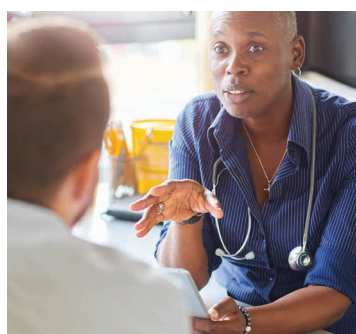
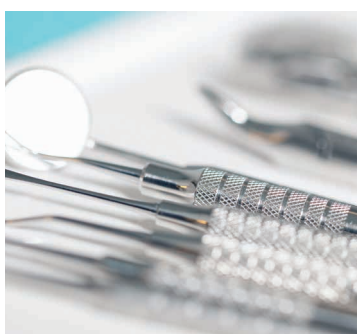




2016

ANNUAL REPORT & ACCOUNTS



Contents

Strategic report	
Principal activity	04
MDDUS summary of activity - 2016	04
Chairman's report	05
Chief Executive	06
Advisory and legal services	08
Dental team	10
Development	11
Risk education	12
Finance Director	13
Directors' report	16
Independent auditor's report	21
Financial statements for 2016	22
MDDUS Board and honorary fellows	38
Management and professional staff	39
External professional advisers	41

2016

Annual Report & Accounts



Principal activity

Founded in 1902, MDDUS is a mutual defence organisation offering expert advice, assistance and indemnity cover to doctors, dentists and other healthcare professionals across the UK. All the benefits of membership are discretionary as set out in the Articles of Association.

A private company limited by guarantee, MDDUS is the trading name of the holding company of the Group. There are three wholly owned subsidiaries: MDDUS Insurance Limited, an insurance company; MDDUS Education Limited, a risk and training company; and MDDUS Property Limited, which oversees the management and performance of MDDUS' investment property portfolio.

MDDUS summary of activity - 2016

	2016	2015
Income	£97.4m	£82.3m
Total net income available for transfer to reserves	£41.1m	£48.3m
Fixed assets and cash on deposit	£682.9m	£601m
Provision for reported claims and non-claims	£214.1m	£173.4m

	2016	2015	%
Total active membership*	40,014	36,378	10.0
Total GP active membership	16,775	16,262	3.2
Total hospital doctor active membership	14,901	13,264	12.3
Total dental active membership	5,683	5,057	12.4

*Includes associate and other membership categories

Chairman's report



Brendan Sweeney

Chairman

16 August 2017

As ever, my contribution to the Annual Report is an opportunity to look forward, as well as backwards.

As the Chief Executive's and Finance Director's reports set out, this has been another successful year for MDDUS. Our revenue and membership numbers are the highest they have been and we are now the UK's second-largest provider of medical indemnity to general practitioners. Although we remain deeply proud of our Scottish roots, the bulk of our members now practise in the rest of the UK. Our expanding London office is an integral part of our operation and working between our two centres is stronger than ever. We remain eager to serve as many members as we can throughout the four nations and the Channel Islands.

We can only have that level of ambition because of the strength of our financial position. Backed by our excellent finance and actuarial teams, your Board can assure you that our reserves are comfortably adequate to meet both our known and anticipated liabilities, that is the claims and non-claims matters that have already been reported to us, and those where the incident has occurred but is not yet on our radar.

“MDDUS remains not simply a trustworthy steward of our mutual resources and your trusted individual adviser in times of need, but also a doughty fighter for the rights of all our members.”

I am also pleased to tell you that our ambitious strategic plan for 2016-18 remains on target, not just in relation to financial and membership growth, but also in relation to quality of service. We have taken steps to improve our online and social media presence, for example. We have sought to both anticipate and meet the changing needs of NHS organisations in what we offer. We also continue to reform and improve our internal governance and management to ensure that our personal, responsive and professional service helps us to reach more people, more effectively. That is what we are here for and you have my assurance that we will not expand in a way that threatens the quality of the support that we offer our members when they are in need of our services.

It is traditional for a Chairman's report to say something about changing Board members. That has never been more necessary than this year. No fewer than seven Board members demit office at our Annual General Meeting (AGM) in September. Dr John Garner (Vice-Chairman), Mr Ian Anderson, Dr Alastair Chambers, Dr Judith Chapman, Professor Hilary Critchley, Professor Gillian Needham and

Dr Donald Pearson have, between them, given a total of 142 years of dedicated service to MDDUS. The expansion of the Group and the increased professionalism of our operations since the first of them joined the Board in 1991 has been nothing short of remarkable and owes a great deal to the commitment, wise guidance and integrity which they have collectively contributed to our decision-making. I thank them all most warmly for their service.

It was our pleasure to welcome two new 'co-opted' members of the Board in the course of the year. Dr Joanna Bayley is a general practitioner in Cheltenham with extensive experience of new and emerging models of care. Professor Iain Cameron, the Dean of Southampton Medical School and recent Chair of the Medical Schools Council, has also joined us to make sure that we remain bang up-to-date with developments in medical education. The Board recommends their formal appointments at the forthcoming AGM as part of a new and smaller Board, which I am confident will continue to provide the effective support, oversight and challenge to our expert, professional and committed staff as they continue to work on your behalf.

Unfortunately, the external environment facing MDDUS has been less positive. We live in peculiarly uncertain political and economic times. Like all organisations, we will be affected by the fallout of the Brexit process and we remain alive to its implications in the management of our finances and the welfare of our members from EU member states.

Most acutely, however, the UK Governments' decisions to change the personal injury discount rate, in what we continue to believe was a legally flawed process, have added totally unnecessary risk and uncertainty to our members as the size of claims looks set to increase dramatically without any demonstration of a corresponding increase in the level of need. We trust that the Governments will soon recognise the need to step up and meet their responsibilities to provide stability in this area to enable more predictability in indemnity costs for all doctors and dentists.

You can rest assured that we will continue to press the Governments for urgent reform in this area. MDDUS remains not simply a trustworthy steward of our mutual resources and your trusted individual adviser in times of need, but also a doughty fighter for the rights of all our members.

My responsibilities as Chairman are greatly eased by excellent working relationships with the Chief Executive and Finance Director. I am happy to acknowledge my indebtedness to them and the entire staff of MDDUS, who ensure the smooth running of the organisation and the maintenance of an excellent standard of service to members. ●

Chief Executive



Chris Kenny

**Chief Executive Officer
and Secretary**

16 August 2017

The BMJ Awards evening is one of the highlights of the year for MDDUS. Often described as the 'NHS Oscars', we have been proud to sponsor the awards for the last seven years. It's a real opportunity to celebrate excellence throughout the healthcare system, in a wide range of specialties, care settings and organisations in each of the four nations of the UK. It is an important and really welcome opportunity to applaud success, a celebration that is all the more necessary in financially and operationally difficult times.

In my opening remarks at the ceremony this year, I was, however, just a little more low-key than the average Oscar presenter or winner. What struck me about many of the winners was the fact that their projects were not particularly flashy, not described in earth-shattering rhetoric, but instead really focused on practical, incremental steps to improve quality. What stood out, in other words, was sheer dedication and persistence in making care better for patients. On the night, I called it "keeping focused on the core motivations of care and excellence which brings people into healthcare in the first place".

I like to think that our operations at MDDUS have been characterised by a similar focus and persistence in making consistent incremental improvements in what we offer throughout the last year. That focus manifests itself in a sound financial stewardship of our members' resources. The Group remains solidly in surplus, with growth in investment income and increased reserves over the last 12 months. We continue to serve an ever-growing number of members – from a wider group of professions – than ever before. As reported by the Chairman, we are now the UK's second largest indemnifier of GPs. It is also pleasing to record that we have recently passed the milestone of having over 10,000 GPs in membership outside of Scotland – and that is before we count those in training grades.

However, incremental improvement is not just about numbers. We want to continue to improve the professionalism of our service. That's why we have recruited four new medico-legal advisers this year to strengthen the 24/7 service we offer to



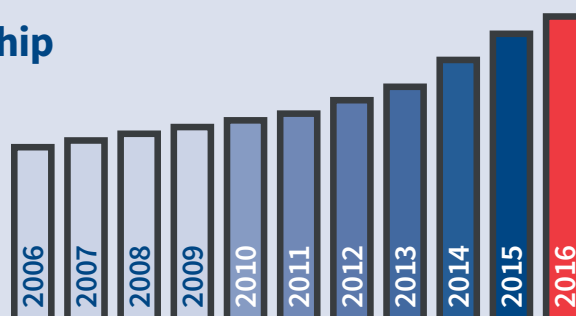
BMJ Awards 2017

our medical members. We have also recruited six new lawyers, as we continue to increase the amount of both claims and regulatory work we perform in-house to ensure a more rapid and integrated service. I am also pleased to announce that our company actuary, Dermot Grenham, has recently been elected to the Council of the Institute and Faculty of Actuaries. In addition, our Joint Head of Medical Division, Dr John Holden, is currently serving as vice president of medico-legal advisers on The Faculty of Forensic & Legal Medicine of the Royal College of Physicians. Both of these appointments are further testament of the broad expertise in our service to members.

Incremental improvement also means being ever more responsive in our systems internally and in keeping pace with the ever-changing healthcare environment externally. In my report last year, I talked about introducing a mobile-enabled website. We have made more progress in our web presence in recent months and are now in the throes of introducing a significantly improved member experience. That means making it easier for each of you to interact with us, avoiding the need for lengthy phone calls on matters of routine, making payments easier and, most excitingly, ensuring that our expanding range of risk education material is much more easily accessible. I really would encourage you to take a look at the Training & CPD section of the website. You will find a wide range of useful, practical and (even sometimes) entertaining material – and the more you see of that, the lower the likelihood that you will need to talk to us professionally.

The third area of continuous improvement is in value for money. Our sound financial success underpins the growth I

**Total active membership
increased by
10 per cent
to 40,014 in 2016**



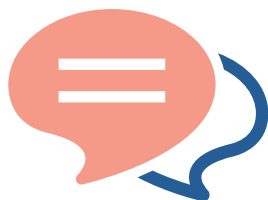
mentioned above and keeps our pricing competitive, while ensuring that all our costs and liabilities are more than fully covered. It also means that we can be alert and responsive to changing service models, for example the development of Federations in England and the various integrated care models arising up and down the country. It also means that we can respond to the particular needs of out-of-hours providers. Our core subscription model ensures that extended-hours costs can be met within core subscriptions and that any of our members will be able to afford a reasonable amount of out-of-hours work without the cost of indemnity breaking the bank.

“MDDUS has been at the forefront of the campaign to get Government to tackle the wholly deleterious impact which the reduction in the personal injury discount rate will have...”

One reason we can do that lies in the fourth area of improvement in the last year: new partnerships. We have worked with a range of out-of-hours organisations, for example, to explore how their clinical governance arrangements can help to reduce risks and so enable us to meet their needs flexibly and competitively. We were also delighted to introduce an innovative partnership with the Royal College of General Practitioners, reducing College membership fees for those doctors in their first five years of practice. This enables them to access both great value indemnity whilst also remaining absolutely bang up-to-date with the best professional thinking through the College itself.

We are also looking at wider partnerships. After a pause of nearly a decade, we have re-joined the Physician Insurers Association of America (PIAA) to make sure that we are up-to-date with best practice internationally. We are also members of the Association of Financial Mutuals in the UK to help keep our corporate governance up to the highest standards.

