



2019

ANNUAL REPORT & ACCOUNTS

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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 four wholly owned subsidiaries: MDDUS Insurance Limited, an insurance company; MDDUS Services Limited, an FCA authorised insurance intermediary; MDDUS Education Limited, a risk and training company; and MDDUS Property Limited, which oversees the management and performance of MDDUS's investment property portfolio.

MDDUS summary of activity - 2019

	2019	2018
Income	£89.6m	£133.6m
Total net income available for transfer to reserves	(£116.5m)	£7.2m
Fixed assets and cash on deposit	£617.5m	£830.4m
Claims and non-claims	£339.9m	£254.4m

	2019	2018	%
Total active membership*	53,551	49,263	8.7
Total GP active membership	19,769	18,972	4.2
Total hospital doctor active membership	20,787	18,804	10.5
Total dental active membership	8,763	8,124	7.9

*Includes associate and other membership categories

Chair's report



Jonathan P Berry
Chair

26 June 2020

It is a great privilege to be Chair of MDDUS and to present to you the Company's Annual Report and Accounts for the year ending 31 December 2019.

It's often tempting when reflecting in an annual report to talk only of the year past. But as we ended 2019, I sensed MDDUS had emerged from the past 12 months as a company that is optimistically looking forward. COVID-19 has not changed my mind.

We are looking forward to welcoming new members attracted by our services, which have taken huge strides in improvement through our innovations in digitisation. We are also optimistic we will see a continuing strong financial position, alongside a loyal and growing membership unmatched in our 118-year history.

You will see from our strategic and financial reports, that we have maintained our industry-leading status as the fastest-growing provider of medical indemnity in the United Kingdom, sustaining this trajectory and the maintenance of our service to members in the face of substantial public policy changes and related financial pressures.

Our Directors' report confirms that MDDUS is supported by its strong net assets position, its matching of notified liabilities and potential incurred but not reported (IBNR) liabilities, cash and bonds, and a strong internal risk management function. With the general uncertainty for businesses throughout the United Kingdom ushered in by COVID-19, this is a position of strength we can work from in the commercial environment created in the wake of the pandemic.

A large part of our success has come from our considerable efforts around stakeholder engagement and the proactive servicing of our membership. We have worked to pursue our members' interests in Westminster and Holyrood, Whitehall and Stormont. The medical and dental advisory team have carried out numerous lectures and workshops. Meanwhile, the teams working to support our Director of Development, David Sturgeon, have travelled the length and breadth of the UK providing first-class training to members, including bespoke sessions for groups and in-depth CPD-accredited courses. In doing so, they also bring back a deep understanding of what clinicians really want from their medical defence organisation.

I have been very impressed by the dedication and expertise of MDDUS colleagues in their delivery of our overall service offering to you, the membership.

To help us meet the challenges of the future, we have been busy redesigning and reprioritising our work to become a more effective and data-driven business. For example, we now deliver our flagship publications to members digitally, which can provide better insight on engagement. We have also created an online portal for members to access via our website, which has proved very popular.

“ *To help us meet the challenges of the future, we have been busy redesigning and reprioritising our work to become a more effective and data-driven business.”*

At MDDUS we believe it is hugely important to be a good corporate citizen in the places we work. We have made significant progress in our commitment to reduce our carbon footprint and to recycle wherever possible. And, as Chris Kenny notes in his Strategic report, as a company we have adopted two charities – the Prince and Princess of Wales Hospice and Cancer Research UK – and all monies raised from monthly dress down days will be matched by MDDUS at the end of 2020.

In 2020 (although possibly now later due to COVID-19), we expect further challenge from the UK Government as it considers its response to the Paterson report. We recognise much of this anticipated reform will be made to the benefit of patient safety. We welcome this, but we hope for some respite from Government intervention with the proven successful model of medical defence organisations (MDOs).

Together with my Board colleagues, we have set a business strategy for 2020 to 2023 that will outline our objectives and address how we work and how we can embrace and respond to the pace of change in a post-Paterson world.

Our mission statement sets the tone and our approach for the coming period:

To protect and support individual practitioners and organisations that provide clinical care through a range of advisory, legal, financial, managerial, educational and related services.

My role as Chair of MDDUS is made considerably easier and, I will happily admit, more enjoyable by the working relationships I have enjoyed with our Chief Executive,

Finance Directors and Deputy Company Secretary. I am indebted to them and other MDDUS colleagues who, as a whole, work with tireless dedication to deliver the world-class indemnity, advice and support for which we are known.

The dedication of all our colleagues is the golden thread that runs through everything we do at MDDUS, and in 2019 we said a big thank you and bade a fond farewell to several long-serving members of the team. Leslie Hamilton, Karen Crainie, Dr Gail Gilmartin and Helen Mulligan had notched up 118 years of service collectively to MDDUS, coincidentally the same number of years we've been in business.

I was particularly pleased to continue my Chair's Recognition Award this year, given to four colleagues whose work was recognised by their own teams as going above and beyond what was asked of them. It is really important to me to see this good work recognised by the whole company and celebrated widely.

In 2019 I was delighted to welcome our Director of Advisory and Legal Services, Emma Parfitt, to the MDDUS Board. She brings a wealth of sector experience and, in particular, a forensic knowledge of the law as it impacts our members. We also welcomed a new Finance Director, James Parker, who joined us from CS Healthcare, a health insurer based in London, where he was Chief Executive.

James brings considerable experience in the insurance and financial services sector and his arrival deepens our expertise and will enable us to build on our growth over the past few years. I am also grateful to David Dunning, who gave sterling service as an interim FD.

Finally, we would like to pay tribute to Colin Slevin, who retired from MDDUS after 32 years as Finance Director. Colin not only saw MDDUS through extensive changes but was also a key part of making those changes happen. We would quite simply not be in our current position without all his hard work, shrewd judgement and careful stewardship. He leaves with our thanks, best wishes and appreciation.

Looking forward to 2020, it is an understatement to say we go into uncharted territory and a professional landscape altered – possibly radically and forever – by the COVID-19 pandemic. As a further example of our enhanced digital capability, as I write this, all of our staff are currently working from home with no degradation of our service. While we do not yet know the legacy of this unprecedented event, I hope I can assure you that by MDDUS's swift actions from early 2020, we stand prepared to support and defend our members' interests with the same professionalism and integrity we have displayed since our foundation in 1902.



CEO Strategic report



Chris Kenny
Chief Executive and
Secretary
26 June 2020

There is no question, 2019 was a year of challenge and opportunity for MDDUS. In this environment, we chose to be bold. Throughout the company, teams embraced innovation and an agile approach to develop new choices and options for our members, right across the spectrum of the services we offer. I am delighted to report that we have emerged from this testing period in a more assured condition than we began it, and are now tackling 2020 from a position of strength.

This was evident when MDDUS led from the front as the impact of the COVID-19 pandemic took hold, reducing and waiving subscription rates for our doctor, dentist and student members. Our move was then replicated by the other MDOs, giving the frontline professionals we represent financial relief at a time of an unprecedented national emergency. From the positive, and sometimes emotional, feedback we received from members, I'm proud we acted swiftly and decisively in this way.

You're going to hear a lot about choice in this annual report because it's a factor that I believe defines and differentiates MDDUS from other MDOs. We're embracing choice in our indemnity product range. For example, through our new subsidiary MDDUS Services Limited, we are able to offer insurance cover for groups and individuals who consider that their business model may be better served this way. We've developed choices for how members can manage their interactions with us, while all the time maintaining both our expertise and excellent customer service. And we're developing an array of enhanced communication channels, introducing innovative and intelligent digital content our members can choose to consume at a time that suits them.

As we are all well aware, we live in a rapidly changing world. So let me assure you that MDDUS remains resolute in our commitment to our core business – supporting, advising and defending you, our members. Our mission statement – *To protect and support individual practitioners and organisations that provide clinical care through a range of advisory, legal, financial, managerial, educational and related services* – defines the scale and breadth of our ambition. This statement is the centrepiece of a new business strategy, underpinned by a range of specific goals and objectives, focussed on further growing our footprint in the market, consolidating and enhancing our reputation for quality and agility, and further improving our internal processes.

“ We live in a rapidly changing world, but MDDUS remains resolute in our commitment to our core business – supporting, advising and defending you, our members.”

