ANNUAL REPORT
& ACCOUNTS

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MDDUS

UK INDEMNITY, ADVICE & SUPPORT

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MDDUS UK INDEMNITY, ADVICE & SUPPORT

2018

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 - 2018

	2018	2017
Income	£133.6m	£115.8m
Total net income available for transfer to reserves	£7.2m	£105.5m
Fixed assets and cash on deposit	£830.4m	£770.3m
Provision for reported claims and non-claims	£254.4m	£196.5m

	2018	2017	%
Total active membership*	49,263	45,481	8.3
Total GP active membership	18,972	19,114	-0.7
Total hospital doctor active membership	18,804	16,681	12.7
Total dental active membership	8,124	6,744	20.5

*Includes associate and other membership categories

Chair's report

Jonathan P Berry
Chair
16 August 2019

I am pleased to present the MDDUS 2018 Annual Report and Accounts during my first year as Chair.

I would like first to thank Dr Brendan (Benny) Sweeney MBE, my predecessor as Chair since 2012 and a director for 21 years until he stood down at the Annual General Meeting (AGM) in 2018. His contribution in both roles on behalf of the membership has been significant and I record my gratitude for his leadership and support.

The year 2018 was as successful a year as any in Benny's tenure and 2019 is heading in the same direction. As I write, MDDUS has over 49,000 active members and our financial position is extremely healthy. In particular, members can be assured that our reserves continue to be more than adequate to meet our known and anticipated liabilities: that is, the claims and non-claims matters that have been reported to us, as well as those where the incident is not yet on our radar. Once again, we are open in our approach to claims and non-claims and the detail of our year-end anticipated liabilities is set out in this report. We are proud to be one of the two medical defence organisations (MDOs) that share this information publicly.

MDDUS continues to be financially robust and the fastest growing MDO in the UK, not simply maintaining our historic leading position in Scotland, but continuing to be the provider of choice for doctors, dentists and organisations in the rest of the UK, particularly those wanting to put innovative service models in place.

I emphasise this because members may be concerned about the impact of state-backed indemnity for the NHS activities of GPs in England and Wales on MDDUS. The Chief Executive's report comments on this further but let me be absolutely clear: the changes that came into effect on 1 April 2019 have had no negative impact on the funding position outlined in the previous paragraphs and we expect to continue to meet all our known and anticipated liabilities.

Members may wonder, therefore, why we have also been exploring agreements to transfer our existing liabilities for the NHS activities of English GPs to the UK Government and the bulk of the liabilities for our Welsh GP members to the Welsh Government. Although the transfers are far from essential for the future of MDDUS, your Board believes it is appropriate to consider potential advantages for the membership as a whole, both as owners of the company and as users of medico-legal claims and non-claims services.

It follows from what I have said that we have no plans to sit back and do a bit less of the same things. We are determined that we will set our own destiny and not be driven by Government policy. We will continue to be an organisation of high ambition with a focus on excellent service and sustainable growth. Accordingly, the Board took time in March to consider opportunities for our future business strategy, including where we should invest to maintain, improve and develop our services. As an example, English and Welsh GPs are already signing up to our competitive General Practice Protection (GPP) product to secure continued coverage for regulatory and medico-legal advice and indemnity benefits for undertaking non-NHS work of £10,000 per GP, including writing insurance reports and providing travel vaccinations. We remain the market leading provider of a comprehensive integrated service for GPs in Scotland, growing our footprint in Northern Ireland and the Channel Islands. There has also been continued rapid growth in our dental membership: since 2016 there has been a 12 per cent increase in Scotland and a 107 per cent increase in membership elsewhere. Membership of hospital doctors continues to grow, irrespective of whether their focus is primarily on NHS or private work. This will be far from the last word about improvements in service and value.

> *"We will continue to be an organisation of high ambition with a focus on excellent service and sustainable growth."*

It is traditional for the Chair's report to say something about changes to the Board membership. As there was a large change to the Board in 2017, only one new director was appointed by the Board and the AGM during 2018, Marian Glen. The experience and skills of our new, smaller Board have been invaluable to me during my first year as Chair, and my colleagues' contributions and insights have helped us to drive forward new and challenging opportunities. I would like also to say thank you, on your behalf, to the staff of MDDUS, who have worked hard to deliver the significant growth highlighted in this report against the uncertain policy background. For much of this time, we were limited by the Governments about what we could share with our staff and I am grateful for their continued dedication and high standards of service during this period. As members of MDDUS, we should expect no less, but that makes it no less of an achievement at a time of uncertainty. If I add a personal thanks for the support I have received from the senior team and Chris Kenny, Chief Executive, and Colin Slevin, Finance Director, this in no way limits the contribution of others. I hope that you are able to take some time to read this report and note the significant work that my expert and committed colleagues have carried out on your behalf during 2018.

I know many of you talk with gratitude about 'your team' at MDDUS who have helped you through difficult challenges. We look forward to continuing to provide similar support in future.

Strategic report

Chris Kenny

Chief Executive and Secretary

16 August 2019

The year 2018 has been to some extent a frustrating one, where the urgent – in particular coping with developing Government policy thinking – has had to be delivered alongside the truly important. So this report provides a good opportunity to highlight our fundamental purpose – maintaining membership, service and risk management as our highest priorities.

Thanks to the careful stewardship of our Director of Development and his teams, aided by the consistent quality of service from our medico-legal advisers (MLAs) and dento-legal advisers (DLAs), 2018 saw further growth in membership.

- Our total active membership rose to 49,263 at the end of 2018, an increase of 8.3 per cent on 2017. While growth in membership continued in Scotland, 70 per cent of members now reside outside Scotland, up from 68.5 per cent at the end of 2017, with growth in Northern Ireland, Wales and the Channel Islands.
- 2018 was the final year of our three-year strategic plan, during which we secured membership growth of 35.9 per cent. In particular over that period:
  - we increased our general dental practitioner (GDP) membership outside of Scotland by 107 per cent and, in Scotland, by 12 per cent; we are not perturbed by new entrants to the market, where our track record speaks for itself
  - our hospital doctor membership outside Scotland increased by 66 per cent and, in Scotland, by 10.3 per cent
  - our GP membership in Scotland increased by 3 per cent and elsewhere by 28 per cent.

  In a period of uncertainty caused by state-backed indemnity in England and Wales, GPs continued to choose MDDUS, with an increase in membership of 4 per cent outside of Scotland.
- In 2018, the membership services team answered 52,885 calls from members and potential new members.

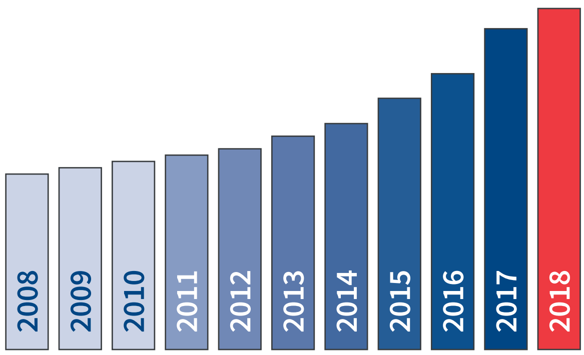
The marketing team continued to run events and provide advice during 2018. We were particularly pleased, as principal sponsor, to welcome the RCGP annual conference to Glasgow. We will continue our sponsorship of the prestigious BMJ Awards, which celebrates healthcare improvements and workers across the UK. We continue to be closely involved with the Royal Colleges and to develop partnerships with other organisations that will serve the interests of the membership. We have also undertaken sponsorship of major events for dentists, including the Professional Dentistry Show.

> *"We were particularly pleased, as principal sponsor, to welcome the RCGP annual conference to Glasgow."*

Our refreshed membership website has made subscription renewal easier, as well as playing a key role in providing information about changes to the GP contract, the state-backed indemnity schemes and our wide range of membership services. Our Twitter and Facebook presence continued to grow and promote key messages championing our membership and our values.

Total active membership

increased by **8.3** per cent to **49,263** in 2018



Clinical and legal teams

The medical team provides expert medico-legal advice to support members on a wide range of issues. These cover cases with various degrees of complexity and severity, but every member's call is treated in a professional and personable manner.

In 2018:

- the medical team answered 12,379 calls and 2,915 emails or letters - an increase of 10.2 per cent and 23.5 per cent on 2017
- 4,638 case files were opened relating to complaints, claims, disciplinary and regulatory matters, coroner's inquests and fatal accident inquiries – an increase of 18 per cent on 2017
- our specialist employment law advisers dealt with 1,386 calls and opened 645 new cases, an increase of almost 50 per cent on the files opened in 2017.

> *"The medical team answered 12,379 calls and 2,915 emails or letters – an increase of 10.2 per cent and 23.5 per cent on 2017."*

The dental team's workload continues to expand year-on-year, offering a variety of services to our GDP members. We responded to our growing membership by increasing our dental team at the start of 2018 to continue providing a high quality advice and support service for our GDP members.