There are also a range of further incremental improvements to our internal management. We continue to evolve our internal systems. The new senior posts which I wrote about last year – in relation to



MDDUS campaigns for tort reform and a cap on the level of fixed recoverable costs

Development, Advisory and Legal Services and Systems Improvement – are all bedding in and showing their worth. You simply cannot have quality and improvement without proper service integration. That’s what we have been increasingly able to achieve over the last 12 months and are working constantly to develop further.

Unfortunately, the same approach to continuous improvement and joining up different perspectives has not always been visible at the level of Government policy in the last year. MDDUS has been at the forefront of the campaign to get UK Governments to tackle the wholly deleterious impact which the reduction in the personal injury discount rate will have, not simply on the cost of indemnity but in relation to wider plans to seek to improve primary care services and expand the professional workforce. We have been vociferous in calling for changes from the Ministry of Justice in how and how often changes in the discount rate are calculated, in pressing the Department of Health to follow through rapidly on its promise to provide ‘appropriate funding’ to meet the full cost of the change in the discount rate and in urging the Scottish Government to avoid blindly replicating the mistakes made in Westminster.

With the general election campaign now concluded, we hope that we will see a determined effort not just to tackle the consequences of the misguided decisions already made but, much more importantly, to tackle the root causes of claims inflation in the first place through a process of tort reform, a cap on the level of fixed recoverable costs and the removal of qualified one-way cost shifting from medical negligence cases. Who knows, if we see a really good joined-up approach from health and justice ministers on these absolutely vital short- and medium-term issues, maybe they could be in the running for one of the BMJ Awards next year! ●



Meet...

Chris Godeseth Head of Underwriting

Understanding the risks of clinical practice is key to Chris’ role as head of the underwriting team. His goal is to ensure MDDUS meets the needs of individual members while at the same time protecting the membership’s funds. Chris oversees the application underwriting pathway and works closely with our actuaries to ensure that we continue to offer best value subscription rates. A qualified doctor, he came to MDDUS in January 2015 having spent three years in underwriting following a four year spell as a medico-legal adviser.

“Underwriting is fascinating – it’s such a broad role that is central to our provision of support and assistance to doctors and dentists. I enjoy the breadth of the job and the challenge of ensuring our products are priced appropriately and meet our members’ needs.”

Innovative new partnership with the RCGP to reduce membership fees for those doctors in their first five years of practice



MDDUS is now the UK’s

second largest indemnifier of GPs



ADVISORY AND LEGAL SERVICES

Legal team



Meet...

Kelly Daghish

Executive PA and Team Leader

Experienced legal secretary Kelly has a busy schedule as executive PA to Director of Advisory and Legal Services, Emma Parfitt, and to Director of Development, David Sturgeon. Managing diaries, scheduling meetings, monitoring emails and providing vital updates are a key part of her day-to-day duties.

In addition, she leads the London legal and advisory secretarial teams, ensuring the service runs smoothly and that staffing levels and workloads are managed appropriately. She joined MDDUS in 2012 with more than a decade of experience in her field.

"I love the variety and the challenge of being both a PA and a manager. Being able to organise, prioritise and delegate are key."



Over **30 in-house lawyers** assisting members across the UK

In 2016, the legal team continued its success in repudiating a significant proportion of claims and greatly reducing the amount paid in damages compared to sums initially claimed. However, the number of new clinical negligence cases involving MDDUS members has continued to increase, particularly in relation to members practising in England.

Our growth in membership explains this in part, but it also highlights an ongoing trend in increased litigation. As well as an increasing number of cases, we also continue to experience ever-increasing costs associated with litigation. That's why we are engaging with UK Governments to address the spiralling costs of clinical negligence litigation and the effect this is having on our subscriptions. For example, MDDUS recently submitted a detailed consultation response calling for more rapid and robust action to place a cap on fixed recoverable costs, which will limit the fees paid to claimants' solicitors on lower value cases.

"Recently MDDUS submitted a detailed consultation response calling for more rapid and robust action to place a cap on fixed recoverable costs."

Regulatory cases involving referrals of MDDUS members to the General Medical Council (GMC) or General Dental Council (GDC) continued to level off in 2016, as seen in the previous year. The legal team has been working closely with both regulators, responding to consultations on systemic improvements to develop more efficient and proportionate investigative processes involving single clinical incidents. Such reform, much of which can be done without legislation, is necessary to reduce the impact of these investigations, which remain enormously stressful for the clinicians and patients involved.

The vast majority of the regulatory cases involving members (97 per cent) dealt with by the legal team in 2016 were concluded without referral to a full hearing at the Medical Practitioners Tribunal or a Professional Committee of the GDC.

The legal team expanded in 2016, further increasing our substantial in-house regulatory expertise and to meet the continued growing trend in clinical negligence claims. Six members of staff were recruited in the London office, including four experienced clinical negligence lawyers, a case assistant and a paralegal. Two of our trainee solicitors also successfully qualified this summer, representing the completion of the first MDDUS in-house legal training contracts.

We now have over 30 in-house lawyers assisting members across the English, Welsh and Scottish legal jurisdictions on a full range of medico- and dento-legal issues. Further expansion is anticipated in the coming year to meet the expected increase in members' needs.

The performance of the legal team is closely monitored with key performance indicators (KPIs) and regular audits. Agreed protocols are in place to ensure a consistent, high-quality approach is adopted in both claims and regulatory handling. Ongoing training and development encompasses the new standardised approach to continuing professional development required by the Solicitors Regulation Authority in England and Wales, mirroring that already in place in Scotland. ●



97 per cent of regulatory cases closed without a referral to a full hearing



ADVISORY AND LEGAL SERVICES

Medical team



Our members face increasingly complex and evolving medico-legal dilemmas arising from their daily medical practice. MDDUS medical advisers, based in Glasgow and London, work together as an integrated team alongside legal colleagues to deliver advice and assistance to members across the UK and the Channel Islands.

The team expanded during 2016 in response to continuing membership growth. Dr Mary Peddie retired and new advisers were appointed: Dr Emily Shepherd, Dr Myooran Nathan, Dr Roopinder Brar and Dr Annabelle MacGregor. They bring a wealth of previous experience and specialist medico-legal and medical ethics knowledge, including expertise in obstetrics and gynaecology, paediatrics and general practice. The team provides advice and support to over 31,500 medical members – a 7.3 per cent increase on last year.

In 2016:

- we answered over 10,000 calls and replied to 1,298 emails – increases of 1.2 per cent and 2.3 per cent, respectively
- 5,563 case files were opened relating to complaints, claims, disciplinary and regulatory matters, coroner's inquests and fatal accident inquiries – an increase of 4.3 per cent
- our specialist employment advisers answered 1,288 telephone calls and opened 257 new cases – increases of 5.4 per cent and 26.6 per cent, respectively
- we attended 44 educational events, providing medico-legal updates to the profession.

The Joint Heads of the Medical Division, Dr Anthea Martin (Glasgow) and Dr John Holden (London), continue to engage widely with stakeholders in the

interests of our members, including regular interaction with the GMC and Medical Practitioners Tribunal Service, royal colleges, BMA, ombudsmen and many others.

As part of these interactions, we have submitted responses to many consultations, including from the Department of Health: *Introduction of medical examiners and reforms to death certification in England and Wales: policy and draft regulations*, *Providing a 'safe space' in healthcare safety investigations* and *Scope of Performance Assessments of Providers Regulated by the Care Quality Commission*.

“The evolution of medicine and the shifting medico-legal framework within which it functions can generate significant stress for modern healthcare professionals.”

The evolution of medicine and the shifting medico-legal framework within which it functions can generate significant stress for modern healthcare professionals. Tomorrow's doctors are of course today's medical students. Mindful of this, during 2016 we supported a downloadable publication from the Royal Medical Benevolent Fund (RMBF), *The Vital Signs for Medical Students*, which highlights the stress that modern medical students can encounter and provides advice on its management. A leaflet is being distributed in 2017 across UK medical schools, setting out the support the RMBF provides and encouraging students to seek help.

The medical team at MDDUS - all of whom are GMC registrants and subject to the same appraisal, CPD and revalidation disciplines as our members - also contribute directly to our risk education and publications work to share the lessons from their practice with our members, as well as talking to a wide range of medical students. ●

Medical advisers

answered over
10,000 calls and
replied to
1,298 emails



Meet...

Dr Roopinder Brar

Telephone Adviser

Qualified GP Roopinder is one of MDDUS' newest recruits, joining in September 2016. When members call for assistance, Roo is on hand to offer advice and guidance on a range of medico-legal matters.

She qualified in 2010 from the University of Newcastle with a merit and went on to gain her DRCOG and Masters in Medical Law and Ethics with merit from the University of Manchester. She continues to work part-time as a GP with a special interest in gynaecology and sexual health.

“I have already learned a lot since joining MDDUS and feel I have become a better doctor as a result. Equally, I feel my clinical experience gives me a valuable insight when offering assistance to members in difficulty.”



Dental team



Meet...

Alexandra Godby Solicitor

Healthcare law has been Alexandra's specialty since she qualified as a solicitor in 2008, having earned her law degree from the University of Manchester. She brought her expertise to MDDUS in 2014 and her caseload focuses primarily on complex and high value clinical negligence claims. Coroner's inquests are also a common feature – helping members to prepare statements, and offering advice and guidance on what to expect from proceedings. In 2016-17, Alexandra was part of the MDDUS working group looking into the issue of fixed recoverable costs in clinical negligence claims and she helped to draft the submissions which formed part of a formal response to the Department of Health consultation.

"I enjoy having the opportunity to work with so many different people, whether it's offering face-to-face advice to our members, participating in conferences with counsel and experts or attending court hearings and inquests. There is never a dull moment!"

The dental team brings a wealth of experience to our adviser-led service to members requesting support and assistance for professional matters arising out of the practice of dentistry. Four dental advisers based in Glasgow and London perform a huge variety of work to members facing increasingly complex and varied issues across a range of dento-legal matters, including dental telephone and written advice, assistance with complaint management, GDC fitness to practise investigations, claims and dental practice board enquiries (in both jurisdictions). They also contribute to a range of undergraduate and postgraduate education programmes and publications.

In 2016, we saw a 24.8 per cent increase in telephone advice requests and a 21.9 per cent increase in written requests, with a 47.8 per cent increase in UK-wide members (outside Scotland) telephoning for complex and detailed advice. The substantial increase in UK-wide members contacting MDDUS for advice is reflective of the enormously successful growth that the dental team has seen in the UK-wide general dental practitioner (GDP) market.

**GDC cases
increased
by 3.1
per cent**



Despite an 11.3 per cent rise in complaints, a 92.3 per cent increase in dental discipline cases and a 27.3 per cent increase in dental practice board enquiries, the team has successfully responded to members within internal protocol standards, achieving excellent results. GDC cases showed a 3.1 per cent increase and most were successfully dealt with, leading to a decrease in matters referred to a full Professional Committee hearing before the GDC. The recent introduction of KPIs for the dental team has ensured a continuing high-quality approach to case management.



**Telephone
advice
requests
increased by
24.8 per cent**

In June 2016, MDDUS offered a new product for employing GDPs in Scotland, who can now contact the employment law team for additional matters relating to staff employment. This has been well received by members. We have also introduced an early practitioner adviser for dentists just starting out in their careers. Laura McCormick is an experienced dental practitioner available to offer advice on a variety of topics, including choosing a job, understanding associate agreements and insights into practising life.