This is the first annual report we have issued for a while where commentary on government policy has properly taken second place in my report – and that is how it should be. Government and the MDOs have been partners in responding to COVID-19 and we look to this continuing, replacing the adversarial relations we've endured in recent years. In that light, it gives me substantial pride that MDDUS was able to close out the year with our working interactions with governments across the four jurisdictions of the United Kingdom in a constructive but, where necessary, candid position.

State-backed indemnity for GPs

The Clinical Negligence Scheme for General Practice (CNSGP), the state-backed indemnity scheme for GPs in England, came into place on 1 April 2019, and by September 2019 MDDUS had agreed in principle the terms of a transaction with the Department of Health and Social Care (DHSC) whereby DHSC would assume responsibility for the historical clinical negligence liabilities of MDDUS's English GP members relating to incidents that occurred prior to 1 April 2019. This transaction was completed on 6 April 2020 following sanction by the court of a scheme of arrangement relating to the transaction and the introduction by the Government of the Existing Liabilities Scheme for General Practice (ELSGP). The successful transaction was in large part due to Emma Parfitt, our Director of Advisory and Legal Services; Dawn Reid, our Group Director of Governance; and a cross-business team including Membership and Marketing, which steered us through the complex, but necessary, court process that was required to finalise the legal assumption by DHSC of the historical liabilities. When we asked our members to vote on the scheme, we ultimately gained approval from 83 per cent of English GPs and 96 per cent of the rest of our membership who voted. Throughout this process we were expertly guided and supported by Philip Goodstone, head of law in the UK at Ernst & Young LLP, and his team.

We were also pleased, following open and constructive scrutiny from members of the National Assembly for Wales' Health, Social Care and Sport Committee, to agree a similar transaction with the Welsh Ministers in early 2020,

whereby they agreed to assume responsibility for the historical clinical negligence liabilities of MDDUS's Welsh GP members in relation to incidents that occurred prior to 1 April 2019. The General Medical Practice Indemnity (GMPI) had previously come into place for Welsh GPs to provide access to discretionary indemnity for those GPs for clinical negligence liabilities arising as a result of incidents that occurred on or after 1 April 2019.

This is a good result for our members. It was an area where our Board carefully considered its obligations under Section 172 of the Companies Act when making its decision to adopt a positive negotiating position on the state-backed indemnity schemes (SBISs). The section within the Act states that: "A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole", and you can read more about how we met our obligations under Section 172 in our Directors' report.

We negotiated to ensure that the CNSGP and GMPI avoided operating within a patchwork setting. NHS Resolution has now taken responsibility for managing both the current and historical liabilities of our GP members in England, and the Welsh Government will manage both for our GP members in Wales, once that transaction completes, which it is anticipated will be at the end of June 2020.

We nevertheless continue to consider that these state-run solutions lack the innovative edge a marketplace encourages, with the challenge of having to balance protecting the state's financial interest and the professional status and reputation of doctors. We will therefore continue to urge the Scottish and Northern Ireland governments to avoid a similar headlong rush to action without consultation or proper evaluation of alternative ways to reduce financial pressure on doctors.

Paterson inquiry and patient safety

In the wake of the landmark report by the independent inquiry into the issues raised by the actions of the now-jailed surgeon, Ian Paterson, our concern is the potential of the UK Government to impose expensive financial services regulation upon the provision to healthcare professionals of access to clinical indemnity against claims. We will continue to make a strong argument that choice for healthcare professionals and protection for patients are complementary, not opposite, goals.

If the Government prescribes a regulatory solution, we must be clear – the cost of indemnity will increase, with only the Treasury standing to benefit from the added 12 per cent Insurance Premium Tax. This is somewhat ironic, as SBISs were introduced precisely because of concerns

about the rising cost of indemnity for GPs. We share these cost concerns and will continue to request that the UK Government considers another option and addresses tort reform. We have had a much more positive and direct engagement on matters of member interest with the Scottish Government and its officials.

“ *We will continue to make a strong argument that choice for healthcare professionals and protection for patients are complementary, not opposite, goals.*”

We were pleased to contribute to the debate on patient safety, in particular to influence the Westminster parliamentary process (temporarily stalled due to COVID-19) to introduce a new Health Service Safety Investigations Body. At its heart, the Bill aims to deliver a safe space that will "encourage patients, families, NHS staff and other participants to contribute to safety investigations fully and candidly, for the purposes of learning when things go wrong". MDDUS welcomed the concept and engaged with parliamentarians across the political spectrum in an effort to ensure that doctors did not face any unintended jeopardy in its future creation.

New products

Amidst this rattle and hum of political and public policy debate, MDDUS kept sure and steady focus on how we could evolve as market demands changed throughout 2019. Of primary concern to us was to develop products through which we could further enhance our aims of being responsive, quick and flexible, whilst providing excellent value.

State-backed indemnity is not a comprehensive package, and does not replicate the full-service approach of an MDO. That is why in 2019 we launched our General Practice Protection (GPP) membership for GPs working within the NHS in England and Wales. The essential benefits included in GPP proved extremely attractive and we have been pleased to not only maintain our GP membership in England and Wales following the introduction of the SBISs, but also see it grow.

Our key message to our GP members is that the SBISs are not comprehensive. Only an MDO can provide the peace of mind of 24/7 support and advice, as well as expert representation.

We also launched the Primary Care Team Professional Advice Protection product, providing non-GP general

practice staff with access to advice and support with complaints in respect of clinical practice indemnified by the SBISs. It also provides regulated non-GP members of the team with access to indemnity for a defined range of non-NHS work, including report writing, private sick notes and medicals for pre-employment checks.

In addition, we developed the Primary Care Team Regulatory Protection product, which provides access to assistance with regulatory matters for members of the team who are regulated by the Nursing & Midwifery Council, Pharmaceutical Council and the Health and Care Professions Council. Together these products significantly bolster the wider service catalogue that members can draw upon outside of our core indemnity offer.

The Dental Advisory Team, although not involved with the introduction of new products, maintained its excellent service delivered to a growing number of members. This was despite the launch, in May 2019, of the BDA indemnity product, backed by a commercial insurer that is now facing criticism for its performance during the pandemic.

Milestone in growth

Our focus on member value and benefit has paid dividends. We hit a significant milestone in November when we registered our 50,000th member. To mark this milestone in the development of MDDUS, we waived Dr Chris Williams' fees for his first year and were delighted to donate the same amount to a charity of his choice. Dr Williams, an interventional radiologist at the Royal Glamorgan Hospital, chose The Rainbow of Hope, a small outreach charity based in Cardiff offering services to homeless and disadvantaged people, including asylum seekers and refugees.

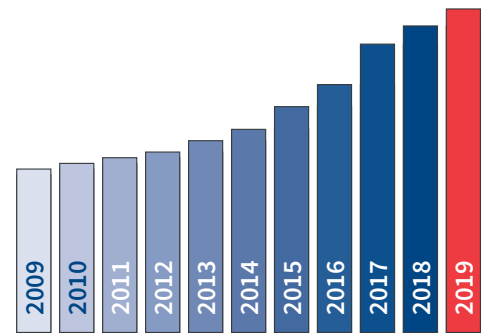
“ We hit a significant milestone in November when we registered our 50,000th member. ”

In 2019, our total active membership grew to 53,551, representing an 8.7 per cent increase on the previous year, with more than 70 per cent of our members now practising outside of Scotland. Hospital doctor membership figures rose by 10.4 per cent in 2019, while dental membership grew by 8.4 per cent. Overall GP membership growth rose by 4.2 per cent, with those practising outside Scotland rising by 5.4 per cent. I am delighted to report that during the period from 2016 to 2019, the membership of MDDUS has increased by 43.7 per cent.

Our Membership Services team, led by Stephen Kelly, answered 54,085 calls in 2019, a 2.2 per cent increase on 2018. The same team dealt with 23,266 emails, replying to 84.5 per cent within five days.

Total active membership

increased by
8.7 per cent
to **53,551** in 2019



MDDUS brand awareness excelled during 2019 as our advisers delivered an unprecedented number of presentations, lectures and journal articles, ably supported by other colleagues from within the company. Geographic distribution posed no bounds as advisers visited, among other locations, Inverness, Edinburgh, Newcastle, Leeds, Cardiff, Bristol and London, as well as several towns in Northern Ireland as part of a nine-month programme.