In 2018:

- the number of dental claims increased by 12.6 per cent on 2017
- we saw a 9.1 per cent increase in written requests on 2017 and an 8.5 per cent increase in telephone advice requests, including a 30.3 per cent increase in UK-wide members telephoning for complex and detailed advice
- there was a 0.9 per cent increase in General Dental Council (GDC) cases, the majority of which were concluded successfully, resulting in a decrease in the number of matters referred to a full professional committee hearing before the GDC
- despite a 20.3 per cent rise in complaints, the team responded to members within internal protocol standards.

The legal team continued its success in representing the membership across various disciplines, repudiating a significant proportion of claims, and once more greatly reducing the amount paid in damages compared to sums initially claimed.

In 2018:

- the legal team worked on 104 ongoing and new General Medical Council (GMC) matters and, of the 294 GMC cases closed in 2018, only six went to a hearing
- 97 per cent of all GMC and GDC matters were concluded before a Medical Practitioner Tribunal Service hearing
- 71.9 per cent of all claims were closed without any settlement.

> *"The legal team worked on 104 ongoing and new GMC matters and, of the 294 GMC cases closed in 2018, only six went to a hearing."*

Risk management and education

The year 2018 was another productive one for our risk education service, which aims to analyse emerging trends in medico- and dento-legal risk arising from our case experience, and to use this information to inform the development of online learning resources, risk management tools and CPD-accredited and verifiable training courses and workshops.

As well as choosing to attend events at our offices in Glasgow and London, members can now request that training be brought to their own organisation. This means that our risk advisers are able to deliver flexible, local services at the minimum cost per delegate, particularly where members are able to provide a suitable learning environment.

In addition:

- a sixth episode in our flagship drama series *Bleak Practice* was released
- 2018 saw the popular launch of our new Patient Safety Masterclass, designed jointly for GPs and practice managers
- we continue to upgrade our webinar platform to accommodate larger numbers of participants on our live, interactive events
- in 2019, we aim to expand the range of these platforms, providing a more accessible way for members and their teams to access them at their own convenience.

Improving management and governance

Last year, we transformed our HR function to prepare colleagues for future opportunities. We developed a comprehensive people strategy that focuses on seven key themes – people capability and infrastructure, employee engagement, health and wellbeing, remuneration and reward, recruitment and retention, developing talent, and equality and diversity. These themes will enable us to continue to develop our colleagues and, therefore, to focus on continued excellent member service.

We concluded a project to respond to the implementation of the General Data Protection Regulation (GDPR) on 25 May 2018. In addition, we have taken steps to strengthen our cyber security and to remain alert to this ever changing risk landscape.

During 2018, I joined the Board of the Association of Financial Mutuals (AFM), which allows us to share and shape the background of the work we do with other financial mutuals. We are the only MDO in the UK that reports audited results against an external governance code.

MDDUS is also an active member of the Medical Professional Liability Association, contributing to and learning from international best practice. It remains important for us to take our members' voice into all organisations we work with and to promote their interests at every opportunity.

I remain confident that we are ready for the opportunities and challenges that lie ahead to grow the organisation for the benefit of the membership.

Public policy

However, I spent far less of my personal time on all these issues than I would have liked and rather more on state-backed indemnity, not least the painstaking and still unresolved negotiations on the possible state-backed indemnity schemes for GPs in England and Wales. This report is therefore an opportunity to take a stand back and review where we are.

First, there is no doubt that the UK Government was right in highlighting concerns about the costs GPs face for their indemnity cover. We therefore had no argument with that topic playing a central role in negotiations between the Government and the profession about the GP contract. Indeed, we were the only MDO to lobby for the need to protect the global sum from the cost of the new scheme and to insist on the crucial point that no admissions of liability could be made by NHS Resolution without a GP's consent. We are delighted that our English GP members carrying out NHS activities will face lower costs.

Second, however, the Governments in England and Wales are treating the symptoms, not the cause – the unreformed law of tort and poorly defined rules for cost recovery for illegitimate claims. The evidence base for change in both areas is clear from the USA and Australia. There is no comparable evidence base for the changes the Governments have introduced. We will not let that go.

Third, the UK Government has also consulted on proposals to regulate the clinical indemnity market, with the effect of putting a 12 per cent insurance premium tax burden on all members buying indemnity services throughout the UK. This is based on an unevidenced assertion that the discretionary model carries undue risks to patients and clinicians, notwithstanding the fact that both the English and Welsh schemes are themselves discretionary. Government has clearly got either its regulatory or its service policy wrong. One leg of this wonky table will need to give.

Fourth, we believe the Governments could have undertaken a full public consultation and a transparent option appraisal and procurement exercise to achieve a better outcome for GPs than the untested monopolistic state-run CNSGP/GMPI schemes for future liabilities for GPs in England and Wales. We do not doubt the commitment and professionalism of the staff seeking to manage these schemes, but we are clear from what we have heard from both Governments that English and Welsh GPs will, albeit only in extreme cases, face a higher personal financial risk than would have been the case were we to have continued our service. To deny GPs a financially neutral choice in these circumstances and to remove the incentives for improvement that competition would bring is, to say the least, foolhardy.

Finally, we continue to believe that GPs would be best served with an integrated service for claims and regulatory work, which enables decisions on claims to be made with proper consideration of the wider professional consequences for doctors. We provide expert advice and support 24 hours per day and, in the last 12 months, our MLAs handled more than 6,500 calls and opened more than 4,000 cases relating to issues that are not included in the new schemes – non-NHS work, representation at inquests, GMC hearings and disciplinary investigations. There is not just a gap in coverage, but this runs the risk that, once MDOs disappear from management of existing liabilities, decisions on claims may be made without proper consideration of the wider professional consequences for doctors.

It is for those reasons that we will continue to press for a financially neutral choice for GPs and rigorous external evaluations of the schemes' operations in their early years.

But let us look forward.

First, I am pleased to see that the Scottish and Northern Irish administrations have been considerably more responsive and thoughtful in their consideration of these issues. Better financial support for GPs does not have to mean nationalisation and the end of an integrated MDO service.

> *"We will continue to press for a financially neutral choice for GPs and rigorous external evaluations of the schemes' operations in their early years."*

Second, our new GPP product is already receiving positive feedback from members. This fills the gap between the incomplete state service and the integrated MDO model. It is clear that our communications and the helpful reminder from the BMA (below) have really hit home. We will be taking every opportunity to reinforce this message in the coming months.

> *"MDOs will continue to provide an important role in providing legal advice, representation for GMC hearings and also for the rare occasion where a criminal case occurs. Similar to hospital colleagues, it will be essential to maintain such medical indemnity in general practice"*
>
> **BMA**

In short, we cannot ignore the public policy world and we can and must seek to influence it. But it will not determine what we do or how we do it.

Conclusion

To get back to what is really important: despite all these challenges, we have not taken our eyes off the ball. We remain firmly in surplus, with continued strong investment income and increased reserves over the past 12 months. Our membership and revenue continued to increase steadily and this trend shows no signs of slowing. We continued also to provide members with the top quality customer service they expect from MDDUS while still providing information about the new state-backed indemnity schemes.

I want to take this opportunity to thank all colleagues who have worked with their usual spirit, determination and expertise throughout this year to make improvements for members. I am grateful to all of them for their loyalty and hard work to continue to deliver our renowned gold standard service. I also want to thank my executive colleagues for their support and leadership of their areas which have continued to grow and have added to our successes in 2018. I must also thank our previous Chair, Dr Benny Sweeney, and our new Chair, Dr Jonathan Berry, for their support and leadership of the Board during this challenging year.

I am sure that 2019 will continue to be a challenging year but, with our focus on developing a new strategic plan for our members, one in which we will demonstrate success in expanding the range of our services, the number and breadth of those we serve and the creativity and sustainability with which we meet their ever changing needs.

Finance Director's report

Colin J Slevin
Finance Director
16 August 2019

The key priority at MDDUS is to remain financially sound in order to ensure that members can call upon the organisation with confidence to provide appropriate assistance as required. It is imperative that we are able to be there for the member. The Board is confident that our continuing financial health provides that reassurance. We also have a number of projects currently underway aimed at ensuring future financial prosperity.

Financial performance

I am pleased to report that, building on a strong performance in previous years, the financial results for 2018 show a further consolidation of our healthy financial position. The consolidated statement of income and retained earnings details a surplus for the year on ordinary activities after taxation of £7.2m (2017: £105.5m). The reduction in the surplus from the previous year is predominantly driven by the increase in claims costs as well as performance of the investments portfolio. In addition to the reported surplus, our estimated unreported claims and non-claims, as presented in note 13, reduced by £36.2m, which gives an overall result of £43.4m.