The dental team, supported by legal colleagues, has continuously engaged with the GDC in various stakeholder and workshop events, providing valuable input into the reforms set out in the recent *Shifting the Balance* proposals.

The team also continues to deliver a bespoke two-day undergraduate teaching programme to the dental and oral health science students at the University of Dundee. The team further provides a wealth of postgraduate education across the UK, including to Scottish dental vocational trainees, covering a comprehensive programme of education in GDC core topics, complaint and risk management and relevant legal and ethical issues. Bespoke CPD is also provided to individual dental practices.

Thanks to the great efforts of the dental advisers and their marketing colleagues, brand awareness of MDDUS has gone from strength to strength in the UK dental marketplace. ●



Development



The continued growth of MDDUS membership in 2016 again reflects how our competitively priced products are delivering high-quality advice and support to healthcare professionals throughout the UK.

Total active membership rose to 40,014 in 2016, a year-on-year increase of 10 per cent. Hospital doctor and dental membership increased by over 12 per cent. Overall GP membership rose by more than 3 per cent, with those practising outside Scotland representing 67 per cent of the total. This upward trend has continued in 2017 with active membership at 31 May standing at over 41,000.

Once again, Gaelle Ainslie (Head of Marketing and External Relations) and her team secured an MDDUS presence at a considerable number of high-profile medical and dental events throughout the UK, where we had the opportunity to speak with both current and potential members. Gaelle also oversaw discussions with a range of current and potential stakeholders, with the aim of better understanding their expectations of a defence organisation.

In the first of these initiatives, we held a number of focus group events, which provided a fascinating insight into the attitudes and opinions of a broad cross-section of the medical and dental professions. We also carried out online surveys, which uncovered how positively MDDUS is perceived by members who have called upon our advice and support service, and those who have not. All of this feedback has been invaluable in shaping the focus and future direction of MDDUS.

The UK indemnity market has been the subject of intense media discussions, so we hosted an information event for journalists from the medical, dental and mainstream press. This gave us a platform

to update them on the nuances of the UK indemnity market and allowed them to ask Chief Executive, Chris Kenny, and other colleagues a variety of questions.

The publications team also had a busy year producing a wide range of member magazines, including relaunching our flagship journal *Summons* as *Insight*. They also worked hard to assist with the relaunch of the MDDUS website.



Membership services staff dealt with more than **52,100** telephone calls and **30,200** emails

In 2016, Stephen Kelly and his membership services staff dealt with more than 52,100 telephone calls and 30,200 emails, increases respectively of around 15 per cent and 4 per cent. The vast majority of telephone calls were answered within 10 seconds, whilst 78 per cent of emails received a response within two working days and 86 per cent of emails were answered within five working days.

This trend has continued for the early part of 2017 and service levels continue to be maintained. We are fortunate to have experienced membership services staff to deal with enquiries. Most of the team have 10 years or more experience with MDDUS (some with more than 30 years) and their wide and varied knowledge allows us to provide members with an unrivalled service. ●

Meet...

Ross Campbell Membership Adviser

Ross' job is to assist the growing MDDUS membership base: processing applications, answering telephone and email queries, and working closely with the underwriting team to ensure a consistent and high quality service.

In the nine years since he joined MDDUS, his role has changed from being heavily paper-based to almost exclusively electronic, thanks largely to the introduction of our online application form.

He puts his extensive product knowledge and customer service skills to good use in the busy membership department, which last year saw over a 15 per cent increase in the number of telephone inquiries.

"My job is busy and varied: no two careers are the same and no two subscriptions are the same. It is very challenging but I'm lucky to work within a great team who support each other."



Risk education



Meet...

Jan Prisc

Student Liaison Officer

The recruitment and retention of student members is the focus of Jan's job, which takes her to medical and dental schools across Scotland. She organises educational events, including the ever-popular mock fatal accident inquiry, as well as scheduling informative talks featuring MDDUS medical and dental advisers. As brand ambassador, she raises awareness of MDDUS and highlights the benefits of our indemnity products.

Jan joined in February 2017, having spent nine years working with medical students in the financial services industry. She graduated from the University of Glasgow in 2006 and gained an MA in Liberal Arts following a postgraduate year at the University of Georgia, USA.

"I love that my job is different every day – from visiting our student members at medical and dental schools, to organising events or representing MDDUS at conferences."

The aim of our risk education service is to improve professional practice and patient safety by analysing key and emerging trends in medico- and dento-legal risk arising from MDDUS case experience, and to use this to inform the development of online learning resources, risk management tools and training programmes for members. By doing this, we can provide practical support to members, allowing them to demonstrate CPD as well as improving patient safety within their own organisations.

During 2016, the risk education team worked to expand the range of resources available to member groups via the new Training & CPD area of the MDDUS website. This has made resources easier to find and use, and for members to tell us what they think about them, along with obtaining CPD certificates.

A fourth episode in our flagship drama series *Bleak Practice* was released. This incorporates two team workshops and was developed in partnership with our employment law advisory team. The first, aimed at GPs and practice managers, focuses on disciplinary procedures and is accompanied by a filmed advisory discussion. The second, for whole practice teams, looks at access to patient information and the use of social media. Practices utilising our *Bleak Practice* series of workshops consistently describe them as essential and flexible tools for use in protected learning time and that their teams "look forward to the next instalment".

Continuing our development of online learning resources, we produced two new GP courses focussing on good practice in relation to record keeping and on consent. Both have been accredited by the RCGP. For hospital doctors, a course on record keeping was developed and accredited by the Royal College of Physicians. Our complaints-handling courses for dentists and GPs have proved popular, with one

dentist commenting: "I would strongly recommend this module to every GDP in the UK."

Expanded range of resources available via the Training & CPD section of mddus.com

Interactive webinar topics for dentists, doctors and practice managers have been expanded to include new areas such as dealing with each stage of the complaints process, dealing with patients with incapacity and the new requirements in relation to the General Data Protection Regulations. The response to these has been overwhelmingly positive and they have proven an attractive means of engaging in focussed CPD without leaving the workplace.

As well as expanding our online resources, we have continued to deliver focussed dental risk training days. Workshops were delivered with our partners at Capsticks on topics such as preparing for CQC inspections and confidentiality. Building on our enhanced understanding of the causes of loss in GP claims and analysis of GMC complaints, we used our strong partnership with the RCGP to roll out equivalent GP risk training days via College faculties across the UK.

In 2017, our priorities are to further expand the range of resources, in particular for hospital doctors and dentists. We will also explore innovative ways of further engaging with members to ensure key risk information and mitigations are easily accessible, and we will be running our popular biennial practice managers' conference. ●



Finance Director



Colin J Slevin

Finance Director

16 August 2017

The key priority at MDDUS is to remain financially sound in order to ensure that members can call upon the organisation with confidence to exercise its discretion and provide appropriate assistance as required. It is imperative that we are able to be there for the member. The Board believes that our continuing financial health provides that reassurance, despite the challenges MDDUS currently faces in an uncertain economic and political environment. Most recently, the UK Governments' change to the discount rate has had a significant impact on organisations such as MDDUS, which have to make financial provision for settlements that provide long-term ongoing care to patients.

Financial overview

Despite these challenges, I am pleased to report that, building on a strong performance in previous years, the financial results for 2016 show a further consolidation of the healthy financial position at MDDUS. The consolidated statement of income and retained earnings details a surplus for the year on

“It is a continuing challenge to set subscription rates that are fair to members whilst at the same time ensuring that members have the necessary financial reassurance from MDDUS of its ability to meet the costs of claims and non-claims in the future.”

ordinary activities after taxation of £41.1m (2015: £48.3m). This represents another significant amount of income available to transfer to reserves this year, further strengthening the overall financial position. The contributing factors to this increased surplus was a further rise in subscription income as a result of the growing number of members joining MDDUS, as well as further growth in the value of our investment assets. However, it should be noted that there was a significant increase in the charge for claims costs this year of £73.6m (2015: £35.7m), which was primarily a result of the change in the discount rate.

At 31 December 2016, the balance sheet indicates that the total net assets of MDDUS have increased by 10.3 per cent in the year to £441.8m (2015: £400.7m). Members will be aware that in addition to the claims and non-claims matters that have been reported to MDDUS at 31 December 2016 and incorporated in the financial statements, there will be claims and non-claims reported at a later date for incidents arising from periods of membership ending before 31 December 2016 – the so-called incurred but not reported (IBNR) liabilities.



Financial performance

Members' subscriptions and other income rose by 18.4 per cent in the year to £97.4m (2015: £82.3m). The membership subscription income element partly contributed to this increase on the previous year, with the balance being an increase in the level of rental income from our investment properties in London. The increased subscription income was primarily a result of the recruitment of new members rather than as a result of the increase in subscriptions rates.

As in previous years, it is important to stress that membership rates are set taking full account of actuarial advice, and the target is to collect sufficient funds to cover all payments that may become due in respect of claims and non-claims matters, as well as ensuring that general administration costs are met. Such claims and non-claims may of course take many years to be reported and to develop into matters necessary for MDDUS to deal with. It is a continuing challenge to set subscription rates that are fair to members whilst at the same time ensuring that members have the necessary financial reassurance from MDDUS of its ability to meet the costs of claims and non-claims in the future. The adverse change to the discount rate has the potential to cause an additional increase to rates unless UK Governments take action to avoid this consequence.

Claims costs and associated legal costs represent the largest expense item in the consolidated statement of income and retained earnings. The change in the discount rate has had a significant adverse impact this year and further adverse changes will have similar impacts in the future. The figure of £73.6m (2015: £35.7m) not only relates to payments made in the year but the necessary adjustment in values of existing and newly reported claims at the year end. Over recent years, I have cautioned that there is a considerable degree of uncertainty in the future value of such costs and such radical changes to the discount rate only add to this uncertainty.

Investments

The nature of indemnity is that it can be many years between the date that a member pays their subscription and when that money is used to pay for a claim. The payment of a non-claim matter such as representation at the GMC or GDC will usually be of a shorter timescale. During this period, MDDUS has the opportunity to invest that money in order to manage the level that rates must be set at, as well as to ensure that the money is available to make payments when required. Our current

investment strategy is to select a cautious investment portfolio with a spread of asset classes in the expectation that, over the long term (which is our timescale for investment), the portfolio will ride out the vagaries of the market. In recent years, we have provided additional diversification to the investment portfolio by purchasing office properties in London, and a fourth property was purchased in early 2016. These properties have attracted a number of 'blue chip' tenants.

At 31 December 2016, MDDUS had more than half of its investments held in cash, gilts, bonds and property investments with the balance in equities (see Fig. 1).

The aim of the portfolio is to ensure that there are sufficient funds for MDDUS to meet its liabilities when they fall due, but also to support the subscription rate setting process. This means that members can benefit from lower rates than might otherwise have had to be set. In 2016, MDDUS had a total return on its managed non-property investments net of management fees of 9.8 per cent (2015: 2.5 per cent).

Advisory and non-claims legal costs

Advisory and non-claims legal costs apply to those matters with which members seek assistance that are not claims. These include regulatory matters, such as those involving the GMC or GDC, as well as other general matters relating to a member's professional clinical practice, such as coroner's inquests or fatal accident inquiries. These costs have increased in the year by 3.3 per cent to £12.1m (2015: £11.8m), which reflects the increase in requests for assistance in these areas. This figure represents not just



Advisory and non-claims legal costs rose by 3.3 per cent

payments made in the year, but also the adjustment needed to increase the provision in the balance sheet for events that have been reported to MDDUS at 31 December 2016 but which will be paid at some time in the future.