Supporting members and staff

As you will see from this year's report, we continue to support our membership in both our claims and regulatory work, rebutting often mistaken and sometimes malicious allegations faced by our members. There was also widespread recognition across the spectrum of healthcare of the impact of high levels of stress experienced by those working in the profession. This includes the sometimes devastating toll of a claim of negligence, criminal allegations and the prospect of a regulatory tribunal. We have continued to lobby regulators hard on these issues and welcome the greater recognition which they are showing.

Our medical and dental divisions, led by Dr John Holden and Mr Aubrey Craig, jointly welcomed these timely interventions in the evolving discussion of factors

which impact on the mental health and wellbeing of our members. We fully embrace concerns about excessive workloads, as well as the potential knock-on effect these may have on patient safety. Our advisers are constantly alert to the personal as well as professional needs of the members who approach us, and we have referral arrangements in place with a number of specialist agencies to offer help where needed. I pay particular tribute to Aubrey as he stands down after 11 years of service as Head of Dental Division but, I'm delighted to say, remains with us as Senior Dental Adviser.

As you will know if you were a reader of our previous annual reports, we are transforming the way we work, with digitisation of our member services an important driver of this change. As a responsible employer, we recognise it is important to manage change well. That's why we have also focussed on MDDUS staff engagement, led by our recently appointed Director of People and Corporate Services, Kim Johnstone. Kim will be taking forward a wide-ranging programme of staff development, striving to build a new, positive ethos around our refreshed company values.

Since I took up my role as Chief Executive in 2015, I've felt very strongly that MDDUS is like a family. For those of you who know us well, it won't come as the surprise it did to me at first to meet staff who have worked for MDDUS for a number of decades – some for their whole career. That sense of family suffered a shock in 2019, when our valued colleague and much-loved friend Scott Obrzud died in September after a prolonged illness.

As a company, we raise money every year for charities with "dress down days" and other ventures. In 2019 our staff raised £9,363 and donated to several local charities. The company also contributed £2,500 to the funds raised by Scott's family for the hospice that cared for him last year.

Marketing and external engagement

Our marketing team played a pivotal role this year and continued their excellent work attending a number of large health sector conferences, including the Royal College of General Practitioners annual conference in Liverpool, the British Dental Conference and Dentistry Show in Birmingham and our own MDDUS Practice Managers' Conference held in St Andrews, giving us the opportunity to meet and connect with existing and potential new members. We continued our proud sponsorship of the BMJ Awards, often referred to as the NHS Oscars, although this year the event was cancelled in common to other major gatherings due to COVID-19.

The digital marketing team, led by Maria Charlesworth, introduced a full self-service portal for all member groups, including corporate clients. This means that users can manage many aspects of their membership, including updating personal details, amending subscriptions, making card payments, viewing subscription instalments, and downloading certificates and invoices.

Our commitment to engaging openly and constructively with our stakeholders continued via a year-long strategy that saw us raise our members' concerns with officials, advisers and elected representatives at Westminster and across the UK's devolved parliaments and assemblies. Our relationship with the Association of Financial Mutuals, on whose Board I'm privileged to sit, blossomed, and we played an active role in the authoring of a manifesto for the General Election in December that called on all political parties to recognise the social and financial good delivered to the UK economy by the mutual sector.

And we stepped up our use of active digital content on our social media platforms and developed new and high-value stakeholder partnerships, including with mental health charities and with our co-sponsors of the well-loved *Tools of the Trade* poetry anthology for new doctors. I fully expect to see this innovation and collaboration develop in 2020 so we can continue to spread the MDDUS story and ensure our members' voices are heard in political debate across the year.

In conclusion

We know there is a year of change and challenge in front of us, as we develop and grow our offer to members and work with them when we can in the national recovery from the COVID-19 pandemic. In 2019 we put the foundations in place to enable transformative business change. This included radically and innovatively transforming the way MDDUS is structured and operates. I am confident this preparation gives us a strong base to build upon, and we will consolidate upon the good work achieved in 2019, liaising closely with members, regulators and governments. I am lucky to be supported by an excellent team at MDDUS, and have confidence that, thanks to their expertise and commitment, we are ready for the challenges which lie ahead.

As I sign off, I cannot avoid acknowledging we are working in unprecedented and testing times. Our members are at the frontline of the national emergency effort to manage the COVID-19 pandemic. I can promise that MDDUS will not be found wanting and will lead from the front wherever possible in responding to members' needs with choice, quality and excellence at the heart of everything we do.

In-house advisory and legal services report

MDDUS in-house advisory and legal services offers our members access to expert medico- and dental-legal support 24/7, as well as professional advice and legal assistance for an array of non-claims issues. Led by Emma Parfitt, Director of Advisory and Legal Services, the team is comprised of doctors, dentists, lawyers, employment law advisers and former practice managers, who deal with a wide range of issues. Cases dealt with by the team can often be complex and challenging, with varying degrees of severity. Our multi-disciplinary and integrated approach, backed by expert external advisers where necessary, offers rapid, comprehensive and reassuring support in a way which no commercial insurer can hope to aspire.

“Our multi-disciplinary and integrated approach offers rapid, comprehensive and reassuring support in a way which no commercial insurer can hope to aspire.”

The following descriptions show the range of the team's work, but do no more than scratch the surface in terms of the intricacy of many of the issues and problems resolved for our members in 2019.

Front-line troubleshooting. The medical advisory team answered 12,528 calls and responded to 2,924 emails and letters in 2019. Equivalent figures for the dental advisory team were 4,648 and 876, respectively. In total, this represented an 11.1 per cent increase in advice calls, with email rates remaining static.

Ongoing support and advice. A total of 1,756 dental case files and 4,808 medical case files were opened in 2019, and these involved a variety of issues, including complaints, claims, disciplinary and regulatory matters, coroner's inquests and fatal accident inquiries, and criminal allegations

Claims. In 2019, there was a 6.2 per cent year-on-year increase in the number of dental claims, but a reduction of 9.8 per cent in medical cases, as NHS Resolution took over responsibility for claims against English GPs and the Welsh Government became responsible for those liabilities within the principality. Where claims were pursued, the combined dental and medical cases in 2019 saw 70 per cent closed without any settlement. Where payments were made, in the overwhelming majority of cases the amounts paid in damages were significantly below the sums originally claimed.

Regulatory matters. Our market research shows that regulatory complaints are more concerning and threatening to our members than just about any other legal risk. We work closely with regulators to help improve the speed and efficiency of their processes and to narrow down to issues of genuine concern, and make investigations and hearings as stress-free as possible for all parties. In total, the team saw an increase of 31 per cent in the number of ongoing and new GMC matters in 2019, while General Dental Council cases fell by 21 per cent in year. In total, 95 per cent of all our regulatory cases were concluded at case examiner stage or earlier.

Discipline and employment law. Our services are increasingly being used additionally or instead of trade union services when our members face disciplinary action from their employers or central NHS bodies. We also help our members as employers: MDDUS specialist employment law advisers dealt with 1,375 calls and opened 574 new cases in 2019.

Education. Our specialist medical, dental, legal and employment law advisers are key contributors to our range of internal publications and risk education work. They also undertake a range of teaching and lecturing in universities and to groups of members.

Stakeholder work. Many members of the team also liaise on behalf of our members with a wide range of key stakeholders, especially the British Medical Association, the British Dental Association and the regulatory authorities. Their expert input is vital to the work of the press and public affairs team in ensuring that our contributions to policy debate are grounded in the actual experience of our members and identify pragmatic improvements to be made to proposals, as well as the necessity for fundamental change in thinking where this is justified.

Risk management and education report

The MDDUS risk team continues to analyse emerging trends in medico- and dento-legal risk arising from our case experience, and in 2019 used this information to support the development of both online and in-person training for our members.

Additionally, the team worked to adapt the service it provides in order to respond to time pressures experienced by medical and dental professionals. In 2019, this included the launch of an online request form, which allows members unable to travel to our Glasgow or London offices to request that training be brought to them. This has seen the team delivering training in all corners of the country, including Aberdeen, Edinburgh, Gateshead, Shrewsbury, Yeovil and Watford, as well as to partner organisations including the Royal College of General Practitioners.