Subscriptions

Members' subscriptions and other income rose by 15 per cent in the year to £133.6m (2017: £115.8m). The increased subscription income was primarily a result of the recruitment of new members rather than as a result of the increase in subscription rates.

Claims cost

On the costs side, we noted a significant increase in the charge for claims costs this year from £16.1m in the prior year to £87.1m for 2018. As the figure relates both to payments made in the year and also necessary adjustments in values of open claims at the year-end, the increase was partly driven by our cost trends projections being revised in the light of 2018 data.

Financial position

At 31 December 2018, the balance sheet indicated that the total net assets of MDDUS increased by 1 per cent in the year to £554.5m (2017: £547.4m).

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. During this period, we have the opportunity to invest that money in order to manage the level that subscriptions 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 balanced 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. 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. During 2018, our asset portfolio generated a negative result, which was due to significant turbulence in the financial markets in the last quarter of 2018. Such short-term fluctuations do not cause us concern and the portfolio recovered a lot of these losses in early 2019. A comprehensive review of our investments strategy is underway to ensure that we maximise all risk-balanced opportunities available to us and, therefore, the membership.

Provision for liabilities and charges

We continue 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 years. Members will be aware that in addition to the claims and non-claims matters that have been reported to MDDUS at 31 December 2018 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 2018 – the so-called incurred but not reported (IBNR) liabilities. 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. To enhance the transparency over our good financial health over and beyond the requirements of the accounting standards, we disclose our IBNR in note 13 to the financial statements. Members will be reassured that our net assets (i.e. total assets less known liabilities) of £554.5m (2017: £547.4m) are more than sufficient to meet the IBNR of £333.9m (2017: £370.1m).

> *"MDDUS continues to believe that discretionary occurrence-based cover offers the most effective and reliable basis of protection for the medical and dental professions."*

Personal Injury Discount Rate (PIDR)

On 15 July 2019, the Lord Chancellor announced that the new PIDR will be set at minus 0.25 per cent (previously minus 0.75 per cent), following a consultation process and as set out within the Civil Liability Act 2018. The PIDR is used in calculating compensation payments to reflect the future investment returns on an upfront lump sum payment a claimant could expect.

Whilst the rate is a factor in valuing our future liabilities, the actual rate used can vary from that published, anticipating future changes. Furthermore, additional significant factors are taken into account when setting reserves. Following an internal review, we are of the opinion that the assumptions and methodologies used as at 31 December 2018 to determine the value of reserves continue to be valid. Nevertheless, there still remains inherent uncertainty within the valuation.

Summary

The Board believes that the financial results for 2018 provide continuing reassurance to members that the sound financial position achieved by MDDUS in recent years has been further consolidated.

Directors' report

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 or explain' departures from the 'good practice' provisions and principles in the Financial Reporting Council's (FRC) The UK Corporate Governance Code.

MDDUS is not a listed company, however, the Board is committed to a high standard of corporate governance. As one of the largest members of the AFM, MDDUS aims to comply with the provisions and principles of AFMs' UK Corporate Governance Code: an annotated version for mutual insurers (September 2016) ('the Code'). In accordance with Provision C.1.1. of the Code, the Board confirms that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess our position and performance, business model and strategy. The increasingly small number of exceptions to our compliance with the Code are set out in this report and the Board does not consider these to be material departures.

Our corporate governance arrangements have been formally reviewed and updated each year since 2015 and we have provided more detailed annual reporting against the Code in each subsequent financial year. Following a review of the FRC's Code in 2018, the Board will, for financial years commencing 1 January 2019, have to 'apply and explain' against a new AFM Corporate Governance Code (January 2019).

In addition, the wider membership is 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 non-executive directors and the auditor, and to consider other resolutions. The Notice of the AGM and related papers are published for the benefit of the membership at the earliest opportunity, whilst ensuring compliance with the non-executive director appointment process. Members are advised that a vote withheld at the AGM is not a vote in law. There is also an email address for all stakeholders to raise questions about the governance of MDDUS: secretary@mddus.com.

The Board

The membership of the Board in 2018 and 2019 is set out later in this report (p. 39). Current biographies are available on our website. Prior to the AGM on 7 September 2018, the Board consisted of 15 directors, comprising 13 non-executive directors and two executive directors: the Chief Executive and the Finance Director. After the AGM, the number of non-executive directors reduced to 12, as part of an agreed downsizing of the Board. At the AGM and the year-end, there were the maximum four non-clinical 'external' non-executive directors, bringing experience from the fields of business development, financial services and law. Ten of the 12 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 may also receive expert witness fees at the standard rate, but no such fees were paid in 2018 (2017: £0). The Board agreed on 27 April 2018 that directors may not act as expert witnesses in claims involving members of MDDUS.

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 2018, the Governance and Nominations Committee instructed executive search firm, Odgers Berndtson, to identify a non-executive director who was an accountant and/or had 'recent and relevant financial experience' and/or was an 'Approved Person'. Included in the search criteria was a commitment to increase diversity on the Board to reflect the current and potential membership of MDDUS. A panel of the Board considered applications from over 25 candidates, which were subsequently short-listed and interviewed by the panel. One non-executive director from a very strong field was appointed by the Board on 22 June 2018, bringing experience from the fields of corporate governance, financial regulation and law. The Board subsequently recommended her appointment, with a supporting statement, for a four-year term, which was confirmed by the membership at the AGM. The re-appointment of another non-executive director for a four-year term was also confirmed by the membership at the AGM.

Non-executive directors appointed since 2016 are required to sign contracts for service, which include the time commitment they are expected to commit to their role. These require new directors to participate in an induction programme, which includes meetings with the Chair, senior staff and a 'mentor' from the Board (generally the Senior Independent Director), 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 externally-facilitated sessions in 2018 about leadership and investment risk. The contracts for service (and the committees' terms of reference) also authorise non-executive directors to instruct independent professional advice where necessary to discharge their responsibilities to MDDUS. Directors' and officers' liability insurance is reviewed and renewed annually.

In addition to agreeing pre-AGM appointments of non-executive directors, the Board appoints directors to the positions of Chair, Vice-Chair and Senior Independent Director. The roles of Chair and Chief Executive are separate and the profile for the former, which was updated in 2016 and was reviewed by the Governance and Nominations Committee most recently on 10 May 2019, distinguishes clearly between leading the Board and executive responsibility for the running of the business. The Chair prior to the AGM was appointed as a non-executive director in 1997 and, having served as a director for more than nine years, as a non-'independent' Chair in 2012. The Board agreed in April 2017, reconfirming a decision taken in 2016, to extend the Chair's term of office by one year to 2018 to provide stability following the appointment of the Chief Executive, the agreed downsizing of the Board at the AGM in 2017 and the current uncertain external operating environment. He had no external commitments that detracted from his ability to discharge the duties of Chair.

A 'Chair-elect' / Vice-Chair and a 'Vice-Chair-elect' were appointed by the Board on 15 December 2017 to shadow the Chair until the AGM in 2018. The Chair prior to the AGM was not engaged in the process to appoint his successor. The Board acknowledges that the new Chair was not 'independent' on appointment as Chair, but considers this departure also to be justified by the uncertain external operating environment, in particular the state-backed indemnity schemes for GPs in England and Wales. The 'Vice-Chair-elect' was independent on appointment. The Chair, Vice-Chair and executive directors had and have no external commitments that might detract from their ability to discharge the duties of those roles.

In addition, the Board agreed on 27 April 2018 to appoint a new Senior Independent Director, who was 'independent' on appointment. The role profile was agreed in 2016 and was reviewed by the Governance and Nominations Committee most recently on 10 May 2019.

In light of the current uncertain external operating environment, there were unusually nine meetings of the Board in 2018, with an average attendance rate of 90 per cent. The attendance rates of individual directors are detailed in Table 1.

Table 1 Directors who served in 2018

Director	Board meetings attended*
Angiolini, E	8 (9)
Bayley, J	7 (9)
Berry, J P***	9 (9)
Black, J	8 (9)
Cameron, I	6 (9)
Donald, R M	9 (9)
Glen, M	5 (5)
Kenny, C	9 (9)
Leitch, J	7 (9)
McDonald, P	8 (9)
McPhail, M	9 (9)
Semple, L	9 (9)
Slevin, C J	9 (9)
Sweeney, B**	5 (5)
Wilson, N	6 (9)

** The number of meetings the director was eligible to attend is in brackets. See page 39 for a current list of directors*
***Chair pre-AGM on 7 September 2018*
****Chair post-AGM on 7 September 2018*

The Board has a forward business programme, which helps to shape the agenda for each meeting, in consultation with the Chair, the Chief Executive/ Secretary and the Deputy Company Secretary, who supports the Board and the wider corporate governance arrangements of MDDUS. A typical meeting will consider emerging strategic and policy matters, in particular during 2018 the state-backed indemnity schemes for GPs in England and Wales, 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 by the Governance and Nominations Committee most recently on 10 May 2019.