Administration costs

Administration costs are those overhead costs incurred in running MDDUS that are not related to claims or non-claims. The cost this year of £11.2m (2015: £9.6m) represents an increase in the year of 17.3 per cent. This reflects increased investment in operational infrastructure, such as the new website and new appointments in underwriting, business development and support systems as a result of membership growth.

Provision for liabilities and charges

MDDUS continues to believe that discretionary occurrence-based cover offers the most effective and reliable basis of protection for the medical and dental professions. This ensures that the member has a central role in these matters, as well as providing cover to protect members for many

Fig. 1 MDDUS investments and provisions for claims and non-claims

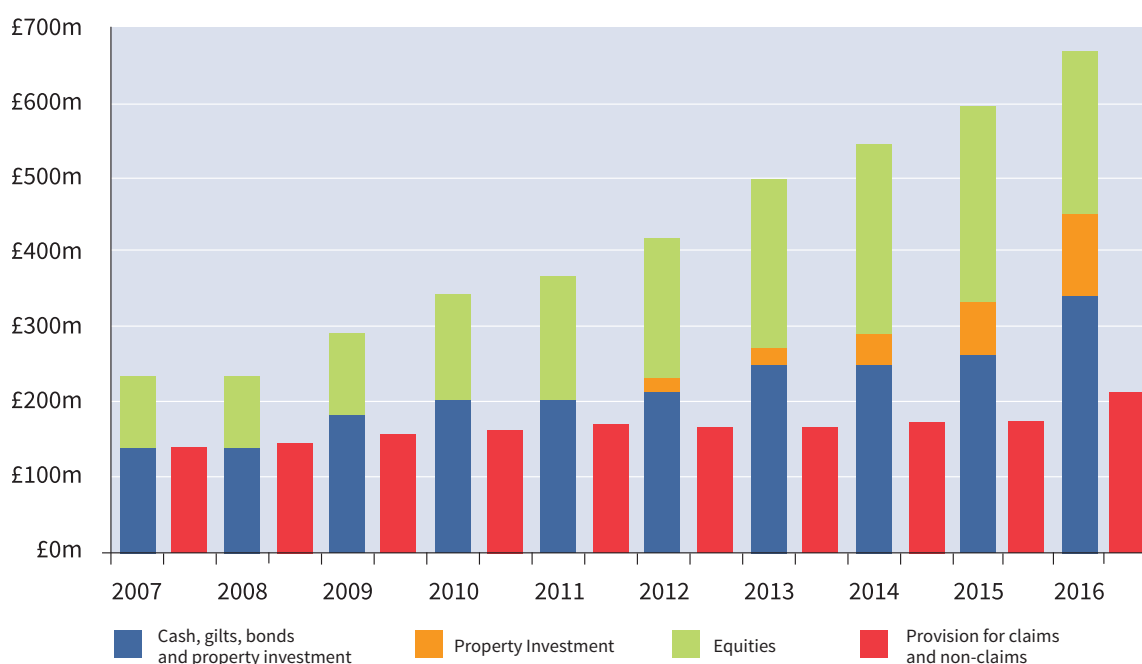
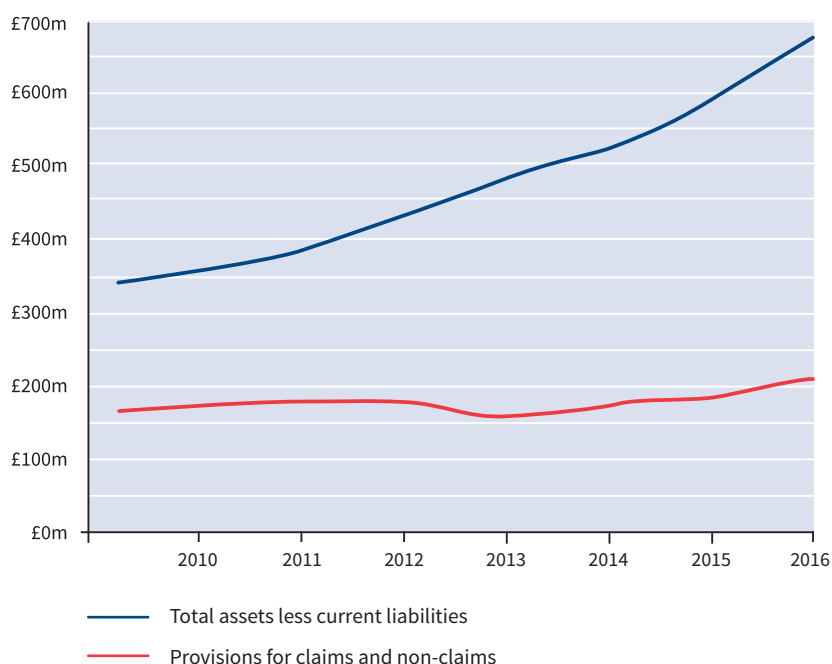


Fig. 2 Provision for claims and non-claims as seen against total assets less current liabilities



“The Board believes that the financial results for 2016 provide continuing reassurance to members that the sound financial position achieved by MDDUS in recent years has been further consolidated.”

years into the future for events occurring during the period of membership. In determining the value of all reported claims and non-claims reported by 31 December 2016, the Board relies upon the services of the in-house actuarial function as well as additional support from external firms of actuaries, highly experienced in medical and dental indemnity. The provision for liabilities and charges relating to all claims and non-claims matters notified to MDDUS at 31 December 2016 increased this year by 23.5 per cent to £214.1m (2015: £173.4m). Figure 2 indicates the level of assets available to meet the reported liabilities and is a good indication of the ability of MDDUS to provide financial security to its members. However, the increase in provision this year has been significant. The overwhelming reason for that has been the change in the UK Governments’ discount rates. The reduction in the rate to negative 0.75 per cent has resulted in a large number of claims already reported to MDDUS being adversely revalued. This means that more reserves have to be set aside to meet these claims when they are settled in the future.

In addition to those adverse events reported at the end of the accounting year in the balance sheet, MDDUS must also be aware of the potential costs of those events that occurred before the end of December 2016 but have not yet been reported. These are the IBNR claims and non-claims which at some point in the future will be brought to the attention of MDDUS. Although MDDUS has not yet exercised its discretion over these matters by the year end (as they have by their nature not been reported), the actuaries have estimated the value of these IBNR claims and non-claims. The change in the discount rate also has a significant impact in calculating the IBNR. However, I can advise that the latest actuarial report confirms that MDDUS has sufficient funds to meet the IBNR liabilities in respect of which we may exercise our discretion in the future.

Therefore, for both reported and IBNR claims and non-claims, and having taken a view as to how the discount rate change is likely to impact in future years, the Board is confident that MDDUS continues to have sufficient assets to meet these liabilities when they fall due and that the capital adequacy levels it has set to manage the business remain adequate at this time.

Summary

The Board believes that the financial results for 2016 provide continuing reassurance to members that the sound financial position achieved by MDDUS in recent years has been further consolidated. ●



**Members’
subscriptions and
other income rose
by 18.4 per cent in
2016**

Directors' report 2016

Corporate governance

Companies listed on the main market of the London Stock Exchange are required to describe in their annual report and accounts how they comply with the 'good practice' principles outlined in the UK Corporate Governance Code or to explain any significant variances.

MDDUS is not a listed company, but it aims to comply with the Association of Financial Mutuals' UK Corporate Governance Code: an annotated version for mutual insurers ('the Code'). Our corporate governance arrangements were reviewed and updated during 2015-16 and this year we provide more detailed reporting of our compliance with the Code in 2016-17.

In addition, the members of MDDUS are encouraged to support the 'good governance' of MDDUS, for example, by standing for appointment to the Board and/or attending the AGM to receive the Annual Report, to appoint Board members and the auditors, and to consider other resolutions. There is also an email address for members and other stakeholders to raise questions about the governance of MDDUS: secretary@mddus.com

The Board

The membership of the Board in 2016 and 2017 is set out later in this report (see page 38) and biographies are available on the website. Prior to one director standing down at the Annual General Meeting (AGM) on 9 September 2016, the Board consisted of 20 directors, comprising 18 non-executive directors and two executive directors: the Chief Executive and the Finance Director. There were four non-clinical 'external' non-executive directors, bringing experience from the fields of risk management, business development and financial services, and the actuarial and legal professions. Eight of the non-executive directors were 'independent' as defined by the Code, having served nine years or less since their first appointment to the Board. All non-executive directors who are members of MDDUS must pay the appropriate membership subscription. Some also receive payments for expert fees at the standard rate, but in 2016 no such fees were paid (2015: £0).

Any member of MDDUS can stand for appointment to the Board. Since the AGM in 2005, non-executive directors can generally serve not more than three

terms of up to four years in office, subject to the succession planning needs of the Board. During 2016, one non-executive director stood down from the Board and two were appointed, following interviews of short-listed candidates by a panel of the Governance and Nominations Committee, bringing experience from the fields of hospital and general dentistry, academia and health service quality and improvement. Their appointment was confirmed by the members at the AGM in 2016.

The 2017 director appointment process used both direct advertising to members and the instruction of executive search firm, Saxton Bampfylde. Included in the search criteria was a commitment to increase diversity on the Board to reflect the current and potential membership of MDDUS. The Governance and Nominations Committee considered applications from over 50 candidates, which were subsequently long-listed and then short-listed. The remaining candidates met the Chairman to discuss the role, before being interviewed by a panel of the Committee. Two non-executive directors were appointed by the Board in April 2017, bringing experience from the fields of academia and general practice. The Board recommends their appointment by the members at the AGM on 8 September. As part of an agreed down-sizing of the Board, seven non-executive directors will stand down from the Board at the AGM and the maximum number of non-executive directors will reduce to 12.

Directors appointed since 2016 are required to sign contracts for service. These require new directors to participate in an informal induction programme, which includes meetings with the Chairman, senior staff and a 'mentor' from the Board, and we also provide recent Board and committee papers (including the strategic and business plans), and relevant policies and guidance relating to their role and 'good governance'. In addition, we aim to meet the training needs of directors as they are identified, including in 2016-17 sessions about new models of healthcare in England, the role of investment committees, and data protection and information governance.

In addition to agreeing pre-AGM appointments of non-executive directors, the Board also appoints directors to the positions of Chairman, Vice-Chairman and Senior Independent Director. The roles of Chairman and Chief Executive are separate and their profiles, which were updated in 2016 and were recently reviewed, distinguish clearly between

leading the Board and executive responsibility for the running of the business. The Chairman was appointed as a director in 1997 and as a non-'independent' Chairman in 2012. The Board agreed in April 2017, reconfirming a decision taken in 2016, to extend the Chairman's term of office by one year to 2018 to provide stability following the relatively recent appointment of the Chief Executive, the planned down-sizing of the Board at the AGM and the current uncertain external operating environment. He has no external commitments that might detract from his ability to discharge the duties of Chairman. A 'Chairman-elect' will be appointed by the Board later this year to shadow the Chairman until the AGM in 2018.

There were six meetings of the Board in 2016 with an average attendance rate of 91 per cent. The attendance rates of individual directors are detailed in Table 1.