Some other highlights from the team in 2019 include:

- Launch of a new five-day accredited *Leading through uncertainty* programme for dentists, which mirrors the programme run for doctors over the last 10 years.
- Launch of new courses, including individual courses focused on professionalism for both doctors and dentists, and improving the safety of practice systems and the underlying cultures which support them.
- New online advice area launched within the Advice & Support pages of the MDDUS website.
- MDDUS Practice Managers' Conference held in St Andrews in November 2019 and attended by 200 delegates. The conference was rated highly as an opportunity to meet with other practice managers and to engage in a series of practical, risk-focused masterclasses. Delegate feedback found that 96 per cent rated the conference as being 'very or highly useful'.

- Scripting of a seventh episode of our popular educational risk series *Bleak Practice*, which is about to be filmed. The sixth episode bridged the gap between primary and secondary care, and doctors and other healthcare staff have been accessing the digital video and obtaining CPD credits throughout 2019. This is a highly-valued resource, with 98 per cent of users stating they would recommend it to colleagues.
- Webinar programme – we have increased the output of sessions both live and on-demand to meet the specific challenges thrown up by COVID-19, and will continue to do so.

“The risk team continues to analyse emerging trends arising from our case experience and use this information to support the development of both online and in-person training for our members.”



Finance Director's report



James Parker
Finance Director
26 June 2020

At MDDUS our members can be confident that we will be there to help them when they need us. The nature of medical indemnity claims means that MDDUS may be called upon many years in the future and that means we must manage our finances carefully to ensure we are able to provide support in the long term. With a history dating back to 1902, we have done this successfully over many years, but each new year brings new challenges for us to face and, as the Chair's report and Strategic report set out, 2019 was no exception. I'm therefore pleased to report that we ended the year in a strong financial position and well placed to take the challenges 2020 might throw at us in our stride.

Financial performance

Headline financial results often tell only part of the story and 2019 is an excellent example of that. Whilst our consolidated statement of income and retained earnings shows a deficit of £116.5m (2018: £7.2m surplus), this is primarily the result of £116.6m in "other settlement costs" relating to the transaction we entered into during 2019 with the Department of Health and Social Care (DHSC), whereby DHSC assumed responsibility for the historical clinical negligence liabilities of our English GP members. On 20 September 2019 MDDUS entered into legal agreements ("Agreements") with the DHSC, under which DHSC agreed, with effect from 4 October 2019, to provide access, through the establishment of a new state-backed existing liabilities scheme (ELS), to discretionary indemnity to current and former MDDUS members for certain liabilities arising from clinical negligence relating to incidents that occurred prior to 1 April 2019 while they were members of MDDUS, in the provision of NHS services in England as part of general practice. As required under the Agreements, MDDUS made a payment to DHSC in consideration for the assumption by DHSC of its responsibilities under the ELS. The consideration was, in the directors' opinion, fair. The transaction is described further in Note 7.

Although this transaction resulted in a large cost in 2019, and hence a deficit in the year, it also reduced our potential liability for claims that will be reported at a later date for incidents arising during periods of membership before 1 April 2019, the so-called incurred but not reported (IBNR) liabilities. It is only because IBNR is not included on our balance sheet that this "other settlement cost" was recognised in the current year. However, as a result of the ELS transaction, the future potential costs will no longer fall to MDDUS over the years ahead but will be settled by DHSC instead. Overall, contrary to the first impression, this transaction strengthened our financial position as I set out

later in this report. A similar deal was concluded in 2020 in respect of historical liabilities of our members who were GPs in Wales prior to 1 April 2019, and this will be reflected in the 2020 financial statements.

Subscriptions

Members' subscriptions fell by 33 per cent to £89.6m (2018: £133.6m) as a result of lower premiums following the removal of claims indemnity cover for GPs in England and Wales as part of the introduction of state-backed indemnity schemes (SBISs) in each of those jurisdictions on 1 April 2019 in relation to clinical negligence liabilities arising from incidents that occurred on or after that date. However, membership numbers continued to grow, surpassing 50,000 for the first time. This included growth in membership amongst GPs in England and Wales, who continued to appreciate the benefits that MDDUS can bring beyond the cover available from the SBISs. This strong growth meant our revenue exceeded our expectations and mitigated the financial impact of the SBISs.

Claims cost

Claims costs increased by 38 per cent to £120.3m (2018: £87.1m). Much of this relates to adjustments made to the expected cost of open claims at the year end based on latest projections. Actual claims paid in the year rose from £34.8m in 2018 to £38.9m in 2019.

Financial position

Total net assets of MDDUS reduced by 21 per cent to £438m (2018: £554.5m). Again, this change was driven by the payment to DHSC as consideration for DHSC assuming responsibility for the historical liabilities of our English GP members.

Investments

As medical indemnity claims can occur and settle many years after a subscription is paid, MDDUS holds significant amounts of money that we must invest appropriately to ensure both financial security and an appropriate return to help cover costs and to protect against the long-term ravages of inflation. MDDUS takes a balanced approach to managing risk and return on the portfolio, investing sufficient funds in lower-risk assets to cover our projected liabilities and IBNR whilst investing the remaining assets in higher-returning sectors such as equities and property. As a long-term investor, MDDUS accepts that there will be both good and bad years. I am pleased to report that 2019 was a good year, with £63.9m in investment gains (both realised and unrealised) and investment income. Whilst 2020 is currently very much expected to be a bad year in terms of investment performance, our financial position

remains secure and we are confident we can weather whatever markets may throw at us. I am also pleased to report that in early 2020 we sold our Bracton House property at a favourable price of £22m.

“ *I am pleased to report that 2019 was a good year, with £63.9m in investment gains (both realised and unrealised) and investment income.”*

Provision for liabilities and charges

In addition to claims and non-claims costs paid in the year, MDDUS provides for claims and non-claims costs in respect of matters that we are aware of but which have not yet been concluded. This provision was £339.9m at the end of 2019, up from £254.4m at the end of 2018. In addition there are IBNR claims and non-claims and our actuaries have estimated the value of these at the end of the year at £149.2m (2018: £333.9m). As part of the ELS transaction with DHSC, on 6 April 2020 DHSC legally assumed responsibility for handling the cases relating to the historical liabilities of our English GP members. This resulted in a significant reduction in the IBNR at no further cost to MDDUS. We believe that it would be wholly wrong not to include our IBNR figure in our reporting, as current

and potential members cannot form any sensible view on the financial health of the organisation without it, which is why we voluntarily disclose it in Note 14 to the accounts. We have not treated the IBNR claims as formal liabilities as MDDUS has not yet exercised its discretion over these matters by the year end (as they have by their nature not been reported), so they are not considered to be a liability. However, we will continue to keep their accounting treatment under review.

Summary

In summary, 2019 was a good year for MDDUS and we emerged financially stronger and ready for the opportunities that 2020 and beyond might offer.



Directors' report

Overview

Companies listed on the main market of the London Stock Exchange are required to describe in their annual report and accounts how they 'apply and explain' the 'good practice' provisions and principles in the Financial Reporting Council's (FRC) The UK Corporate Governance Code (July 2018).

MDDUS is not a listed company; however, the Board is committed to a high standard of corporate governance. As a member of the Association of Financial Mutuals (AFM), MDDUS must apply and report against the principles of the new AFM Corporate Governance Code (January 2019) ('the Code') – namely, purpose and leadership, Board composition, director responsibilities, opportunity and risk, remuneration, and stakeholder relationships and engagements. In doing so, the Board has regard to: the guidance provided in the Code; our business model, management and mutual ownership status; and the overriding statutory and fiduciary duties of a director.

This Directors' report will consider each of these principles in turn (albeit there is some crossover), before turning to other matters relevant to the corporate governance of MDDUS. Accordingly, the Board is satisfied 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.

Principle one – Purpose and leadership

An effective Board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.

Mission statement and values

As evidenced in this Annual Report, MDDUS delivers indemnity and a professional, high-quality advice and support service to healthcare professionals throughout the UK. We manage our members' money soundly. Our members trust us to put their interests first, knowing that we will always be there when they need us.

This is demonstrated in our external brand values:

- Members come first – they are the focus of all we do
- Experts in our field – over 115 years' experience of assisting healthcare professionals
- Peace of mind – advice and support always available for the time in membership
- Responsive and prompt – flexibility to deliver an efficient and personalised service whenever necessary
- Flexible support – giving members advice about how they meet their regulatory obligations
- Cost effective – competitive subscription rates without compromising on quality

Internal colleague values and behaviours have been agreed and will be used to evaluate performance in personal development reviews.