Board committees and groups

There are four formal committees supporting the work of the Board: Audit and Risk, Governance and Nominations, Investment, and Remuneration. In addition, directors are appointed to the Actuarial Reserving Group and the Membership Renewal Review Group. The membership and terms of reference of these committees and groups are reviewed annually and the former is set out later in this report (p. 39). All non-executive directors serve on at least one committee or group, but members of the Investment Committee cannot serve on the Audit and Risk Committee. The executive directors attend or are members of each committee or group. The recently agreed or reviewed terms of reference for each committee and group are available on our website.

A report about the work of the **Audit and Risk Committee** is provided later in this report (p. 17). There were three meetings of the Committee in 2018 with an average attendance rate of 94 per cent. The attendance rates of individual directors are detailed in Table 2.

Table 2 Director attendance at Audit and Risk Committee meetings in 2018

Director	Meetings attended*
Black, J	2 (2)
Cameron, I	2 (3)
Glen, M	1 (1)
McDonald, P	3 (3)
McPhail, M**	3 (3)
Semple, L	3 (3)
Wilson, N	3 (3)

** The number of meetings the director was eligible to attend is in brackets. See page 39 for a current list of directors*
***Chair*

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, its committees and subsidiaries. When nominating suitable candidates, the Committee takes into account the structure, size and diversity of the Group's governance framework and the current and potential needs of MDDUS. Diversity enables more effective discussions and better decision-making, so it is defined by the Committee in its widest sense, to include gender, social and ethnic background, and cognitive and personal strengths. Although all nominations are based on merit, the Committee aims to long-list candidates to maintain a Board membership of at least 50 per cent female non-executive directors, subject to the succession planning needs of the Board (2018: 42 per cent). There is a recently reviewed 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 processes to evaluate in consecutive years the performance of the Board and its committees (including, in 2016, an external facilitator and meetings with senior staff and the external auditor) and individual non-executive directors (2017). Action plans from these meetings were agreed by the Board and their implementation was monitored by the Committee. A new Chair was appointed to the Committee after the AGM. There was one meeting of the Committee in 2018 with an average attendance rate of 100 per cent. The attendance rates of individual directors are detailed in Table 3.

Table 3 Director attendance at Governance and Nominations Committee meetings in 2018

Director	Meetings attended*
Angiolini, E	1 (1)
Berry, J P***	1 (1)
Black, J	1 (1)
Leitch, J	1 (1)
Sweeney, B**	1 (1)

** The number of meetings the director was eligible to attend is in brackets. See page 39 for a current list of directors*
***Chair pre-AGM on 7 September 2018*
****Chair post-AGM on 7 September 2018*

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. The reporting framework for the investment managers was reviewed during 2018. A new Chair was appointed to the Committee after the AGM. There were four meetings of the Committee in 2018 with an average attendance rate of 92 per cent. The attendance rates of individual directors are detailed in Table 4.

Table 4 Director attendance at Investment Committee meetings in 2018

Director	Meetings attended*
Bayley, J	4 (4)
Berry, J P**	4 (4)
Black, J***	2 (2)
Donald, R M	4 (4)
Leitch, J	2 (4)
Slevin, C J	4 (4)
Sweeney, B	2 (2)

** The number of meetings the director was eligible to attend is in brackets. See page 39 for a current list of directors*
***Chair pre-AGM on 7 September 2018*
****Chair post-AGM on 7 September 2018*

The **Remuneration Committee** is charged with, amongst other things, determining and keeping under review the remuneration and terms and conditions of service of non-executive directors and some senior executive staff, and being consulted about our pay and reward practices. The Board Chair, pre- and post-AGM, was a non-'independent' member of the Committee. There were three meetings of the Committee in 2018 with an average attendance rate of 83 per cent. The attendance rates of individual directors are detailed in Table 5. A statement about our remuneration (pay and reward) practices is provided later in this report (pp 15-16).

Table 5 Director attendance at Remuneration Committee meetings in 2018

Director	Meetings attended*
Angiolini, E**	2 (3)
Berry, J P	3 (3)
Black, J	2 (2)
Cameron, I	0 (1)
McPhail, M	1 (1)
Sweeney, B	2 (2)

** The number of meetings the director was eligible to attend is in brackets. See page 39 for a current list of directors*
***Chair*

The **Actuarial Reserving Group** is charged with, amongst other things, reviewing and challenging the actuarial reserving processes, methodologies and assumptions used in setting the year-end actuarial reserves and providing assurance that these have been properly reviewed internally and by external peer-reviewers. The Chief Executive is the Chair of the Group, which comprises the Chair and Vice-Chair of the Board's committees. There were two meetings of the Group in 2018.

The **Membership Renewal Review Group** is charged with, amongst other things, approving, refining and applying conditions of membership criteria to a small number of identified members, including potentially the removal of membership. The Board agreed on 14 December 2018 to delegate authority to apply agreed conditions of membership to the executive directors. The Chief Executive is the Chair of the Group. There were two meetings of the Group in 2018.

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's captive insurance company in Guernsey. It is incorporated in accordance with Guernsey legislation and includes directors resident on the island and nominated by the main MDDUS Board. There were two meetings of the Board in 2018.

The Board of MDDUS Property Limited oversees the performance and management of the Group's investment property portfolio and includes a director with extensive experience in the commercial property sector. There were three meetings of the Board in 2018.

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 2018.

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

Risk and controls

The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. It is responsible also for the effectiveness of the processes and systems employed assessing and managing risk and the exercise 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 controls.

The principal risks facing MDDUS are as follows:

Strategic risk

The indemnity industry as a whole is facing unprecedented change in its strategic public policy environment. In England, the Department of Health and Social Care (DHSC) implemented a state-backed CNSGP on 1 April 2019. A Scheme for General Medical Practice Indemnity was introduced in Wales. The UK Government is also assessing the appropriateness of clinical negligence cover and the stability of discretionary indemnity arrangements for regulated healthcare professionals. This consultation, despite an evidence base acknowledged to be weak in demonstrating actual as opposed to theoretical problems, raises the prospect that the medical indemnity sector may be subject to both conduct of business and prudential regulation, with significant tax benefits to the Exchequer and costs to the membership.

Demands within the market are also changing as professional roles and healthcare organisations evolve. This presents opportunities and risks. As such, we are in the process of extensive action and planning for the possible evolution of its business model, products and strategy.

Underwriting and pricing risk

This is the risk of loss due to claims and non-claims experience being higher than expected in our pricing assumptions. We mitigate this risk by, on the one hand, having suitable underwriting processes, rules and guidelines to assess and manage the level of risk posed by individual members and applicants, and on the other, applying robust actuarial pricing and reserving methodologies to ensure that our pricing is as accurate and reliable as possible. The pricing and reserving work carried out by our actuarial team is peer reviewed by external actuaries, with all costs identified and incorporated into our pricing models. We seek to balance the interests of the membership as a whole with the interests of individual members and prospective members. We screen applicants and our members and decline to indemnify individuals who are deemed to be too high a risk.

Operational risk

This is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. To further mitigate this risk area, we are in the process of assessing and implementing an improved operational risk framework to identify, document and monitor our holistic exposure to operational risks and to track relevant risk and compliance data.

A risk register is maintained that includes a description of key strategic and operational 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 2018 and further enhancements made subsequently. It is reviewed biannually in detail by the Audit and Risk Committee and, annually, by the Board.

Information governance and security was a particular focus for the Audit and Risk Committee in 2018, following the implementation of the GDPR and the Data Protection Act 2018, and the industry-recognised increase in malware and ransomware attacks. Recent enhancements to our information security have included projects to further mitigate the risks involved in the traffic of sensitive or otherwise confidential data and the testing and training of colleagues to assess susceptibility to an email-borne security attack. We were reassured to note that colleagues were aware of these risks, scoring exceptionally well against the industry average.

The Audit and Risk Committee is also charged with reviewing our internal financial controls 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, including the production of departmental monthly spend against budgeted spend and monthly management accounts. This is aimed at ensuring compliance with agreed budgets and with strategic and departmental plans. The Board also receives reports on large claims activity.

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 our 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. We have 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. In 2018, we continued to assess our investments and exposures against the risk of volatility in the markets following the UK's decision to leave the EU. This ensured our investment strategy and decision-making was robust and appropriate in the face of ongoing market uncertainty. We continue to seek to more closely match our assets and liabilities, looking at both asset selection and timing of maturity, and a thorough review of our investment strategy commenced in late 2018.

Public policy risk (see also Strategic risk)

This is the risk of the UK Government and the devolved administrations intervening in the sector without a proper assessment of the impact on our members. As will be clear from this report, this was a significant risk for MDDUS during 2018. We continue to mitigate this risk not just by ensuring open and frank discussions to improve understanding about the sector in the Government and the devolved administrations, but also by ensuring that our commercial approach is sufficiently robust to respond effectively to the widest range of possible outcomes.