The Board has a forward business programme, which helps to shape the agenda for each meeting, in discussion with the Chairman, the Chief Executive and the Deputy Company Secretary (who is responsible for providing day-to-day support to the Board). A typical meeting will consider emerging strategic and policy matters, as well as receiving regular reports about progress against the business plan, the 'balanced scorecard' of key performance indicators, a Chief Executive's report, management accounts and minutes of meetings of its committees and subsidiary boards.

Following work in 2015-16, the Board has terms of reference and an updated schedule of matters reserved to the Board, which includes the approval of the strategy, substantive changes to the services provided to members and the Annual Report and Accounts. These were reviewed in March 2017.

Board committees

There are four committees supporting the work of the Board: Audit and Risk, Investment, Governance and Nominations, and Remuneration. The membership of these committees is reviewed annually and is set out later in this report (see page 38). All non-executive directors serve on at least one committee, but members of the Investment Committee are prohibited from serving also on the Audit and Risk Committee. Each committee has a clearly defined remit and recently reviewed terms of reference.

Table 1 Directors who served in 2016

Director	Board meetings attended*
Anderson, I W R	4 (6)
Angiolini, E	6 (6)
Berry, J P	4 (6)
Black, J	5 (6)
Chambers, W A	5 (6)
Chapman, J M	6 (6)
Critchley, H O D	5 (6)
Donald, R M	5 (6)
Fleming, A	3 (3)
Garner, J A M	5 (6)
Kenny, C C	6 (6)
Leitch, J	5 (5)
McDonald, P	5 (6)
McPhail, M	6 (6)
Needham, G	6 (6)
Pearson, D	6 (6)
Semple, L	6 (6)
Slevin, C J	6 (6)
Sweeney, B	6 (6)
Wilson, N	4 (4)

* The number of meetings the director was eligible to attend is in brackets. See page 38 for a current list of directors.

The work of the **Audit and Risk Committee** is described later in this report (see pages 19-20). There were three meetings of the Committee in 2016 with an average attendance rate of 95 per cent. The attendance rates of individual directors are detailed in Table 2.

The **Governance and Nominations Committee** is charged with, amongst other things, leading an open and transparent process to identify and nominate candidates to fill vacancies on the Board. When nominating suitable candidates, the Committee takes into account the structure, size and composition of the Board. There is a recently revised role profile for non-executive directors (and each of the Board's office holders) and an induction programme for new directors. The Committee is also responsible for determining, and reviewing the outcomes of, the Board agreed processes to evaluate in consecutive years the performance

of the Board (and its Committees) and individual non-executive directors. In 2016, the former was evaluated with the support of an external facilitator, who met a number of directors, senior staff and the auditors. The notes of these meetings and the forms completed by the directors were used to develop an action plan to deliver during 2016-17. This was agreed by the Board and its implementation is being monitored by this Committee. In 2017, the Chairman is meeting individual directors to evaluate their performance and, again, an action plan will be developed for approval by the Board. There were two meetings of the Committee in 2016 with an average attendance rate of 100 per cent. The attendance rates of individual directors are detailed in Table 3.

Table 2 Director attendance at Audit and Risk Committee meetings in 2016

Director	Meetings attended*
Black, J	2 (2)
Chambers, W A	2 (3)
Chapman, J M	3 (3)
Critchley, H O D	3 (3)
Donald, R M	2 (2)
McDonald, P	1 (1)
McPhail, M	3 (3)
Semple, L	3 (3)
Wilson, N	1 (1)

* The number of meetings the director was eligible to attend is in brackets.

Table 3 Director attendance at Governance and Nominations Committee meetings in 2016

Director	Meetings attended*
Angiolini, E	2 (2)
Berry, J P	2 (2)
Donald, R M	1 (1)
Garner, J A M	2 (2)
Leitch, J	1 (1)
Sweeney, B	2 (2)

* The number of meetings the director was eligible to attend is in brackets.

The **Investment Committee** is charged with, amongst other things, recommending to the Board the MDDUS Investment and Asset Allocation Strategy and overseeing the performance of the investment managers. There were five meetings of the Committee in 2016 with an average attendance rate of 85 per cent. The attendance rates of individual directors are detailed in Table 4.

Table 4 Director attendance at Investment Committee meetings in 2016

Director	Meetings attended*
Anderson, I W R	5 (5)
Berry, J P	4 (5)
Donald, R M	1 (1)
Fleming, A	3 (4)
Garner, J A M	5 (5)
Leitch, J	3 (4)
McDonald, P	2 (4)
Needham, G	3 (5)
Pearson, D	5 (5)
Slevin, C J	5 (5)
Sweeney, B	5 (5)

* The number of meetings the director was eligible to attend is in brackets.

The **Remuneration Committee** is charged with, amongst other things, determining and keeping under review the remuneration and terms and conditions of service of directors and certain senior staff, having regard to external benchmarking by expert external companies, Willis Towers Watson and PricewaterhouseCoopers in 2016 and PwC alone in 2017. There were two meetings of the Committee in 2016 with an average attendance rate of 100 per cent. The attendance rates of individual directors are detailed in Table 5.

Table 5 Director attendance at Remuneration Committee meetings in 2016

Director	Meetings attended*
Angiolini, E	2 (2)
Black, J	2 (2)
Garner, J A M	2 (2)
Sweeney, B	2 (2)

* The number of meetings the director was eligible to attend is in brackets.

Subsidiary boards

In addition to the Board and its committees, there are boards for each of the Group's three subsidiary companies.

The Board of **MDDUS Insurance Limited** manages MDDUS' captive insurance company in Guernsey. It is constituted according to the relevant provisions of Guernsey legislation and, therefore, includes directors resident on the island and from the main MDDUS Board. There were two meetings of the Board in 2016.

The Board of **MDDUS Property Limited** oversees the performance and management of MDDUS' investment property portfolio. There were two meetings of the Board in 2016.

The Board of **MDDUS Education Limited** oversees the financial impact of a small number of revenue raising activities in the educational area. The Board did not meet in 2016.

The reports of these boards are incorporated in this Annual Report.

Risk and controls

The Board is responsible for the effectiveness of the processes and systems employed in the management of risk and the exercising of internal controls. Management is responsible for the identification, assessment, management and monitoring of risk and for developing, operating and monitoring the system of internal control.

The main risks facing MDDUS are as follows.

Underwriting risk

This is the risk of loss due to inadequate pricing or reserving assumptions or poor screening decisions at entry stage. MDDUS mitigates this risk by having suitable underwriting and reserving processes and procedures to ensure that statistical and accounting data are accurate and reliable. MDDUS obtains detailed internal actuarial advice, subject to external peer review, with all costs identified and incorporated into its pricing model. We treat all actual and potential members and prospective members on a consistent basis, balancing the interests of the membership as a whole with the interests of individual members, so as to ensure best value for the mutual fund.

Operational risk

This is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. To mitigate this risk, MDDUS has implemented an effective process to identify, document and monitor exposure to operational risk and to track relevant operational risk data.

A risk register is maintained that includes a description of key strategic risks, an assessment of their likelihood and impact on MDDUS (both gross and net scores) and the management actions to control the risks. The format and content of the register was fully updated in 2016 and it is now reviewed biannually in detail by the Audit and Risk Committee and is reported to the full Board.

The Audit and Risk Committee is also charged with reviewing the internal financial controls of MDDUS and reporting to the Board. The system of control stems from the clear definition of powers reserved to the Board, its committees and the senior executive. There is regular reporting of financial information at all levels within the organisational structure. This includes the production of actual departmental monthly spend against budgeted spend, monthly management accounts and listings of all payments made including settlements and legal expenses. The Board also receives reports on all core claims and non-claims activity.

The Group's investment managers operate on a discretionary basis, but acting in accordance with clear investment guidelines. Compliance with these guidelines is monitored regularly by a firm of external investment risk consultants. This work and the tracking of performance against relevant benchmarks allows the Investment Committee to assess the risks involved in the separate classes of investment.

To support financial accountability, a fully integrated system of departmental budgeting is in place. This is aimed at ensuring compliance with agreed budgets and with strategic and departmental plans.

Market risk

This is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of any or all of MDDUS' assets, liabilities and financial instruments. To mitigate this risk, our investment policy takes into account our business, solvency position, long-term risk versus performance, and underlying exposure. MDDUS has clear

investment guidelines in place and the Investment Committee receives regular updates from investment managers and a separate independent assessment of the performance of those managers.

Public policy risk

This is the risk of Government intervention being taken without a proper assessment of the financial health of, and impact on, the sector or the wider impact on our members. MDDUS mitigates this risk in our reserving policies and in ensuring open and frank discussions with UK Governments to improve their understanding.

Modern Slavery Act

The Board has agreed a statement setting out its response to the Modern Slavery Act, which is available on our website, and the Group is developing and implementing an action plan to ensure that it meets both the letter and the spirit of the legislation.

Going concern

The financial statements are prepared on the going concern basis. In adopting the going concern basis, the directors consider that the Group has sufficient assets to continue in operation for the foreseeable future.

Viability statement 2016

The directors' view of the viability of MDDUS is supported by its strong positive cashflow position, its matching of notified liabilities with cash and bonds and a strong internal risk management function.

Against that background and in conformity with Provision C.2.2 of the UK Corporate Governance Code, the directors confirm that they have a reasonable expectation that MDDUS will continue to operate and meet its liabilities, as they fall due, over the three years to 31 December 2019. The directors' assessment has been made with references to MDDUS' current financial position and future prospects, its strategy, the market outlook and its principal risks and management thereof.

A period of three years was chosen as this is the normal length of our strategic planning periods. It covers the current strategic planning period and ensures consideration of how MDDUS and its operating environment will develop in the medium-

term, rather than merely how it is placed to respond to more immediate challenges.

In making their assessment, the directors have considered information provided to them, including current and projected MDDUS balance sheets, investment portfolios, the underwriting strategy and risk registers. Projected balance sheets are prepared allowing for the impact of the key risks which MDDUS faces, including changes in subscription income, falls in assets values and increases in claim inflation. Given the recent UK Governments' changes to the personal injury discount rate, the directors have also paid particular attention to the impact of a further reduction in the rate.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and MDDUS 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 and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain MDDUS' transactions and disclose with reasonable accuracy at any time the financial position of 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the preparation of the other information contained in the Annual Report, including the Strategic Report and the Directors' Report. The Annual Report is published on the MDDUS website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the MDDUS website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which MDDUS' auditors are unaware, and each director has taken all the steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

The retiring auditors, BDO LLP, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board

Chris Kenny

Chief Executive and Secretary

16 August 2017

Audit and Risk Committee report

The Audit and Risk Committee assists the Board in discharging its responsibilities for financial reporting, internal control, relationship with the external auditors and risk management.

The Board considers the Committee members have the necessary range of financial, risk, control and commercial expertise to provide effective challenge to the MDDUS executive. At the close of 2016, Dr Judith Chapman stood down as Chairman of the Committee and was succeeded by Ms Margaret McPhail and Dr Linsey Semple was appointed as Vice-Chairman, bringing with them a robust blend of commercial, clinical and academic experience. Mr Peter McDonald and Professor Nairn Wilson joined the Committee in 2016, adding to its medical, dental and regulatory expertise. Dr Robert Donald stood down in 2016, but continues to serve as a non-executive director and member of the Investment Committee.