Fair treatment statement

MDDUS treats all members fairly, delivering a high quality service that meets their reasonable expectations throughout their relationship with us and beyond. We treat all complaints fairly, reasonably and promptly. A new complaints process was implemented in August 2019 and the Board receives an annual report about our focus on resolving and reducing complaints.

Strategy

In light of the recent external operating environment for medical defence organisations, in particular the state-backed indemnity schemes for GPs in England and Wales, it was agreed in December 2018 to extend the MDDUS strategic plan for 2016-18 into 2019. The Board met for an externally facilitated strategic event in March 2019 and, reflecting subsequent work, a strategic statement for 2020-23 was agreed in February 2020. The Board will use this and the agreed annual business plan to monitor our performance during 2020 and refine plans for 2021 and beyond.

Principle two – Board composition

Effective Board composition requires an effective Chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.

The membership of the MDDUS Board in 2019 and 2020 is set out later in this report (p. 41). Current biographies are available on our website. Prior to the Annual General Meeting (AGM) in September 2019, the Board consisted of 14 directors, comprising 12 non-executive directors and two executive directors: the Chief Executive and the Finance Director. After the AGM, the number of executive directors increased following the adoption of new Articles of Association ('the Articles') and the appointment of the Director of Advisory and Legal Services and a Special Executive Director (who will stand down on 30 June 2020). The new Articles remove the maximum limit on the number of non-clinical 'external' non-executive directors, which will allow us to build on the Board's current experience from the fields of medicine, dentistry, business development, financial services and law.

At the year end, eight of the 12 non-executive directors were 'independent', having served nine years or less since their first appointment to the Board. The terms of office for those members not considered to be independent will expire not later than 2021.

All non-executive directors who are clinical members of MDDUS must pay the appropriate membership subscription. The Board agreed in April 2018 that directors may not act as expert witnesses in claims involving members of MDDUS.

Any voting member of MDDUS can stand for appointment to the Board. In accordance with the new Articles, non-executive directors can generally serve not more than three terms of up to three years in office, subject to the succession planning needs of the Board. There were no new non-executive appointments to the Board in 2019. However, the re-appointment of four directors for varied terms was agreed by the membership at the AGM. There is an agreement to reduce the size of the Board following the finalisation of our new strategic statement.

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, the executive and a 'mentor' from the Board (generally the Senior Independent Director). 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 2019 about the statutory duties of a director, financial regulation and investment risk. The contracts for service (and committees' terms of reference) also authorise non-executive directors to instruct independent professional advice that is 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 role of Chair is separate to that of Chief Executive and the profile for the former distinguishes clearly between leading the Board and the executive responsibility for running the business. The Chair was appointed as a non-executive director in 2007 and as Chair in 2018. The Board acknowledges that he was not 'independent' on appointment as Chair, but considers this departure to be justified by the external operating environment, in particular the need to manage the consequences for the membership of the introduction of the state-backed indemnity schemes for GPs in England and Wales. The Vice-Chair and the Senior Independent Director were independent on appointment in 2018. The Chair, Vice-Chair, Senior Independent Director and executive directors had and have no external commitments that might detract from their ability to discharge the duties of these roles.

Principle three – Director responsibilities

The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

The Board

The corporate governance arrangements of MDDUS were reviewed and updated extensively following the appointment of the Deputy Company Secretary, leading to the publication in 2016 of a schedule of matters reserved to the Board, committee terms of reference and role profiles in the MDDUS Governance Handbook. This is reviewed against 'good practice' annually by the executive, any committee concerned and the Governance and Nominations Committee, before being updated, as required, by the Board. The Handbook is available on our website.

The Board also has a forward business programme, which helps to shape the agenda for each meeting, following consultation with the Chair, the Chief Executive / Secretary and the Deputy Company Secretary. A typical meeting will consider emerging strategic and policy matters, in particular during 2019 the business consequences of changing government policy in each of the jurisdictions in which we operate, 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 or verbal updates from meetings of its committees and subsidiary boards. The substantive papers presented to the Board are considered in draft by an initial Pre-Board Group of the senior executive. A review of Board and executive management information commenced in 2019.

In light of the current external operating environment, there were 10 meetings of the Board in 2019, with an average attendance rate of 88 per cent. The attendance rates of individual directors are detailed in Table 1.

Table 1 Directors who served in 2019

Director	Board meetings attended*
Angiolini, E	9 (10)
Bayley, J	9 (10)
Berry, J P**	10 (10)
Black, J	9 (10)
Cameron, I	9 (10)
Donald, R M	8 (10)
Glen, M	9 (10)
Kenny, C	10 (10)
Leitch, J	9 (10)
McDonald, P	8 (10)
McPhail, M	10 (10)
Parfitt, E	4 (4)
Parker, J	1 (1)
Semple, L	9 (10)
Slevin, C J	5 (10)
Wilson, N	8 (10)

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

** Chair

Board committees and groups

There are four 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 and Pricing Group and the Membership Renewal Review Group. The membership of these committees is set out later in this report (p. 41). 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 governance of our Board committees and groups is being reviewed in 2020.

A report about the work of the **Audit and Risk Committee** is provided later in this report (p. 20). There were three meetings of the Committee in 2019 with an average attendance rate of 89 per cent. The attendance rates of individual directors are detailed in Table 2.

Table 2 Director attendance at Audit and Risk Committee meetings in 2019

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

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

** 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 an MDDUS Board membership of at least 50 per cent female non-executive directors, subject to the succession planning needs of the Board (2018 and 2019: 42 per cent). There is a 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 an external facilitator in 2019) and individual non-executive directors (2020). Action plans from these meetings were agreed by the Board and their implementation was monitored by the Committee. There were two

meetings of the Committee in 2019 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 2019

Director	Meetings attended*
Angiolini, E	2 (2)
Berry, J P**	2 (2)
Black, J	2 (2)
Leitch, J	2 (2)

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

** Chair

The **Investment Committee** is charged with, amongst other things, recommending to the Board the MDDUS Investment Strategy and overseeing the performance of the investment managers. The Investment Strategy and the Investment Risk Appetite were reviewed in 2019-20 and the implementation of a number of changes is well advanced. There were four meetings of the Committee in 2019 with an average attendance rate of 84 per cent. The attendance rates of individual directors are detailed in Table 4.

Table 4 Director attendance at Investment Committee meetings in 2019

Director	Meetings attended*
Bayley, J	4 (4)
Berry, J P	4 (4)
Black, J**	4 (4)
Donald, R M	3 (4)
Leitch, J	4 (4)
Parker, J	1 (1)
Slevin, C J	1 (4)

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

** Chair

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 of the senior executive, and being

consulted about our pay and reward practices. The Board Chair was a non-'independent' member of the Committee. There was one meeting of the Committee in 2019 with an average attendance rate of 100 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 (p. 18).

Table 5 Director attendance at Remuneration Committee meetings in 2019

Director	Meetings attended*
Angiolini, E**	1 (1)
Berry, J P	1 (1)
Cameron, I	1 (1)
McPhail, M	1 (1)

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

** Chair

The **Actuarial Reserving and Pricing Group** is charged with, amongst other things, reviewing and challenging the actuarial reserving and pricing processes, methodologies and assumptions used in setting the year-end actuarial reserves and pricing, 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-Chairs of the Board, the Audit and Risk Committee and the Investment Committees. There were two meetings of the Group in 2019.

The **Membership Renewal Review Group** is charged with, amongst other things, approving, refining and applying conditions of membership criteria, including potentially the removal of membership. The Board agreed in 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 2019.

Subsidiary companies

In addition to the Board and its committees, there is a board for each of the Group's four subsidiary companies.

The Board of MDDUS Insurance Limited oversees our commercial insurance company. It was incorporated in the Bailiwick of Guernsey in 1995

and is licensed by the Guernsey Financial Services Commission. A majority of directors are required to be resident on the island and two new directors, nominated by the Group Board after independent search, were appointed in February 2020, following the retirement of two resident directors in December 2019 and February 2020. The Group Finance Director replaced Dr John Garner as an MDDUS appointed Board member in May 2020. There were three meetings of the Board in 2019.

The Board of MDDUS Services Limited oversees our UK-based intermediary that places business with MDDUS Insurance Limited. The company was incorporated in December 2018 and was authorised by the Financial Conduct Authority on 17 February 2020. There were two meetings of the Board in 2019.