Remuneration statement

The job evaluation review concluded in 2018 with the creation of a new pay framework for our dental, medical and legal professional colleagues. In addition, benchmarking was completed in respect of all roles to ascertain our current market position in relation to our pay and reward practices.

We continued not to provide a formal individual performance-related pay process. However, during the process of benchmarking, we reviewed the approach of our competitors and comparators in relation to performance-related pay and we will consider during 2019 whether this should be an element of remuneration going forward.

We reviewed our basic pay at the annual meeting of our Salary Group, which sets the strategy and practice for the remuneration of colleagues (excluding those considered by the Remuneration Committee – see below). In addition, we continued to offer various colleague benefits, including a non-contributory pension, life assurance, private medical cover and employee assistance programmes. During 2019, we will increasingly harmonise these benefits across all colleagues and also introduce a number of flexible benefits, reflecting changes in our colleagues' work and home lives. These include the buying and selling of annual leave, the option to purchase critical illness cover, dental plans and cycle to work schemes.

In addition to receiving an annual report about the strategy and practice for the remuneration of colleagues, the Remuneration Committee determines and keeps under review the remuneration and terms and conditions of service for non-executive directors and the members of the Salary Group – the Chief Executive, the Finance Director, the Director of People and Corporate Services and, since 2018, the Director of Advisory and Legal Services and the Director of Development. It is a challenge to find a range of benchmarks similar to the nature, size and complexity of our business, however, an annual review is informed by external expert companies, most recently PwC. The Chief Executive (and, in his case, the Chair) also provide a report about performance against objectives for members of the Salary Group. The two executive directors do not participate in the Committee's discussions about their own pay.

A comprehensive review of non-executive director pay is planned for 2019-20, which will seek to align pay rewards to reflect their workload following the downsizing of the Board at the AGM in 2017 and developments as the current uncertain external operating environment begins to resolve.

The Committee welcomed on 27 April 2018 a voluntary action plan, suitable to a business of the scale of MDDUS, to respond to potential issues concerning gender pay (as statutory gender pay gap regulations apply only to larger businesses). In light of this, we were able to report significant progress addressing our gender pay gap to the Committee's meeting on 10 May.

The Board receives each year a high-level report about the work of the Committee.

Modern Slavery Act

The Board agreed on 22 June 2018 its statement setting out its response to the Modern Slavery Act 2015 in the financial year ending 31 December 2017. Since then, the Group has developed and implemented an action plan to ensure that it meets both the letter and the spirit of the legislation. The Board statement for the financial year ending 31 December 2018 is available on our website.

Viability statement 2018

The directors' view of the viability of MDDUS, both as the Group and as the Parent Company, is supported by its strong positive cashflow position, its matching of notified liabilities with cash and bonds and a strong internal risk management function. A comparison of IBNR liabilities with the available net assets has also been carried out with no issues noted.

Against that background, and in accordance with Provision C.2.2. of the 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 2021. The directors' assessment has been made with references to MDDUS's 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 balance sheets and investment portfolios, financial projections, the underwriting strategy and risk registers. The financial projections are prepared allowing for the impact of the key risks faced by MDDUS, including changes in subscription income, falls in assets values, increases in claims inflation and regulatory changes. The directors have given due consideration to the introduction of state-backed indemnity schemes for GPs in England and Wales from 1 April 2019.

In addition, the possibility of the indemnity industry becoming subject to regulation has been considered within the financial models.

Going concern

The financial statements are prepared on the going concern basis. In adopting the going concern basis, the directors consider that MDDUS, both as the Group and as the Parent Company, has sufficient assets to continue in operation for a period of at least 12 months from the approval of the financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and 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 Group and Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and applicable law. The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the surplus or deficit of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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's 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 this report, including the Strategic Report and the Directors' Report. The report is published on our 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 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 auditor

So far as the directors are aware, there is no relevant audit information of which MDDUS's auditor is 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 auditor is aware of that information.

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

On behalf of the Board
Chris Kenny
Chief Executive and Secretary
16 August 2019

Audit and Risk Committee report

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

The Board considers the Committee to have a recent and relevant range of financial, risk, control and commercial expertise to provide effective challenge to the executive. Marian Glen joined the Committee as a non-executive director in 2018, bringing experience from the fields of corporate governance, financial regulation and law.

The Committee's major responsibilities during the years 2018-19 were:

- reviewing the final financial statements for the years ending 31 December 2017 and 2018, with particular reference to the consolidated statements of income and retained earnings, the consolidated balance sheet, the requirements of the Code and the external auditor's report, and recommending their approval to the Board
- reviewing the effectiveness and independence of the external auditor
- recommending the re-appointment of BDO LLP as the external auditor, agreeing the scope of its work and its remuneration
- considering the appropriateness of non-audit work carried out by the external auditor
- 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 auditor
- reviewing the internal compliance assurance function
- reviewing the effectiveness of internal controls
- reviewing the risk management processes, including the risk management policy and risk register
- reviewing updates about project work in response to the implementation of the GDPR and the Data Protection Act 2018.

The Committee also received reports about the directors' register of interests and confirming the absence of any disclosures under the 'whistleblowing' policy. A verbal update about matters of note is given to the Board meeting following each Committee meeting and the minutes are also received by the Board.

External audit for the year ending 31 December 2018
The lead partner from BDO LLP attended the Committee for all three meetings in 2018, and also met the non-executive committee members, in the absence of the executive, at each meeting.

The key accounting and audit risks remain similar to previous years and the Committee was satisfied that they had been carefully and adequately addressed. The independence of BDO LLP was fully discussed.

The Group financial statements for the year ending 31 December 2018 were recommended by the Committee to the Board meeting on 28 June 2019. The Committee also recommends to the AGM, via the Board, the re-appointment of BDO LLP as external auditor for the year ending 31 December 2019.

Non-audit work carried out by BDO LLP was fully reported, discussed and agreed to be appropriately independent and proportionate. This work focused on tax advisory matters in relation to MDDUS and MDDUS Insurance Ltd.

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

BDO LLP was appointed as external auditor to MDDUS in 2007 and the current lead partner was engaged in 2015. The Committee considered proposals to re-tender the external audit at its meeting on 25 May 2018 and, in light of the uncertain external operating environment, has agreed to defer this matter to the autumn of 2019.

Internal audit for the year ending 31 December 2018
Deloitte LLP continued to provide an internal audit service during 2018 with a programme of risk-based audits spanning the work of the organisation agreed by the Committee.

The Committee received regular internal audit reports, reviewed outcomes, discussed potential actions required with the executive directors and monitored the implementation of agreed actions.

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

Compliance for the year ending 31 December 2018
The Committee also agreed a programme of compliance assurance reviews of activities and processes during 2018. The Committee received regular reports, reviewed outcomes, discussed actions required with the executive directors and monitored the implementation of agreed actions. The compliance assurance function was brought fully 'in-house' during 2018.

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 biannually before being recommended to the Board, with key risks selected for more frequent scrutiny at available Committee meetings.

Margaret McPhail
Chair, Audit and Risk Committee

Independent auditor's report

Independent auditor's report to the members of the Medical and Dental Defence Union of Scotland (MDDUS)

Opinion

We have audited the financial statements of The Medical and Dental Defence Union of Scotland ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the Consolidated Statement of Income and Retained Earnings, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 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.

