>

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25. Dormant Companies

The MDU group had the following dormant companies as at 31 December 2020:

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.