The Board of MDDUS Property Limited oversees the performance and management of the Group's investment property portfolio and includes an independent director with extensive experience in the commercial property sector. There were two meetings of the Board in 2019.

The Board of MDDUS Education Limited oversees the financial impact of a small number of revenue raising educational and training activities. The Board did not meet in 2019.

The financial statements of the subsidiary companies are incorporated in this Annual Report.

Principle four – Opportunity and risk

A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The Board carries 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 Board also identifies new opportunities for value creation and innovation by setting the business strategy, following a thorough assessment of the organisation and its strategic and operating environments. It is responsible for the effectiveness of the processes and systems used in assessing and managing risk, and the exercise of internal controls. Management is responsible for: the identification, assessment, management and monitoring of risk;

devising, operating and monitoring the system of internal controls; and the progression and management of the business strategy and plans.

The principal risks facing MDDUS are as follows:

Strategic risk

MDDUS has proactively responded to the introduction of the state-backed indemnity schemes for GPs in England and Wales. We have developed products to maintain and grow our market share in key GP markets, and to ensure that we continue to understand and meet our members' needs. We await further details from the UK Government about whether to proceed with proposals to regulate the discretionary indemnity insurance market in light of its consultation paper 'Appropriateness of clinical negligence cover' (November 2018) and the recommendations from the James Inquiry into Ian Paterson (February 2020). We have made clear the costs involved to our members if they do proceed and have urged them to consider the benefits of choice within a diverse market.

Demands within the market are also changing as professional roles and healthcare organisations evolve, and this presents both opportunities and risks. We have created MDDUS Services Ltd, an insurance intermediary authorised by the Financial Conduct Authority, through which we will be able to respond to any demand for an insurance product or to the imposition of insurance requirements by the UK Government. This development, and further planning for the evolution of our business model, products and strategy, ensures that we proactively manage our strategic risk profile and continue to meet the developing needs of our markets.

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 in two ways. First, by having suitable underwriting processes, rules and guidelines to assess and manage the level of risk posed by individual members and applicants. Second, by applying robust actuarial pricing and reserving methodologies, we 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. Accordingly, we review each year a small number of applicants, our members and clinical activities and decline to indemnify those individuals and activities that are deemed to be too high a risk to the membership and the mutual fund.

Operational risk

This is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. To further understand and manage our risk profile, we are in the process of deploying a comprehensive governance, risk and compliance software solution. This will improve and refine our risk and compliance assessment, monitoring and reporting, and enable a true enterprise-wide approach to the management of risk and our systems of internal control.

Our risk registers are maintained throughout the business cycle and include descriptions of key strategic and operational risks, an assessment of their likelihood and impact (both gross and net scores) and the management actions to control the risks. The registers were fully updated in 2019 and further enhancements made subsequently. Risk registers are reviewed biannually in detail by the Audit and Risk Committee and the Board.

The ongoing industry-recognised increased risk of malware and ransomware attacks means that information governance and security are areas of particular focus for MDDUS and the Audit and Risk Committee. Recent enhancements to our information security include working through the requirements of the Cyber Essentials Plus accreditation programme. This is an industry recognised, and externally verified standard, which demonstrates our commitment to cyber security.

The Audit and Risk Committee is responsible for 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 organisation, 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, we have in place an investment policy setting out our investment objectives and strategy and the management, reporting and monitoring of our investments. Our investment policy is to match our actuarial liabilities with suitable low-volatility assets and to invest the remaining assets to achieve a higher return in line with the Board's risk appetite. The Investment Committee receives regular updates from investment managers and a separate, independent, assessment of the performance of those managers.

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 is clear from this report, this was a significant risk for MDDUS during 2018 and into 2019. We continue to mitigate this risk by ensuring open and frank discussions to improve understanding about the sector with 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.

We recognise that the COVID-19 pandemic presents a separate and wholly unique risk, which raises issues under each of the headings described above. Prolonged disruption of dental and private medical services will impact adversely on the revenue of the Group. Market volatility has increased and may lead to a downturn, depressing investment returns and asset values in the medium term. Service levels may be threatened in a very prolonged period of non-office based working or if the overall financial health of the Group leads to disinvestment in member-facing areas. The Board considers that the risk controls and mitigations described above are appropriate for assessing the differing impacts of COVID-19, but are also assessing in each meeting the immediate and medium-term impact of the virus in order to be able to authorise corrective action in real time as necessary and to ensure the appropriate balance between meeting the immediate needs of our members and protecting the long-term viability of the Group.

Principle five – Remuneration

A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.

We reviewed basic pay at the annual meeting of the Performance Management and Remuneration Group, which sets the strategy and practice for the remuneration of colleagues (excluding those considered by the Remuneration Committee – see below).

In 2019, we conducted a full salary benchmark exercise on all roles across the organisation in conjunction with PwC. This exercise was carried out to ascertain our current market position in relation to our pay and reward practices. We then provided a salary settlement relative to a colleague's position against the benchmark data.

We also consulted and concluded the process of harmonising colleague benefits. This has allowed us to have a more consistent approach to holidays, pension, sick pay, probation periods and notice periods. We have also removed company cars and luncheon vouchers from the benefits provision. Voluntary benefits were launched in December 2019 to enable colleagues to buy or sell annual leave and to have the option to purchase critical illness cover, dental and health 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 Performance Management and Remuneration Group – the Chief Executive, the Finance Director, the Director of People and Corporate Services, the Director of Advisory and Legal Services, the Director of Development and the Group Director of Governance.

PwC also provided benchmark remuneration details for these roles by reviewing comparator groups of other financial services mutual organisations, as well as private and listed companies with comparable revenues to MDDUS. The Chief Executive (and, in his case, the Chair) provided a report about performance against objectives

for members of the Performance Management and Remuneration Group and utilised the benchmark data using the same approach as the rest of the organisation to provide remuneration recommendations. The executive directors do not participate in the Committee's discussions about their own pay.

The transactions and external operating environment that faced the company in 2019 were more challenging than we have seen in recent memory. Now that the external environment is in many ways less volatile, and in light of our updated governance arrangements, we will use the benchmark data from PwC to review in greater detail the non-executive director pay in 2020.

A review of our gender pay gap in November 2019 indicated a fall from 44.4 per cent in April 2017 to 25.7 per cent (including contractors). More work will be conducted on this area in 2020, and beyond, to address any concerns on our pay and diversity.

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

Principle six – Stakeholder relationships and engagements

Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

MDDUS stakeholders include our colleagues, suppliers, the community and our environment, and our mutual owners / members.

In 2019, we introduced the MDDUS People Strategy, which is designed to reinforce best practice at each stage of the colleague lifecycle in order for us to retain, recruit and develop our colleagues to meet their needs, and the needs of the organisation.

We committed to listening to and involving colleagues in the way we planned and delivered against the People Strategy objectives. This was achieved through formal and informal forums and workshops that enabled colleagues to share their ideas and concerns with senior management. As a result, we agreed budgets in 2019-20 to engage and

promote the wellbeing of colleagues, ranging from quiz nights to on-site yoga and fruit boxes.

We now have a self-service HR information system, PeopleHR, which holds all colleague data, including in relation to performance and development reviews (PDRs). PeopleHR is complemented by an online learning management system, which provides computer-based learning options. The HR Team will be reviewing the utilisation of PeopleHR to ensure we get the most from this management information.

As we progress into 2020, the People Strategy will be developed in response to feedback from colleagues. In particular, the PDR process has already been relaunched, with a focus on continuous feedback and development as well as clear goal-setting for all.

In addition, we are providing a greater focus on mental health and wellbeing, with a number of colleagues recently receiving mental health first aider training and all colleagues having access to mental health awareness sessions and support. Colleagues also support the wider community through charitable donations to Cancer Research UK and The Prince and Princess of Wales Hospice.

In relation to our suppliers, MDDUS is required to publish payment practices reports every six months. The first report is an annual confirmation that we have a code of conduct or standard on payment practices. The second report provides more detailed information about, amongst other things, the time taken to pay invoices, details of payment terms and our dispute resolution process. As noted below, we also publish annually a Board-agreed Modern Slavery Statement.

More generally, MDDUS engaged with our stakeholders through a blend of direct and general communications, both face-to-face and across online platforms. We consolidated relationships with political and government stakeholders, joined the health professionals public affairs network in Scotland and developed a more vibrant and impactful content strategy for social media. Our work across this area was designed to ensure our corporate messages were heard across the spectrum of our stakeholders and, where possible and appropriate, influence policy and process to the benefit of our members.