Basis for opinion

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pp 14-15 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pp 14-15 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 16 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 16 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter in our audit
Revenue recognition – deferred revenue As detailed in note 12 the Group has deferred income of £63.3m of which £62.3m relates to members' subscriptions in the Parent Company as set out in note 1c. Calculations are performed by management at the year end in order to ensure that revenue is being recognised in the correct period. This work involves reviewing membership data for 2018 and calculating the proportion of membership income that relates to 2019 using a bespoke report generated by the Membership Relationship Management (MRM) system. There is a risk that the deferred revenue will be inaccurately calculated such that revenue will be misstated.	We performed computer assisted audit techniques in relation to the deferred income report and underlying data. We reperformed the year end deferred income calculation, ensuring that the parameters of the report used in the calculation met our expectations. We substantively tested, on a sample basis, the information produced from the MRM system, which is key to the calculation of deferred income to ensure that the critical dates were accurate, that the members listed exist and that the list of members was complete.
Estimation of settlement and handling costs for claims and non-claims The provision for future settlement is a material sum and is subject to significant estimation. There are assumptions made regarding the probable outcome of each individual case and other assumptions such as the discount rate applied. At 31 December 2018 the provision for claims is £222.8m and for non-claims is £31.6m (note 1f, 2, 13). MDDUS employs an actuary to estimate the value of the provision at the year-end date. This calculation is then subject to review by a third party actuary.	We considered the qualifications, experience and independence of the third party actuary to ensure that they were suitable for the role. We then reviewed the scope of the engagement to ensure that it covered both the assumptions used and a review of the actuarial calculations by the third party actuary. We obtained and reviewed the report produced by the third party actuary to ensure that they considered the assumptions employed and the calculations prepared to be appropriate and materially accurate. Following this we challenged management on the key findings and recommendations. We also considered the assumptions used by the actuary in his work and whether these were in line with our understanding of the business and sector environment. We sample tested the data underlying the calculation of the provision to ensure that it was accurate and complete. This involved sample testing the completeness of the list of open claims produced from the MRM system and ensuring, for a sample of claims, that the estimate of the claim in the list of claims was in line with that recorded in MRM. Finally, we reviewed supporting documentation available to support the estimated outcome of a sample of claims recorded.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality was determined by reference to a benchmark of total assets which we consider to be the principal consideration in assessing the financial performance of the Group which is an asset based business. Specific materiality was determined with reference to a benchmark of surplus before tax. This was considered appropriate on the basis that the surplus influences the setting of future fees. Specific materiality is applied to areas of the financial statements where we determine that a lower number than overall financial statement materiality could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality	2018 £'000	2017 £'000	Basis for materiality
Overall – Group	11,400	14,250	Applied to the audit of investments, provisions and reserves. Based on 1.30% of total assets (2017: 1.75%).
Overall – Parent Company	11,000	13,700	
Specific - Group	4,250	8,800	Applied to all other financial statement areas. Based on 7% of surplus before tax (2017: 8%).
Specific – Parent Company	3,950	6,850	

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2017: 70%) of the above materiality levels, at the higher end of the threshold due to the low risk of aggregation of misstatements within the Group, low level of misstatement identified in the past and also a strong control environment.

Whilst materiality for the financial statements as a whole was set, each component of the Group was audited to a lower level of materiality, being 1.75-2% of total assets or 5% of net assets of the component. Where appropriate a specific materiality was applied to certain financial statement areas based on 8% of surplus/profit before tax. The same approach to performance materiality has been applied as discussed above.

We agreed with the Audit and Risk Committee that we would report all individual audit differences identified during the course of our audit in excess of £0.46m (2017: £0.57m). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focussed on the Group's significant components being MDDUS, MDDUS Property Limited and MDDUS Insurance Limited each of which was subject to a full scope audit. The only insignificant component, MDDUS Education Limited, was also subject to a full scope audit.

Audits of the components were performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned. With the exception of MDDUS Insurance Limited, which was audited by BDO Limited in Guernsey, the audits of each of these components were performed in Glasgow by BDO LLP. BDO Limited provided reporting to BDO LLP on their audit and BDO LLP carried out a review of their audit working papers for the significant risk areas.

Other information

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on pp 12-17) – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit and Risk Committee reporting (set out on p. 17) – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or

- Directors' statement of compliance with the UK Corporate Governance Code – An annotated version for Mutual Insurers (set out on pp 12-17) – the parts of the directors' statement relating to the company's compliance with the UK Corporate Governance Code do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the 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 and Director's report.

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

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

Responsibilities of directors

As explained more fully in the 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Martin Gill (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor
Glasgow
16 August 2019

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

FINANCIAL STATEMENTS FOR 2018

Consolidated statement of income and retained earnings

For the year ended 31 December 2018

	Notes	2018	2017
		£'000	£'000
Income			
Members' subscriptions and other income	1[c]	**133,600**	115,817
Expenditure			
Claims costs and associated legal costs		**87,092**	16,057
Advisory and non-claims legal costs		**13,115**	5,100
Administration costs		**14,941**	12,211
		115,148	33,368
Surplus of income over expenditure	3	**18,452**	82,449
Realised gains on disposal of fixed assets		**7,970**	958
Changes in fair value of investments		**(33,345)**	18,064
Investment income	1[g]&6	**10,544**	7,770
Surplus on ordinary activities before taxation		**3,621**	109,241
Taxation	1[i]&7	**(3,536)**	3,696
Net and total comprehensive income available for transfer to reserves		**7,157**	105,545
Accumulated fund brought forward		**547,363**	441,818
Accumulated fund carried forward		**554,520**	547,363

All amounts relate to continuing operations.

The notes on pages 25 to 38 form part of these financial statements.

Consolidated and company balance sheets

As at 31 December 2018

Company Number SC005093

	Notes	Group 2018	Group 2017	Company 2018	Company 2017
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	74,417	91,094	1,916	1,845
Investments	10	714,495	649,981	759,933	722,175
		788,912	**741,075**	**761,849**	**724,020**
Current assets					
Debtors and payments in advance	11	50,464	46,488	47,410	43,355
Cash at bank, in hand and on deposit		41,450	29,203	38,403	19,320
		91,914	**75,691**	**85,813**	**62,675**
Creditors: amounts falling due within one year					
Sundry creditors and accrued charges	12	66,398	61,195	64,511	59,087
Corporation tax provision		3,946	443	3,657	228
		70,344	**61,638**	**68,168**	**59,315**
Net current assets		21,570	14,053	17,645	3,360
Total assets less current liabilities		810,482	755,128	779,494	727,380
Provision for liabilities and charges	13	255,962	207,765	256,384	208,153
Total net assets		**554,520**	**547,363**	**523,110**	**519,227**
Reserves					
Accumulated fund	15	554,520	547,363	523,110	519,227
		554,520	**547,363**	**523,110**	**519,227**

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of income and retained earnings in these financial statements. The surplus for the year of the Parent Company, MDDUS, is £3.883m (2017: £109.632m).

These financial statements were approved by the members of the Board on 28 June 2019.

Jonathan P Berry
Chair

Chris Kenny
Chief Executive and Secretary

The notes on pages 25 to 38 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Cash flow from operating activities		
Surplus for the financial year	**7,157**	**105,545**
Adjustments for:		
Depreciation of fixed assets	281	403
Gain on sale of fixed assets	(7,970)	(958)
Net fair value losses/(gains) recognised in statement of income and retained earnings	33,345	(18,064)
Net interest receivable	(2,893)	(1,582)
Dividend income from fixed and current asset investments	(7,651)	(6,188)
Taxation expenses	(3,536)	3,696
Increase in trade and other debtors	(3,976)	(6,254)
Increase in creditors	5,203	9,753
Increase/(Decrease) in provisions	57,900	(17,600)
Taxation paid	(2,664)	(7,770)
Cash from operations	**75,196**	**60,981**
Cash flow from investing activities		
Proceeds from sale of tangible fixed assets	22,014	81
Purchases of tangible fixed assets	(5,080)	(306)
Purchases of investments	(220,909)	(179,911)
Proceeds from sale of investments	130,482	102,418
Interest received	2,893	1,582
Dividends received on fixed and current asset investments	7,651	6,188
Movement on long term deposits	-	36,500
Movement on cash equivalents	(39,689)	37,749
Net cash from investing activities	**(102,638)**	**4,301**
Cash flow from financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(27,442)	65,282
Cash and cash equivalents at the beginning of the year	92,753	27,471
Cash and cash equivalents at the end of the year	**65,311**	**92,753**
Cash and cash equivalents at the end of the year comprise:		
Cash at bank, in hand and on deposit	41,450	29,203
Long-term deposits	-	-
Cash equivalents	23,861	63,550
	65,311	**92,753**

The notes on pages 25 to 38 form part of these financial statements.

Notes to the accounts

For the year ended 31 December 2018

1. Accounting policies

a) Accounting conventions

MDDUS is a company incorporated in Scotland under the Companies Act and limited by guarantee. 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 Company registration number is SC005093.

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 (see note 2). 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 2018. No statement of income and retained earnings is presented for the Medical and Dental Defence Union of Scotland as permitted by section 408 of the Companies Act 2006. The Group surplus for the year included a surplus after tax of £3.883m (2017: £109.632m) 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. All income arises in the UK.

MDDUS Property Limited's turnover consists of rental income and service charge 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. Freehold property is revalued every five years and depreciated annually. The directors consider that this accounting policy results in the financial statements giving a true and fair view.

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 2018. The provision is the discounted value of the expected future settlement and handling costs. The provision relates to all incidents notified at 31 December 2018.

g) Dividends and interest

Dividends are shown net of the tax credit, where applicable. Interest on investments and short-term deposits has been shown gross. Accrued interest on short-term deposits and unfranked investment income dividends has been provided in the year. In addition only franked investment income dividends received in the year to 31 December 2018 have been included.

h) Investments

Listed investments held at 31 December 2018 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.

Notes to the accounts

For the year ended 31 December 2018 (continued)

1. Accounting policies (continued)

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 19% (2017: 19.25%). 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.