The Committee's major responsibilities during the year were:

- reviewing the final financial statements for 2016 and recommending their approval to the Board
- recommending the re-appointment of BDO LLP as the external auditors, agreeing the scope of their work and their remuneration
- reviewing the effectiveness and independence of the external auditors
- considering the appropriateness of non-audit work carried out by the external auditors
- reviewing the effectiveness of internal controls
- agreeing the programme of internal audit work, reviewing the results, agreeing actions needed and ensuring the actions were completed
- reviewing the effectiveness of the internal auditors
- reviewing the development of the internal compliance assurance function
- consideration and approval of risk management processes, including the risk management policy and risk register.

The Committee also monitored the directors' register of interests and reviewed the MDDUS 'whistleblowing' policy. A verbal update on matters of note is given to the Board immediately following each Committee meeting and the agreed minutes are also formally received by the Board.

External audit

The lead partner from BDO LLP attended the Committee for all three meetings during 2016, and also met the non-executive committee members privately, in the absence of the executive. The key accounting and audit risks remain similar to previous years and the Committee was able to satisfy itself that they had been carefully and adequately addressed. Particular focus in the period was the review of our investment managers to ensure effective management of the mutual fund. The independence of BDO LLP was fully discussed.

The Group financial statements for the year ended 31 December 2016 were recommended by the Committee to the Board in June 2017. The Committee also recommends to the AGM, via the Board, the re-appointment of BDO LLP as external auditors for the coming year.

Non-audit work carried out by BDO LLP was fully reported, discussed and agreed to be appropriately independent and proportionate.

On the basis of our customised annual evaluation process, the Committee remains satisfied that BDO LLP has continued to provide the necessary degree of objectivity and scrutiny on behalf of members.

Internal audit

Deloitte LLP continued to provide an internal audit service during 2016 and MDDUS again strengthened its internal compliance assurance function with a Committee approved programme of specific risk-based audits spanning the work of the organisation.

The Committee received regular updates from the compliance assurance work, reviewed outcomes, discussed potential actions required with executive directors and monitored implementation reports of agreed actions.

The Committee's customised annual evaluation process confirmed that Deloitte LLP has provided the level of service we require and value for money for our members.

Risk register

Effective and pre-emptive risk management, over both the short and the long-term, is essential to the continued success of MDDUS.

The framework and processes used to manage, assess and address risk for MDDUS are constantly updated and remain a top priority. The formal risk register was fully discussed by the Committee before being recommended to the Board for review biannually with key risks selected for more frequent scrutiny at each Board meeting.

Ms Margaret McPhail

Chairman, Audit and Risk Committee

16 August 2017

Independent auditor's report

Independent auditor's report to the members of The Medical and Dental Defence Union of Scotland

We have audited the financial statements of The Medical and Dental Defence Union of Scotland for the year ended 31 December 2016, which comprise the consolidated statement of income and retained earnings, the consolidated and company balance sheets, the consolidated statement of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the Group's and the Parent Company's affairs as at 31 December 2016 and of the Group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where 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.

Martin Gill (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Glasgow, United Kingdom

16 August 2017

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

FINANCIAL STATEMENTS FOR 2016

Consolidated statement of income and retained earnings

For the year ended 31 December 2016

	Notes	2016	2015
		£'000	£'000
Income			
Members' subscriptions and other income	1[c]	97,435	82,326
Expenditure			
Claims costs and associated legal costs		73,579	35,749
Advisory and non-claims legal costs		12,144	11,753
Administration costs		11,211	9,561
		96,934	57,063
Surplus of income over expenditure	3	501	25,263
Realised gains on disposal of fixed assets		5,893	618
Changes in fair value of investments		28,170	17,478
Investment income	1[g]&6	8,644	8,837
Surplus on ordinary activities before taxation		43,208	52,196
Taxation	1[i]&7	2,076	3,868
Net and total comprehensive income available for transfer to reserves		41,132	48,328
Accumulated fund brought forward		400,686	352,358
Accumulated fund carried forward		441,818	400,686

All amounts relate to continuing operations.

Consolidated and company balance sheets

As at 31 December 2016

Company Number SC005093

	Notes	Group 2016	Group 2015	Company 2016	Company 2015
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	102,240	77,816	3,486	3,557
Investments	10	542,498	493,903	609,909	534,554
		644,738	571,719	613,395	538,111
Current assets					
Debtors and payments in advance	11	40,234	32,033	36,827	30,032
Cash at bank, in hand and on deposit		38,170	29,248	36,689	26,272
		78,404	61,281	73,516	56,304
Creditors: amounts falling due within one year					
Sundry creditors and accrued charges	12	51,442	42,365	49,123	41,086
Corporation tax provision		4,382	5,139	4,161	5,187
		55,824	47,504	53,284	46,273
Net current assets		22,580	13,777	20,232	10,031
Total assets less current liabilities		667,318	585,496	633,627	548,142
Provision for liabilities and charges	13	225,500	184,810	224,032	181,818
Total net assets		441,818	400,686	409,595	366,324
Reserves					
Accumulated fund	15	441,818	400,686	409,595	366,324
		441,818	400,686	409,595	366,324

These financial statements were approved by the members of the Board on 16 June 2017.

Brendan Sweeney
Chairman

John Garner
Vice-Chairman

The notes on pages 25 to 37 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flow from operating activities		
Surplus for the financial year	41,132	48,328
Adjustments for:		
Depreciation of fixed assets	455	470
Gains on sale of fixed assets	(5,893)	(618)
Net fair value gains recognised in statement of income and retained earnings	(28,170)	(17,478)
Net interest receivable	(1,620)	(1,240)
Dividend income from fixed and current asset investments	(7,024)	(7,597)
Taxation expenses	2,076	3,868
(Increase)/decrease in trade and other debtors	(8,201)	1,597
Increase/(decrease) in creditors	9,077	(1,572)
Increase in provisions	40,690	842
Taxation paid	(2,833)	(3,375)
Net cash generated from operating activities	39,689	23,225
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	49	5
Purchases of tangible fixed assets	(31,080)	(25,676)
Purchases of investments	(215,754)	(69,661)
Proceeds from sale of investments	207,374	86,493
Interest received	1,620	1,240
Dividends received on fixed and current asset investments	7,024	7,597
Movement on long-term deposits	(19,000)	(17,500)
Movement on cash equivalents	17,366	8,435
Net cash from investing activities	(32,401)	(9,067)
Cash flows from financing activities	-	-
Net increase in cash and cash equivalents	7,288	14,158
Cash and cash equivalents at the beginning of year	20,183	6,025
Cash and cash equivalents at end of year	27,471	20,183
Cash and cash equivalents at end of year comprise:		
Cash at bank, in hand and on deposit	38,170	29,248
Long-term deposits	(36,500)	(17,500)
Cash equivalents	25,801	8,435
	27,471	20,183

Notes to the accounts

For the year ended 31 December 2016

1. Accounting policies

a) Accounting convention

MDDUS is a company incorporated in Scotland under the Companies Act. The address of the registered office is Mackintosh House, 120 Blythswood Street, Glasgow, G2 4EA and the nature of the Company's operations and its principal activity are set out in the Strategic Report.

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

b) Basis of consolidation

The consolidated statement of income and retained earnings and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2016. No statement of income and retained earnings is presented for MDDUS as permitted by section 408 of the Companies Act 2006. The Group surplus for the year included a surplus after tax of £43.271m (2015: £35.843m), which is dealt with in the financial statements of the parent Company.

c) Members' subscriptions and other income

Subscription income comprises amounts receivable during the year, apportioned to accounting periods on a time basis. All subscription income is generated within the UK.

Other income is derived from MDDUS Education Limited and MDDUS Property Limited. MDDUS Education Limited's income represents the invoiced sales for the year net of value added tax and trade discounts. Income is recognised in the period in which the goods or services are supplied.

MDDUS Property Limited's turnover consists of rental income net of value added tax. Income is recognised on an accruals basis in the period to which the rental relates. All income arises in the UK.

d) Fixed assets

The fixed assets are stated at cost or revalued amount which is considered to be its fair value. Depreciation is provided on bases which will write off the assets to an estimate of their

residual value over their expected lives.

Depreciation on fixed assets has been provided as follows:

- i) Computer equipment has been depreciated on the straight line basis at the rate of 25% per annum.
- ii) Furniture, fittings, office equipment and motor vehicles have been depreciated on the reducing balance basis at the rate of 25% per annum.
- iii) Freehold property has been depreciated on the straight line basis over a period of 50 years.
- iv) The freehold element of mixed use property has been depreciated on the straight line basis over a period of 50 years.

Investment properties are revalued annually to open market value which the directors consider to be their fair value in accordance with FRS 102. No depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view. The effect of this departure from the Companies Act 2006 has not been quantified because it is impracticable and, in the opinion of the directors, would be misleading.

The aggregate surplus or deficit arising on revaluation is recognised in the statement of income and retained earnings.

e) Operating leases

Rentals in respect of leasing agreements are charged to the statement of income and retained earnings on a straight line basis over the term of the lease.

f) Provision for liabilities and charges

Full provision has been made in the financial statements for the estimated settlement and handling costs for all claims and non-claims notified to MDDUS as at 31 December 2016. The provision is the discounted value of the expected future settlement and handling costs. The provision relates to all incidents notified at 31 December 2016.

g) Dividends and interest

Dividends are shown net of the tax credit, where applicable. Interest on investments and short-term deposits have been shown gross. Accrued interest on short-term deposits and unfranked investment income dividends have been provided in the year. In addition, only franked investment income dividends received in the year to 31 December 2016 have been included.

Notes to the accounts

For the year ended 31 December 2016 (continued)

h) Investments

Listed investments held at 31 December 2016 are stated at the bid price on that date which the directors consider to be their fair value under FRS 102. Unlisted investments have been valued at the lower of cost or net asset value which the directors consider to be their fair value under FRS 102. Movements on revaluation are accounted for through the statement of income and retained earnings. In the Company financial statements, investments in subsidiary undertakings are carried at the lower of cost or net asset value.

i) Taxation

Corporation tax has been provided on all investment income and capital gains and adjusted for tax deducted at source from unfranked investment income using the rate of 20% (2015: 20%). Tax credits on dividend income have not been included in the tax charge.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing differences. Deferred tax balances are not discounted.

j) Pension costs

Defined contribution pension arrangements are made for certain employees to which contributions are made by the Company. Amounts due to insurance companies in respect of these arrangements are charged to the statement of income and retained earnings in the year to which they relate. In addition, subject to certain conditions, a number of employees have had the return on the pension contributions guaranteed. The liability accruing under this arrangement is calculated annually and any shortfall or surplus arising (over and above the level of actual contributions made) is recognised as a charge or credit in the statement of income and retained earnings. The assets of pension schemes are held separately from those of the Company in independently administered funds

k) Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

l) Functional currency

The Group's functional and presentational currency is GBP.

2. Judgements in applying policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

Determining whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases: these decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease-by-lease basis.

Other key sources of estimation uncertainty:

Tangible fixed assets (see Note 8)

Tangible fixed assets, other than investment properties, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually.