In relation to the community and the environment, we met our obligations in 2019 in relation to the Energy Savings Opportunity Scheme (ESOS). In 2020, we will use the recommendations from the ESOS audit to refresh our company energy policy and to inform the design and implementation of a new Energy and Environmental Management Plan. This will include a review of our current recycling arrangements and the consumption of single-use plastics.

Finally, a principal aim of this Annual Report is to demonstrate the delivery of our objects, mission statement and values to our mutual owners / members during 2019, having regard to our other stakeholders. This is subject to the overriding statutory duty of a director to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (section 172, Companies Act 2006).

However, the 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 external auditor, and to consider other resolutions (including, in 2019, the adoption of new Articles). The Notice of the AGM and related papers are published 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.

Modern Slavery Act

The Board agreed its first statement in response to the Modern Slavery Act 2015 in 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 2019 was agreed in June 2020 and is available on our website.

Viability statement 2019

The directors' view of the viability of MDDUS, both as the Group and as the Parent Company, is supported by its strong net assets position, its matching of notified liabilities, as well as potential incurred but not reported (IBNR) 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. Loss ratios are carefully monitored.

Against that background, 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 2022. 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 period. 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.

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.

The current and potential impact of COVID-19 was explicitly considered by the Board in coming to this conclusion and in making the preceding viability statement. The Board considered the potential impact of a range of scenarios and the effect on MDDUS's solvency and liquidity of lower revenue, investment losses and increased outgoings during 2020. The Board also considered the impact of

these scenarios on the financial position of MDDUS over the period to 2026 and the output of a reverse stress test to determine the conditions that would cause MDDUS to become insolvent. Note 1 to the accounts gives more detail of the scenarios and tests undertaken.

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

26 June 2020

Audit and Risk Committee report

The Audit and Risk Committee is charged with, amongst other things, assisting the Board to discharge its responsibilities in relation to 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.

The Committee's major responsibilities during the years 2019-20 were:

- reviewing the final financial statements for the years ending 31 December 2018 and 2019, 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 and 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 General Data Protection Regulation 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 2019

The lead partner from BDO LLP attended the Committee for all three meetings in 2019, and also had the opportunity to meet the Committee, in the absence of the executive, at each meeting.

The key accounting and audit risks were similar to those in previous years, but were expanded to include accounting for the existing liabilities schemes and the impact of COVID-19 on the going concern assessment. The Committee was satisfied that these risks had been carefully and adequately addressed. The independence of BDO LLP was fully discussed.

The Group financial statements for the year ending 31 December 2019 were recommended by the Committee to the Board meeting in June 2020. 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 2020.

Non-audit work carried out by BDO LLP was fully reported, discussed and agreed to be appropriately independent and proportionate. This work focused primarily 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 in May 2018 and, in light of the external operating environment, has agreed to defer this matter to the autumn of 2020.

Internal audit for the year ending 31 December 2019

Deloitte LLP provided 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.

On the basis of our customised annual evaluation process, the Committee agreed that Deloitte LLP provided the level of service we require and value for money for our membership.

Compliance for the year ending 31 December 2019

The Committee also agreed a programme of in-house assurance reviews of activities and processes. The Committee received regular reports, reviewed outcomes, discussed actions required with the executive directors and monitored the implementation of agreed actions.

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 new strategic and operational risk registers were fully discussed by the Committee biannually before being recommended to the Board. The Committee also recommended a new risk management policy, which adopted the 'three lines of defence' risk model framework. These were agreed at the Board meeting in December 2019.

Margaret McPhail
Chair, Audit and Risk Committee
19 June 2020



Independent auditor's report

Independent auditor's report to 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 2019 which comprise the Consolidated Statement of Income and Retained Earnings, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows, and the 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 2019 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the 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 going concern

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the 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 on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Martin Gill (Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
Glasgow UK
26 June 2020

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

FINANCIAL STATEMENTS FOR 2019

Consolidated statement of income and retained earnings

For the year ended 31 December 2019

	Notes	2019	2018
		£'000	£'000
Income			
Members' subscriptions and other income	1[c]	89,623	133,600
Expenditure			
Claims costs and associated legal costs		120,313	87,092
Advisory and non-claims legal costs		6,729	13,115
Other settlement costs	7	116,585	-
Administration costs		16,163	14,941
		259,790	115,148
(Deficit)/Surplus of income over expenditure	3	(170,167)	18,452
Realised gains on disposal of fixed assets		21,624	7,970
Changes in fair value of investments		32,331	(33,345)
Investment income	1[g]&6	9,946	10,544
Surplus on ordinary activities before taxation		(106,266)	3,621
Taxation	1[i]&8	10,271	(3,536)
Net and total comprehensive result available for transfer to reserves		(116,537)	7,157
Accumulated fund brought forward		554,520	547,363
Accumulated fund carried forward		437,983	554,520

All amounts relate to continuing operations.

Consolidated and company balance sheets

As at 31 December 2019

Company Number SC005093

	Notes	Group 2019	Group 2018	Company 2019	Company 2018
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9	77,782	74,417	1,681	1,916
Investments	11	506,817	714,495	563,468	759,933
		584,599	788,912	565,149	761,849
Current assets					
Debtors and payments in advance	12	209,973	50,464	206,984	47,410
Cash at bank, in hand and on deposit		32,903	41,450	24,698	38,403
		242,876	91,914	231,682	85,813
Creditors: amounts falling due within one year					
Sundry creditors and accrued charges	13	40,845	66,398	38,876	64,511
Corporation tax provision		3,857	3,946	3,585	3,657
		44,702	70,344	42,461	68,168
Net current assets		198,174	21,570	189,221	17,645
Total assets less current liabilities		782,773	810,482	754,370	779,494
Provision for liabilities and charges	14	344,790	255,962	344,520	256,384
Total net assets		437,983	554,520	409,850	523,110
Reserves					
Accumulated fund	16	437,983	554,520	409,850	523,110
		437,983	554,520	409,850	523,110

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 deficit for the year of the Parent Company, MDDUS, is £113.260m (2018: Surplus £3.883m). These financial statements were approved by the members of the Board on 26 June 2020.

Jonathan P Berry
Chair

Chris Kenny
Chief Executive and Secretary

Consolidated statement of cash flows

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Cash flow from operating activities		
(Deficit)/Surplus for the financial year	(116,537)	7,157
Adjustments for:		
Depreciation of fixed assets	325	281
Gain on sale of fixed assets	(21,624)	(7,970)
Net fair value (gains)/losses recognised in statement of income and retained earnings	(32,331)	33,345
Net interest receivable	(3,313)	(2,893)
Dividend income from fixed and current asset investments	(6,620)	(7,651)
Taxation	10,271	(3,536)
Increase in trade and other debtors	(159,509)	(3,976)
(Decrease)/Increase in creditors	(25,553)	5,203
Increase in provisions	85,500	57,900
Movement in tax debtor/creditor	(7,032)	(2,664)
Cash from operations	(276,423)	75,196
Cash flow from investing activities		
Proceeds from sale of tangible fixed assets	57	22,014
Purchases of tangible fixed assets	(209)	(5,080)
Purchases of investments	(284,101)	(220,909)
Cash movement in investment	6,349	(465)
Proceeds from sale of investments	535,847	130,947
Interest received	3,313	2,893
Dividends received on fixed and current asset investments	6,620	7,651
Movement on long-term deposits	-	-
Movement on cash equivalents	64,854	(39,689)
Net cash from investing activities	332,730	(102,638)
Cash flow from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	56,307	(27,442)
Cash and cash equivalents at the beginning of year	65,311	92,753
Cash and cash equivalents at end of year	121,618	65,311
Cash and cash equivalents at end of year comprise:		
Cash at bank, in hand and on deposit	32,903	41,450
Long-term deposits	-	-
Cash equivalents	88,715	23,861
	121,618	65,311

The notes on pages 27 to 40 form part of these financial statements.

Notes to the accounts

For the year ended 31 December 2019

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 2019. 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 deficit for the year included a deficit after tax of £113.260m (2018 Surplus £3.883m), which is dealt with in the financial statements of the Parent Company.

c) Members' subscriptions and other income

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

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

MDDUS Property Limited's turnover consists of rental income 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.