Deferred tax liabilities are presented within provisions for liabilities.

j) Pension costs

Defined contribution pension arrangements are made for certain employees to which contributions are made by the Company. Amounts due to pension providers 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 and presentation currency

The Group's functional and presentational currency is GBP and is rounded to the nearest thousand pounds.

m) Financial instruments

Basic financial instruments including debtors, creditors, cash and cash equivalents and investments are initially recognised at transaction price. Such assets are subsequently measured at amortised cost. The listed investments are carried at fair value through surplus or deficit.

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 and freehold property is valued every five years. 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 be ultimately 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 settlements. The ultimate anticipated claims and non-claims have been calculated by our in-house actuaries using their extensive experience and knowledge of malpractice claims and peer reviewed by an independent firm of actuaries. Calculations include expected settlement frequency and amounts including claimant and defence legal costs. Actual claims and non-claims may differ from the pattern on which the estimate is made and the cost of settling claims may exceed that assumed.

3. Surplus of income over expenditure

	2018	2017
This is stated after charging:	£'000	£'000
Emoluments of directors (excluding benefits in kind)	1,245	1,194
Auditor's remuneration	81	81
Pension costs	1,547	1,416
Depreciation on owned assets	281	412
Auditor's remuneration consists of:		
Group auditor - audit	63	50
Group auditor - taxation advisory	14	-
Group auditor - other advice	4	31
	81	**81**
Company only auditor's remuneration	**48**	**36**

4. Emoluments of directors

	2018	2017
	£'000	£'000
The detail of directors' emoluments (including executive directors) was as follows:		
Emoluments (including benefits in kind)	1,438	1,496
Pension costs	-	-
	1,438	**1,496**
The detail of the highest paid director's emoluments was as follows:		
Emoluments (including benefits in kind)	510	464
Pension entitlement taken as salary	100	90
	610	**554**
	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 2018 (continued)

5. Employees' remuneration

	2018	2017
	£'000	£'000
Salaries (including non-executive directors)	10,571	9,031
Social security costs	1,229	1,150
Pension costs	1,547	1,416
	13,347	**11,597**
Average number of employees in the year	**Number**	**Number**
Non-executive directors and administrative	159	145
	159	**145**

The above represents the figures for Group and Company.

6. Investment income

	2018	2017
	£'000	£'000
Dividends		
Franked	6,096	5,388
Unfranked	1,555	800
Bank interest	2,893	1,582
	10,544	**7,770**

7. Taxation

	2018	2017
	£'000	£'000
Corporation tax		
Corporation tax expense for the year	6,184	3,688
Foreign tax	(17)	143
Total current tax charge	**6,167**	**3,831**
Deferred tax		
Timing differences, origination and reversal	(9,703)	(70)
Change in tax rate	-	(65)
Total deferred tax credit	**(9,703)**	**(135)**
Total tax (credit)/charge through statement of income and retained earnings	**(3,536)**	**3,696**

Factors affecting the tax (credit)/charge

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

	2018	2017
	£'000	£'000
Surplus on ordinary activities before tax	**3,621**	**109,241**
Surplus on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	688	21,025
Effects of:		
Surplus of income over expenditure not taxed	(3,506)	(15,869)
Non-taxable franked investment income of Group	(1,158)	(1,037)
Unfranked and interest income of Guernsey subsidiary not taxed	(66)	(53)
Chargeable losses/(gains) not recognised in current year	3,328	(184)
Deferred tax movement in year	(9,703)	(135)
Foreign tax	(17)	143
Loss/(Gain) on disposal of investments and assets	6,336	(951)
Other	562	757
Current tax (credit)/charge through statement of income and retained earnings	**(3,536)**	**3,696**

Notes to the accounts

For the year ended 31 December 2018 (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 2018	7,345	83,204	987	481	92,017
Additions	25	4,698	334	52	5,109
Disposals	(7)	(17,172)	(126)	(60)	(17,365)
Revaluation	(345)	(3,924)	-	-	(4,269)
At 31 December 2018	**7,018**	**66,806**	**1,195**	**473**	**75,492**
Depreciation					
At 1 January 2018	-	-	734	189	923
Provided during year	26	-	175	80	281
On disposals	-	-	(93)	(36)	(129)
Revaluation	-	-	-	-	-
At 31 December 2018	**26**	**-**	**816**	**233**	**1,075**
Net book value					
At 31 December 2018	**6,992**	**66,806**	**379**	**240**	**74,417**
At 31 December 2017	**7,345**	**83,204**	**253**	**292**	**91,094**

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 2018	1,300	-	987	481	2,768
Additions	24	-	333	52	409
Disposals	-	-	(126)	(60)	(186)
Revaluation	-	-	-	-	-
At 31 December 2018	**1,324**	**-**	**1,194**	**473**	**2,991**
Depreciation					
At 1 January 2018	-	-	734	189	923
Provided during year	26	-	175	80	281
On disposals	-	-	(93)	(36)	(129)
Revaluation	-	-	-	-	-
At 31 December 2018	**26**	**-**	**816**	**233**	**1,075**
Net book value					
At 31 December 2018	**1,298**	**-**	**378**	**240**	**1,916**
At 31 December 2017	**1,300**	**-**	**253**	**292**	**1,845**

Notes to the accounts

For the year ended 31 December 2018 (continued)

8. Tangible fixed assets (continued)

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	6,933	68,597	510	240	76,280
Accumulated depreciation based on historical cost	2,719	-	1,253	233	4,205
Company					
Carrying value based on historical cost	3,579	-	509	240	4,328
Accumulated depreciation based on historical cost	2,299	-	1,253	233	3,785

The investment properties at Pemberton Row, Bracton House and Cannon St were valued on 31 December 2018 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). 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. Red Lion Court was valued by external valuers, Avison Young, and in accordance with the RICS Valuation – Global Standards 2017 (the Red Book). The valuation was prepared in accordance with the Red Book and was valued on the basis of market value. Market value is defined as:-
"The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Red Lion Court was purchased on 19 April 2018 for £4.7m which was fully funded by the Group. On 25 July 2018, the Group sold Hend House for £22m.

The freehold property of the company was revalued by Ryden at the market value of the outright ownership interest, subject to vacant possession, at 31 December 2017 at a value of £1.3m. The directors believe this reflects its fair value at that date.

Capital commitments and subsequent events

Capital expenditure approved and contracted for amounted to £Nil (2017: £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 years and 20 years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2018	2017
	£'000	£'000
Not later than one year	3,533	4,266
After one year but not more than five years	13,116	16,761
After five years	7,897	12,042
	24,546	**33,069**

10. Investments

	Group 2018	Group 2017	Company 2018	Company 2017
Valuation	**£'000**	**£'000**	**£'000**	**£'000**
Market value at 1 January 2018	649,981	542,498	722,175	609,909
Additions	220,909	179,911	193,675	179,661
Disposals	(127,319)	(101,440)	(126,823)	(96,406)
Changes in fair value of investments	(29,076)	29,012	(29,094)	29,011
Market value at 31 December 2018	**714,495**	**649,981**	**759,933**	**722,175**
Listed investments	690,634	586,431	598,497	531,591
Cash equivalents	23,861	63,550	16,252	45,397
Unlisted investments	-	-	145,184	145,187
	714,495	649,981	759,933	722,175
Historical cost	**694,058**	**568,833**	**741,006**	**642,520**

Unlisted investments at 31 December 2018 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.

Notes to the accounts

For the year ended 31 December 2018 (continued)

10. Investments (continued)

Subsidiary share capital and reserves:

	MDDUS Insurance Limited	MDDUS Property Limited	MDDUS Education Limited
	£'000	£'000	£'000
Called up share capital	30,000	115,000	1,700
Profit and Loss account	19,449	11,824	(1,516)
Aggregate of share capital and reserves	**49,449**	**126,824**	**184**
Profit/(Loss) for the year	**248**	**3,701**	**(3)**

11. Debtors and payments in advance

	Group 2018	Group 2017	Company 2018	Company 2017
	£'000	£'000	£'000	£'000
Trade debtors	48,186	44,833	45,956	42,281
Other debtors	2,058	1,383	1,234	803
Payments in advance	219	270	220	270
Other taxes and social security costs	1	2	-	-
Amounts owed by subsidiary undertakings	-	-	-	1
	50,464	**46,488**	**47,410**	**43,355**

12. Sundry creditors and accrued charges due within one year

	Group 2018	Group 2017	Company 2018	Company 2017
	£'000	£'000	£'000	£'000
Deferred income	63,308	58,528	62,341	57,443
Other taxes and social security costs	757	736	416	360
Sundry creditors and accruals	2,333	1,931	1,722	1,111
Amounts owed to subsidiary undertakings	-	-	32	173
	66,398	**61,195**	**64,511**	**59,087**

13. Provision for liabilities and charges

	Deferred taxation	Claims	Non-claims	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2018	11,265	170,500	26,000	207,765
(Credited)/charged to statement of income and retained earnings in year	(9,703)	87,092	13,115	90,504
Paid in year	-	(34,792)	(7,515)	(42,307)
At 31 December 2018	**1,562**	**222,800**	**31,600**	**255,962**
Company				
At 1 January 2018	11,653	170,500	26,000	208,153
(Credited)/charged to statement of income and retained earnings in year	(9,669)	87,092	13,115	90,538
Paid in year	-	(34,792)	(7,515)	(42,307)
At 31 December 2018	**1,984**	**222,800**	**31,600**	**256,384**

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 2018.