Investment properties are professionally valued annually at market value. Market value is defined as being the "estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion". There is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

Provision for liabilities and charges (see Note 13)

The provision for liabilities and charges represents the directors' best estimate of the timing and value of future claims and non-claims. The ultimate anticipated claims have been calculated by our in-house actuaries and peer reviewed by an independent firm of actuaries. Calculations include expected settlement frequency and amounts using their extensive experience and knowledge of malpractice claims. Actual claims may differ from the pattern on which the estimate is made and the cost of settling claims may exceed that assumed. Additionally, this year, directors have had to make judgements about the potential impact of the change in the personal injury discount rate.

3. Surplus of income over expenditure

	2016	2015
	£'000	£'000
This is stated after charging:		
Emoluments of directors (excluding benefits in kind)	1,130	1,175
Auditors' remuneration	42	92
Pension costs	1,400	1,057
Depreciation on owned assets	455	470
Leasing of property	73	260
Auditors' remuneration consists of:		
Group auditors - audit	38	49
Group auditors - taxation advisory	-	40
Group auditors - other advice	4	3
	42	92
Company only auditors' remuneration	28	27

4. Emoluments of directors

	2016	2015
	£'000	£'000
The detail of directors' emoluments (including executive directors) was as follows:		
Emoluments (including benefits in kind)	1,301	1,187
Pension costs	80	41
	1,381	1,228
The detail of the highest paid director's emoluments was as follows:		
Emoluments (including benefits in kind)	437	364
Pension entitlement taken as salary	82	72
	519	436
	Number	Number
Number of directors to whom retirement benefits are accruing under money purchase pension schemes	1	1

Notes to the accounts

For the year ended 31 December 2016 (continued)

5. Employees' remuneration

	2016	2015
	£'000	£'000
Salaries (including executive directors)	8,279	7,224
Social security costs	1,041	907
Pension costs	1,400	1,057
	10,720	9,188
Average number of employees in the year	Number	Number
Administrative	133	121
	133	121

6. Investment income

	2016	2015
	£'000	£'000
Dividends		
Franked	6,034	6,025
Unfranked	990	1,572
Bank interest	1,620	1,240
	8,644	8,837

7. Taxation

	2016	2015
	£'000	£'000
Corporation tax		
Corporation tax expense for the year	5,952	2,495
Foreign tax	(3,866)	-
Total current tax charge	2,086	2,495
Deferred tax		
Timing differences, origination and reversal	126	1,782
Change in tax rate	(136)	(409)
Total deferred tax (credit)/charge	(10)	1,373
Total tax charge through statement of income and retained earnings	2,076	3,868

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below.

	2016	2015
	£'000	£'000
Surplus on ordinary activities before tax	43,208	52,196
Surplus on ordinary activities before tax multiplied by the:		
Standard rate of corporation tax in the UK of 20% (2015: 20.25%):	8,642	10,568
Effects of:		
Surplus of income over expenditure not taxed	(100)	(5,115)
Non taxable franked investment income of Group	(1,207)	(1,220)
Unfranked and interest income of Guernsey subsidiary not taxed	(80)	(79)
Chargeable gains not recognised in current year	(511)	(1,575)
Deferred tax movement in year	(10)	1,373
Foreign tax	(3,866)	-
Gain on disposal of investments and assets	(1,179)	(125)
Other	387	41
Current tax charge through statement of income and retained earnings	2,076	3,868

No net reversal of the deferred tax liability is expected to occur during the year to 31 December 2017 as a result of anticipated increases in the value of investments and investment properties during the year.

Notes to the accounts

For the year ended 31 December 2016 (continued)

8. Tangible fixed assets

Group

	Freehold property	Investment property	Furniture fittings & office equipment	Motor vehicles	Total
Cost/Valuation	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	9,620	67,993	925	415	78,953
Additions	-	30,779	97	204	31,080
Disposals	-	-	(1)	(147)	(148)
Revaluation	75	(6,230)	-	-	(6,155)
At 31 December 2016	9,695	92,542	1,021	472	103,730
Depreciation					
At 1 January 2016	362	-	529	246	1,137
Provided during year	193	-	180	82	455
On disposals	-	-	(1)	(101)	(102)
Revaluation	-	-	-	-	-
At 31 December 2016	555	-	708	227	1,490
Net book value					
At 31 December 2016	9,140	92,542	313	245	102,240
At 31 December 2015	9,258	67,993	396	169	77,816

8. Tangible fixed assets (continued)

Company

	Freehold property	Investment property	Furniture fittings & office equipment	Motor vehicles	Total
Cost/Valuation	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	3,183	-	925	415	4,523
Additions	-	-	97	204	301
Disposals	-	-	(1)	(147)	(148)
At 31 December 2016	3,183	-	1,021	472	4,676
Depreciation					
At 1 January 2016	191	-	529	246	966
Provided during year	64	-	180	82	326
On disposals	-	-	(1)	(101)	(102)
At 31 December 2016	255	-	708	227	1,190
Net book value					
At 31 December 2016	2,928	-	313	245	3,486
At 31 December 2015	2,992	-	396	169	3,557

Group and Company

	Freehold property	Investment property	Furniture fittings & office equipment	Motor vehicles	Total
Group	£'000	£'000	£'000	£'000	£'000
Carrying value based on historical cost	7,275	86,200	401	245	94,121
Accumulated depreciation based on historical cost	2,332	-	1,092	227	3,651
Company					
Carrying value based on historical cost	3,789	-	401	245	4,435
Accumulated depreciation based on historical cost	2,065	-	1,092	227	3,384

Notes to the accounts

For the year ended 31 December 2016 (continued)

The investment properties were valued on 31 December 2016 by an external valuer, Daniel Watney LLP, which the directors believe to reflect their fair value at that date. The valuations were prepared in accordance with the requirements of the RICS Valuation – Professional Standards January 2014 (Revised April 2015) and UK Generally Accepted Accounting Principles (UKGAAP) and FRS 102. The properties have been valued on the basis of fair value on the assumption they would be sold subject to existing leases.

The valuer's opinion of fair value was primarily derived using comparable recent market transactions on arm's length terms together with other valuation techniques.

The furniture, fittings and office equipment were revalued by Matthew Radmilo of Rushton International, an external firm of asset valuers, on a value to the business basis at 31 December 2012 at a value of £400k.

Capital commitments and subsequent events

Capital expenditure approved and contracted for amounted to £Nil (2015: £Nil).

9. Operating leases

MDDUS Property Limited holds investment properties which are let to third parties. These non-cancellable leases have remaining terms of between 2 and 25 years. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2016	2015
	£'000	£'000
Not later than one year	4,262	1,935
After one year but not more than five years	16,928	9,539
After five years	16,142	10,953
	37,332	22,427

10. Investments

	Group 2016	Group 2015	Company 2016	Company 2015
Valuation	£'000	£'000	£'000	£'000
Market value at 1 January 2016	493,903	506,288	534,554	521,667
Additions	215,754	69,661	242,509	90,392
Disposals	(201,488)	(85,816)	(201,488)	(81,271)
Changes in fair value of investments	34,329	3,770	34,334	3,766
Market value at 31 December 2016	542,498	493,903	609,909	534,554
Listed investments	542,498	493,903	464,718	444,360
Unlisted investments	-	-	145,191	90,194
	542,498	493,903	609,909	534,554
Historical cost	468,828	431,420	542,178	473,597

Unlisted Investments at 31 December 2016 relate to the Company's holding of the entire issued share capital of 1,700,000 ordinary £1 shares of MDDUS Education Limited, a risk assessment and training company, incorporated in Great Britain, registered in Scotland whose registered office is Mackintosh House, 120 Blythswood Street, Glasgow, G2 4EA, the entire issued share capital of 30,000,000 ordinary £1 shares of MDDUS Insurance Limited, an insurance company incorporated and registered in Guernsey whose registered office is Maison Trinity, Trinity Square, St Peter Port, Guernsey GY1 4AT and the entire issued share capital of 115,000,000 ordinary £1 shares of MDDUS Property Limited, a property company incorporated in Great Britain, registered in Scotland whose registered office is Mackintosh House, 120 Blythswood Street, Glasgow G2 4EA.

11. Debtors and payments in advance

	Group 2016	Group 2015	Company 2016	Company 2015
	£'000	£'000	£'000	£'000
Trade debtors	38,563	30,696	35,792	29,114
Other debtors	1,466	972	824	675
Payments in advance	204	243	204	243
Other taxes and social security costs	1	122	-	-
Amounts owed by subsidiary undertakings	-	-	7	-
	40,234	32,033	36,827	30,032

Notes to the accounts

For the year ended 31 December 2016 (continued)

12. Sundry creditors and accrued charges due within one year

	Group 2016	Group 2015	Company 2016	Company 2015
	£'000	£'000	£'000	£'000
Deferred income	48,481	39,402	47,451	39,402
Other taxes and social security costs	700	289	336	294
Sundry creditors and accruals	2,261	2,674	1,336	1,217
Subsidiary undertakings	-	-	-	173
	51,442	42,365	49,123	41,086

13. Provision for liabilities and charges

	Deferred taxation	Claims	Non claims	Total
Group	£'000	£'000	£'000	£'000
At 1 January 2016	11,410	150,600	22,800	184,810
Charged/(credited) to statement of income and retained earnings in year	(10)	73,579	12,144	85,713
Paid in year	-	(37,879)	(7,144)	(45,023)
At 31 December 2016	11,400	186,300	27,800	225,500
Company				
At 1 January 2016	8,418	150,600	22,800	181,818
Charged/(credited) to statement of income and retained earnings in year	1,514	73,579	12,144	87,237
Paid in year	-	(37,879)	(7,144)	(45,023)
At 31 December 2016	9,932	186,300	27,800	224,032

The provision represents the discounted value of expected settlement and handling costs for all claims and non-claims notified to MDDUS as at 31 December 2016.

14. Deferred taxation

Deferred taxation provided for at 19% (2015: 20%) in the financial statements is set out below:

	Group 2016	Group 2015	Company 2016	Company 2015
	£'000	£'000	£'000	£'000
Timing differences on fixed asset investments	9,932	8,417	9,932	8,418
Timing differences on property	1,468	2,993	-	-
At 31 December 2016	11,400	11,410	9,932	8,418

15. Reserves

	Group 2016	Group 2015	Company 2016	Company 2015
	£'000	£'000	£'000	£'000
Accumulated fund				
At 1 January 2016	400,686	352,358	366,324	330,481
Transferred from statement of income and retained earnings	41,132	48,328	43,271	35,843
At 31 December 2016	441,818	400,686	409,595	366,324

16. Reconciliation of movement in funds

	2016	2015
	£'000	£'000
Net surplus for the financial year	41,132	48,328
Other recognised gains relating to the year	-	-
Total recognised gains	41,132	48,328
Opening funds available to meet future liabilities as previously stated	400,686	352,358
Closing funds available to meet future liabilities	441,818	400,686

Notes to the accounts

For the year ended 31 December 2016 (continued)

17. Investments fair value determination

The Group and Company classifies financial instruments measured at fair value within investments using the following fair value hierarchy:

Category (a)	The quoted price for an identical asset in an active market at the reporting date.
Category (b)	When quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary.
Category (c)	Where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique.