In addition to events reported at the end of the accounting year and included in the balance sheet, MDDUS must also be aware of the potential costs of those events that occurred before the end of December 2018 but have not yet been reported – the "incurred but not reported" (IBNR) claims and non-claims. As MDDUS has not yet exercised its discretion over these matters by the year-end (as they have by their nature not been reported), they are not considered to be a liability and are not therefore incorporated into the balance sheet. Our actuaries have however estimated the value of these IBNR claims and non-claims to be £319.8m (2017: £357.3m) and £14.1m (2017: £12.8m), respectively.

14. Deferred taxation

Deferred taxation provided for at 19% (2017: 19%) in the financial statements is set out below:

	Group 2018	Group 2017	Company 2018	Company 2017
	£'000	**£'000**	**£'000**	**£'000**
Timing differences on fixed asset investments	1,984	11,653	1,984	11,653
Timing differences on property	(422)	(388)	-	-
At 31 December 2018	**1,562**	**11,265**	**1,984**	**11,653**

Notes to the accounts

For the year ended 31 December 2018 (continued)

15. Reserves

	Group 2018	Group 2017	Company 2018	Company 2017
	£'000	£'000	£'000	£'000
Accumulated fund				
At 1 January 2018	547,363	441,818	519,227	409,595
Transferred from statement of income and retained earnings in the year	7,157	105,545	3,883	109,632
At 31 December 2018	**554,520**	**547,363**	**523,110**	**519,227**

16. Reconciliation of movement in funds

	2018	2017
	£'000	£'000
Total recognised gains in the year	7,157	105,545
Opening funds available to meet future liabilities as previously stated	547,363	441,818
Closing funds available to meet future liabilities	**554,520**	**547,363**

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	690,634	-	-	690,634
At 31 December 2018	**690,634**	-	-	**690,634**
Listed investments	649,981	-	-	649,981
At 31 December 2017	**649,981**	-	-	**649,981**

17. Investments fair value determination (contiued)

Company

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	598,497	-	-	598,497
At 31 December 2018	**598,497**	-	-	**598,497**
Listed investments	576,988	-	-	576,988
At 31 December 2017	**576,988**	-	-	**576,988**

18. Financial instruments

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

	Group 2018	Group 2017	Company 2018	Company 2017
Financial assets	£'000	£'000	£'000	£'000
Financial assets measured at fair value through surplus or deficit	714,495	649,981	614,749	576,988
Financial assets that are measured at amortised cost	91,694	75,419	85,593	62,404
Financial liabilities				
Financial liabilities measured at amortised cost	2,333	1,931	1,722	1,111

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

Company

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

	2018	2017
	£'000	£'000
Future minimum lease payments:		
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	848	1,193
Total commitment	**2,574**	**2,919**

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

Notes to the accounts

For the year ended 31 December 2018 (continued)

20. Pension Commitments

Group and Company

	2018	2017
	£'000	£'000
Charge through the statement of income and retained earnings in the year	1,547	1,416
Balance outstanding at the year end	**371**	**206**

21. Member's guarantee

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

22. 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.

23. Post balance sheet events

Following a comprehensive investments strategy review, a resolution was passed on 28 June 2019 to reduce the share capital of MDDUS Property Limited, a wholly owned subsidiary, from £115m to £74.75m. In addition, MDDUS Property Limited declared a dividend of £50m.

MDDUS Board and honorary fellows

Chair
Brendan Sweeney[2,3,4]
MBE MA MBChB DRCOG FRCGP
(Retired 7 September 2018)

Jonathan P Berry[2,3,4]
MB ChB MBA MA
(Appointed as Chair 7 September 2018)

Vice-Chair
Jonathan P Berry[2,3,4]
MB ChB MBA MA
(Retired as Vice-Chair 7 September 2018)

**James Black[1(2018),2,3,4(2018)]
FFA
(Appointed as Vice-Chair 7 September 2018)

Senior Independent Director
Linsey C Semple[1]
MB ChB FRCGP DRCOG
(Appointed as SID 27 April 2018)

Chief Executive and Secretary
*Chris Kenny
MA FRSA

Other directors
**The Right Honourable Dame Elish Angiolini[3,4]
DBE QC

**Joanna L Bayley[2]
MB ChB MA MRCEM MRCGP

**Iain T Cameron[1,4]
BSc MA MD FRCOG FRCP (Edin)

**Robert Donald[2]
BDS (Hons) DGDP (UK)

**Marian Glen[1]
MA (Hons) LLB
(Appointed 22 June 2018)

**Jason Leitch[2,3]
CBE BDS DDS FDS RCS (Eng) FDSRCS (Edin)
FDSRCPSG (Glas) FRCS (Edin) MPH (Harvard)

**Peter McDonald[1]
MBBS MS (Southampton) FRCS (Eng)

**Margaret A McPhail[1]
Dip Man MIoD

*Colin J Slevin[2]
MA (Hons) MBA CA

**Nairn H F Wilson[1]
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

Judith M Chapman
MA MB BChir FRCGP DRCOG

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)

John Garner
MBChB FRCGP FRCPEd DCH DRCOG

Douglas G Garvie
OBE FRCGP

James Graham
MBChB FRCS (Ed & Glasg)

John R Griffiths
BA (Oxon) LLB WS

Brendan Sweeney
MBE MA MBChB DRCOG FRCGP

Key
1 Members of the Audit and Risk Committee
2 Members of the Investment Committee
3 Members of the Governance and Nominations Committee
4 Members of the Remuneration Committee
**Independent non-executive directors
* Executive directors

Accurate at 1 June 2019

Management and professional staff

MDDUS executive management

Chief Executive 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

Director of Governance
Dawn Reid
LLB (Hons)

Director of People and Corporate Services
Melanie Stead
FCIPD

Heads

Actuary
Dermot Grenham
FIA DPhil MSc

Advisory services (dental)
Aubrey Craig
BDS FDS RCPS (Glasg) MPhil MBA

Advisory services (medical)
John Holden
MB BS MPhil MRCGP FFFLM DCH DRCOG

Governance / Deputy Company Secretary Data Protection Officer
Bryan A. Hislop
LLB (Hons) ACIS

Corporate services
Johanne Roberts
BA (Hons)

Finance
Rekha Bhatt
BSc PgDipAcc FCCA PgCert

Financial Controller
William G McMillan
CA

Group Finance Manager
Margaret Swiderska
MA (Hons) BA (Hons) CA

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

Information systems
Ian Frame
MCTS PgCert

Membership services
Stephen G Kelly
PgCert

Operational sales and marketing
Gaelle Ainslie
BA (Hons) PgCert

Programme management and risk
Peter Johnson
BSc PgCert CQP FCQI FCMI SIRM

Public affairs and strategic communications
Jenifer Stirton
BA (Hons) FCIPR

Risk education
Liz Price
BA (Hons) MSc MBPsS

Systems and marketing
Maria Charlesworth
BSc MSc

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

Medical and dental advisers

Zaid Al-Najjar
BM LLM MBA MRCGP MFFLM DRCOG DDerm DClinPsych

Rachael Bell
BDS MPhil MFGDP MJDF PgCert (Dental Anxiety)

Roopinder Brar
MBBS BSc MSc MA DRCOG MRCGP

Richard Brittain
BMedSci BM BS PGDipLaw MRCP MFFLM

Gregory Dollman
BA (Hons) Psych MBBCh DMH MRCP MA

Susan Gibson-Smith
MBChB DRCOG MRCGP MPhil

Gail Gilmartin
MBChB MPhil

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

Sarah Harford
BDS LLM

Stephen Henderson
BDS LLM FFGDP

Annabelle MacGregor
MBBS MRCPCH MRCGP MA GDL

Myooran Nathan
MB ChB MRCP (UK) MRCGP DLM MA

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MBChB BSc (Hons) MRCP LLB (Hons)

Caroline Osborne-White
MA MB BChir (Cantab) MA (KCL) MRCGP DLM

Barry Parker
MBChB MSc MML FRCGP DRCOG DCCH

Emily Shepherd
MBBS BMedSci (Hons) DRCOG MA

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

Susan Willatt
BDS MBA LLM

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

Employment law advisers

Janice Sibbald
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Liz Symon
MCIPD

Practice advisers

Scott Obrzud
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Helen Ormiston
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* Executive directors
Accurate at 1 June 2019

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Harriet Woodward
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**Practice Development Manager
Accurate at 1 June 2019

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Accurate at 1 June 2019

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