The investment assets have been fair valued using the above hierarchy categories as follows:

Group

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	542,498	-	-	542,498
At 31 December 2016	542,498	-	-	542,498
Listed investments	493,903	-	-	493,903
At 31 December 2015	493,903	-	-	493,903

Company

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	464,718	-	-	464,718
At 31 December 2016	464,718	-	-	464,718
Listed investments	444,360	-	-	444,360
At 31 December 2015	444,360	-	-	444,360

18. Financial instruments

The Group's and Company's financial instruments may be analysed as follows:

	Group 2016	Group 2015	Company 2016	Company 2015
Financial assets	£'000	£'000	£'000	£'000
Financial assets measured at fair value through surplus or deficit	542,498	493,903	464,718	444,360
Financial assets that are debt instruments measured at amortised cost	78,199	60,916	73,305	56,061
Financial liabilities				
Financial liabilities measured at amortised cost	2,261	2,674	1,336	1,217

Financial assets measured at fair value through surplus or deficit comprise fixed asset listed investments.

Financial assets measured at amortised cost comprise cash, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise sundry creditors and accruals.

Information regarding the Group's exposure to and management of risk is included in the Strategic Report.

19. Other financial commitments

Group and Company

The following payments under non-cancellable operating leases are committed to be paid in respect of land and buildings:

	2016	2015
	£'000	£'000
Operating leases which expire:		
Not later than one year	345	345
Later than one year and not later than five years	1,381	1,381
Later than five years	1,538	1,582
Total commitment	3,264	3,308

The Group has no commitments under non-cancellable operating leases.

20. Member's guarantee

The Medical and Dental Defence Union of Scotland is a company limited by guarantee of up to £1 per member.

21. Related party disclosures

The Company has taken advantage of the exemption conferred by s33.1A of FRS 102 not to disclose transactions with its wholly owned subsidiaries. The directors do not consider there to be any one single controlling party of the Company. Key management personnel are considered to be the directors.

MDDUS Board and honorary fellows

Chairman

Brendan Sweeney^{2,3,4}
MBE MA MBChB DRCOG FRCGP

Vice-Chairman

John Garner^{2,3,4}
MBChB FRCGP FRCPEd DCH DRCOG

Chief Executive Officer and Secretary

*Chris Kenny
MA FRSA

Other members of the Board

Ian W R Anderson²
CBE FRCS (Glasg, Ed, Eng) FRCP
(Glasg, Ed, Lond) FRCEM FIFEM Hon FACP DSc

**The Right Honourable
Dame Elish Angiolini^{3,4}
DBE QC

**Joanna L Bayley²
MB ChB MA MRCEM MRCGP
(Appointed 28 April 2017)

Jonathan P Berry^{2,3}
MB ChB MBA MA

**James Black^{1,4}
FFA

**Iain T Cameron¹
BSc MA MD FRCOG FRCP(Edin)
(Appointed 28 April 2017)

W Alastair Chambers¹
MD MEd FRCA FFPMRCA

Judith M Chapman¹
MA MB BChir FRCGP DRCOG

Hilary O D Critchley¹
BSc(Hons) MBChB(Hons) MD FRCOG
FRANZCOG FSB FMedSci FRSE

**Robert Donald²
BDS (Hons) DGDP (UK)

**Alan J Fleming
ACII
(Retired 9 September 2016)

**Jason Leitch^{2,3}
BDS DDS FDS RCS(Eng) FDSRCS(Edin)
FDSRCPSG(Glas) FRCS(Edin) MPH(Harvard)

**Peter McDonald¹
MBBS MS (Southampton) FRCS (Eng)

**Margaret A McPhail¹
Dip Man MloD

Gillian Needham²
BSc(Hons) MBChB (Hons) FRCP (Edin)
FRCS (Edin) FHEA FAcadMedEd

Donald W M Pearson²
BSc (Hons) MBChB FRCP (Edin & Glasg)

**Linsey C Semple¹
MB ChB FRCGP DRCOG

*Colin J Slevin²
MA (Hons) MBA CA

**Nairn H F Wilson¹
CBE DSc(h.c.) PhD FDS FFGDP DRD

Honorary fellows

Alistair D Beattie
MD FRCP (Glasg, Lond & Edin) FFPM

J Douglas Bell
MBChB FRCP (Edin) FFOM DIH

John K Davidson
OBE MD FRCP (Edin & Glasg)
FRCR FACR (Hon) FRANZCR (Hon)

Gordon C A Dickson
MLitt PhD FCII FIRM

Peter Edmond
CBE TD MBChB FRCS (Ed & Glasg)
FRCP (Edin)

Wallace S Foulds
CBE MD ChM FRCS (Eng & Glasg)
DO DSc (Hon) FRCOphth (Hon)
FRACO (Hon) FCMSA (Hon)

Douglas G Garvie
OBE FRCGP

James Graham
MBChB FRCS (Ed & Glasg)

John R Griffiths
BA (Oxon) LLB WS

Key

1 Members of the Audit and Risk Committee (formerly the Audit Committee)

2 Members of the Investment Committee

3 Members of the Governance and Nominations Committee (formerly the Nominations Committee)

4 Members of the Remuneration Committee

**Independent non-executive directors

* Executive directors

Accurate at 1 July 2017

Management and professional staff

MDDUS senior management

Chief Executive Officer and Secretary

*Chris Kenny
MA FRSA

Finance Director

*Colin J Slevin
MA (Hons) MBA CA

Director of Advisory and Legal Services

Emma Parfitt
LLB (Hons) French Diploma of Law

Director of Development

David Sturgeon

HR Director

Paul Gray
BA FCIIPD

Heads

Actuary

Dermot Grenham
FIA DPhil MSc

Advisory services (dental)

Aubrey Craig
BDS FDS RCPS (Glasg) MPhil MBA

Business systems and services

Maria Charlesworth
BSc MSc

Advisory services (medical)

John Holden
MB BS MPhil MRCP FFFLM DCH DRCOG

Anthea Martin
BMSc MBChB LLB MPhil DRCOG PgCert

Corporate governance manager / Deputy company secretary

Bryan Hislop
LLB (Hons) ACIS

Corporate services

Johanne Roberts
BA (Hons)

Finance

Rekha Bhatt
BSc PgDipAcc FCCA PgCert

Financial Controller

William G McMillan
CA

ICT

Theo Theodorou
BSc (Hons) ONDA/ONMP PgD IT CCNA MCP
PgCert

Information systems

Ian Frame
MCTS MIRM PgCert

Legal services (Scotland and corporate)

David Holmes
LLB (Hons) Dip LP

Marketing and external relations

Gaelle Ainslie
BA (Hons) PgCert

Membership services

Stephen G Kelly
PgCert

Programme management and risk

Peter Johnson
BSc PgCert CQP FCQI FCMi SIRM

Risk education

Liz Price
BA (Hons) MSc MBPsS

Underwriting

Chris Godeseth
BMedSci(Hons) BM BS MRCS(Ed)

Medical and dental advisers

Rachael Bell
BDS MPhil MJDF RCSEng PgCert (Dental Anxiety)

Roopinder Brar
MBBS BSc MSc MA DRCOG MRCP

Richard Brittain
BMedSci BM BS PGDipLaw MRCP MFFLM

Gregory Dollman
BA(Hons) Psych MBChB DMH MRCP MA

Susan Gibson-Smith
MBChB DRCOG MRCP MPhil

Gail Gilmartin
MBChB MPhil

Doug Hamilton
BDS LLM MJDF RSCEng PG Cert (Empl. Law)

Annabelle MacGregor
MBBS MRCPCH MRCP MA GDL

Myooran Nathan
MB ChB MRCP(UK) MRCP DLM MA

Naeem Nazem
MBChB BSc(Hons) MRCP LLB(Hons)

Caroline Osborne-White
MA MB BChir (Cantab) MA (KCL) MRCP

J Barry Parker
MBChB MSc MML FRCGP DRCOG DCCH

Emily Shepherd
MBBS BMedSci (Hons) DRCOG MA

Desmond Watson
MA(Oxon) LLM BM BCh FRCS(Eng)

Mike Williams
BDS LLM DGDG MGDS RCS (Eng) FFGDP (UK)

Employment law advisers

Janice Sibbald
BA (Hons) LLM MCIPD

Liz Symon
MCIPD

Practice advisers

Scott Obrzud
RN (Dip) PMVTS

Helen Ormiston
MBA PGDipBM PGCertMS

Jill Thomson
PMVTS

Management and professional staff

Lawyers

Rukmanie Athwal
LLB(Hons) PG Dip Law

Lyn Beattie
LLB Dip LP NP

Ciara Deasy
BA (Hons) Dip Law

James Doake
BSc (Hons) PG Dip Law

Sara Foster
BA (Hons) Dip Law

Alexandra Godby
LLB (Hons)

Jeremy Jukes
BA (Hons) DLP

** Joanna Jervis
LLB (Hons) Dip LP

Adam Lotter
LLB (Hons)

Lindsey M McGregor
LLB (Hons) Dip LP NP

Nicola O'Connor
BA (Hons) PG Dip Law

Síle O'Dowd
BBLS (Hons) Dip Employment Law

Clare Pearce
BA (Hons) PG Dip Law

Karen Purchase
LLB (Hons)

Denise Ritchie
LLB (Hons) Dip LP NP

Rebecca Rymer
LLB(Hons) PG Dip Law

Tristan Sayer
LLB (Hons)

Jane Scott
BSc LLB Dip LP NP

Susan Trigg
BA (Joint Hons) MA PG Dip Law

Katy Winskell
LLB (Hons)

External professional advisers

Auditors

BDO LLP
Chartered Accountants and Registered Auditors
4 Atlantic Quay
70 York Street
Glasgow G2 8JX

Bankers

Bank of Scotland
54-62 Sauchiehall Street
Glasgow G2 3AH

Internal auditors

Deloitte LLP
110 Queen Street
Glasgow G1 3BX

Investment consultants

Broadstone Pensions & Investments Ltd
55 Baker Street
London W1U 8EW

Investment managers

Baillie Gifford & Co Ltd
Calton Square
1 Greenside Row
Edinburgh E1 3AN

Brewin Dolphin
Sixth Floor
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Standard Life Wealth
1 George Street
Edinburgh EH2 2LL

Rathbone Investment Management
8 Finsbury Circus
London EC2M 7A2

Royal London Asset
Management CI Ltd
30 Cornet Street
St Peter Port
Guernsey GY1 1LF

Actuaries

Milliman LLP
Consultants & Actuaries
11 Old Jewry
London EC2R 8DU

Insurance advisers

Aon Risk Solutions UK
Sentinel, 103 Waterloo Street
Glasgow G2 7BW

Insurance company managers

Aon Insurance Managers
(Guernsey) Limited
PO Box 33
Maison Trinity, Trinity Square
St Peter Port
Guernsey GY1 4AT

Solicitors

Morton Fraser LLP
Quartermile Two
2 Lister Square
Edinburgh EH3 9GL

Shepherd and Wedderburn LLP
5th Floor, 1 Exchange Crescent
Conference Square
Edinburgh EH3 8UL

The Medical and Dental Defence Union of Scotland

Mackintosh House
120 Blythswood Street
Glasgow G2 4EA

London office

1 Pemberton Row
London EC4A 3BG

T: 0333 043 4444
Membership Services Department: 0333 043 0000
F: 0141 228 1208
E: info@mddus.com
www.mddus.com

The Medical and Dental Defence Union of Scotland,
Registered in Scotland No 5093 at Mackintosh House,
120 Blythswood Street, Glasgow G2 4EA.

The MDDUS is not an insurance company. All the benefits of membership of MDDUS are discretionary as set out in the Articles of Association.