MDDUS Insurance Limited only had investment income in the year. MDDUS Services Limited had no income in the year.

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 2019. The provision is the discounted value of the expected future settlement and handling costs. The provision relates to all incidents notified at 31 December 2019.

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 2019 have been included.

h) Investments

Listed investments held at 31 December 2019 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 2019 (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% (2018: 19%). 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. The assets of pension schemes are held separately from those of the Company in independently administered funds.

k) 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.

The current and potential impact of COVID-19 was explicitly considered by the Board in coming to this assessment. The Board considered the potential impact of a range of scenarios and the effect on MDDUS's solvency and liquidity of lower revenue, investment losses and increased outgoings during 2020. The impact of revenue reductions expected during lockdown persisting for up to nine months from March 2020 was modelled alongside further investment losses matching those seen during the first quarter of 2020. Whilst there is no evidence of any material change in either claims paid or expenses incurred due to COVID-19, the impact of a doubling in outgoings was modelled alongside adverse revenue scenarios to ensure MDDUS remained solvent even under these conditions. The Board also considered the impact of the scenarios modelled on the financial position of MDDUS over the period to 2026 and the output of a reverse stress test to determine the conditions that would cause MDDUS to become insolvent.

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.

n) ELSGP accounting

As of 1 April 2019, MDDUS no longer collects subscriptions from English and Welsh NHS GPs for claims cover. Claims handling has remained the same with payments being made in the same manner. However, in the case of English GPs after 4 October 2019, these funds are repayable by the DHSC and an asset is recognised to show amounts still to be reimbursed and the full amount credited to the income and expenditure account.

The agreement with the Welsh Government was not signed until after the year end (see Note 24).

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

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

Determined 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 9)

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 judgment involved in that each property is unique and value can only be ultimately be reliably tested in the market itself.

Provision for liabilities and charges (see Note 14)

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. (Deficit)/Surplus of income over expenditure

	2019	2018
	£'000	£'000
This is stated after charging:		
Emoluments of directors (excluding benefits in kind)	1,576	1,245
Auditor's remuneration	126	81
Pension costs	1,197	1,547
Depreciation on owned assets	325	281
Auditor's remuneration consists of:		
Group auditor - audit	72	63
Group auditor - taxation advisory	54	14
Group auditor - other advice	-	4
	126	81
Company only auditor's remuneration	50	48

4. Emoluments of directors

	2019	2018
	£'000	£'000
The detail of directors' emoluments (including executive directors) was as follows:		
Emoluments (including benefits in kind)	1,596	1,438
Pension costs	-	-
	1,596	1,438
The detail of the highest paid director's emoluments was as follows:		
Emoluments (including benefits in kind)	532	510
Pension entitlement taken as salary	104	100
	636	610
	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 2019 (continued)

5. Employees' remuneration

	2019	2018
	£'000	£'000
Salaries (including non-executive directors)	11,406	10,571
Social security costs	1,332	1,229
Pension costs	1,197	1,547
	13,935	13,347
Average number of employees in the year	Number	Number
Non-executive directors and administrative	167	159
	167	159

The above represents the figures for Group and Company.

6. Investment income

	2019	2018
	£'000	£'000
Dividends		
Franked	5,692	6,096
Unfranked	928	1,555
Bank interest	3,326	2,893
	9,946	10,544

7. ELS transactions

On 20 September 2019, MDDUS entered into legal agreements (Agreements) with the Department of Health and Social Care (DHSC), under which DHSC agreed, with effect from 4 October 2019, to provide access, through the establishment of a new state-backed existing liabilities scheme (ELS), to discretionary indemnity to current and former MDDUS members for liabilities arising from clinical negligence relating to incidents that occurred prior to 1 April 2019 while they were members of MDDUS in the provision of NHS primary medical services (and, in some circumstances, other ancillary NHS services provided by general practice) in England as part of general practice. The liabilities falling within the scope of this transaction included both liabilities which had been reported to MDDUS and those which had been incurred but not yet reported (IBNR).

In accordance with the terms of the Agreements, MDDUS was reimbursed by DHSC for costs of administration and settlement of cases within the scope of the ELS for the period until the introduction of the ELS (which occurred on 6th April 2020). Following the introduction of the ELS the Agreements provide that MDDUS's obligations in respect of the relevant liabilities would cease, and DHSC would also take on responsibility for making arrangements for the handling and administration of claims arising in relation to those liabilities.

As required under the Agreements, MDDUS made a payment to DHSC in consideration for the assumption by DHSC of its responsibilities under the ELS. The consideration was, in the directors' opinion, fair. These accounts include the financial impact of the ELS transaction. In the balance sheet we have an asset equal to the estimated value of notified claims that fall within the scope of the ELS transaction with DHSC as at 31 December 2019. The balance of £118m relating to the IBNR part of the payment made to DHSC has been charged to the income and expenditure account as the company does not carry its IBNR on the balance sheet. This was further adjusted to provide an estimate for potential additional payments MDDUS may have been required to make under the Agreements once certain adjustments were made to the initial consideration price. Adjustment has also been made to provide for the cost of running off the claims being amortised. These adjustments are included within current liabilities on the balance sheet.

On 6 April 2020 regulations came into force establishing the ELS (now officially called the Existing Liabilities Scheme for General Practice: ELSGP) and and with effect from that date DHSC assumed legal responsibility for providing indemnity protection for the relevant MDDUS member liabilities. The liabilities that fell within the scope of the ELSGP, as well as the equal and opposite asset, have therefore been removed from the balance sheet from that date.

8. Taxation

	2019	2018
	£'000	£'000
Corporation tax		
Corporation tax expense for the year	6,996	6,184
Foreign tax	(53)	(17)
Total current tax charge	6,943	6,167
Deferred tax		
Timing differences, origination and reversal	3,328	(9,703)
Change in tax rate	-	-
Total deferred tax credit	3,328	(9,703)
Total tax charge/(credit) through statement of income and retained earnings	10,271	(3,536)

Factors affecting the tax charge/(credit)

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

	2019	2018
	£'000	£'000
(Deficit)/Surplus on ordinary activities before tax	(106,266)	3,621
(Deficit)/Surplus on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2018:19%):	(20,191)	688
Effects of:		
Deficit/(Surplus) of income over expenditure not taxed	33,018	(3,506)
Non-taxable franked investment income of group	(1,081)	(1,158)
Unfranked and interest income of Guernsey subsidiary not taxed	(86)	(66)
Chargeable losses not recognised in current year	1,763	3,328
Deferred tax movement in year	3,328	(9,703)
Foreign tax	(53)	(17)
(Gain)/loss on disposal of investments and assets	(6,143)	6,336
Other	(284)	562
Current tax charge/(credit) through statement of income and retained earnings	10,271	(3,536)

Notes to the accounts

For the year ended 31 December 2019 (continued)

9. 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 2019	7,018	66,806	1,195	473	75,492
Additions	88	-	121	-	209
Disposals	(4)	-	(1)	(473)	(478)
Revaluation	376	3,228	-	-	3,604
At 31 December 2019	7,478	70,034	1,315	-	78,827
Depreciation					
At 1 January 2019	26	-	816	233	1,075
Provided during year	150	-	175	-	325
On disposals	-	-	(1)	(233)	(234)
Revaluation	(121)	-	-	-	(121)
At 31 December 2019	55	-	990	-	1,045
Net book value					
At 31 December 2019	7,423	70,034	325	-	77,782
At 31 December 2018	6,992	66,806	379	240	74,417

9. 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 2019	1,324	-	1,194	473	2,991
Additions	88	-	121	-	209
Disposals	-	-	(1)	(473)	(474)
Revaluation	-	-	-	-	-
At 31 December 2019	1,412	-	1,314	-	2,726
Depreciation					
At 1 January 2019	26	-	816	233	1,075
Provided during year	29	-	175	-	204
On disposals	-	-	(1)	(233)	(234)
Revaluation	-	-	-	-	-
At 31 December 2019	55	-	990	-	1,045
Net book value					
At 31 December 2019	1,357	-	324	-	1,681
At 31 December 2018	1,298	-	378	240	1,916

Notes to the accounts

For the year ended 31 December 2019 (continued)

9. 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	7,816	68,597	472	-	76,885
Accumulated depreciation based on historical cost	1,924	-	1,411	-	3,335
Company	£'000	£'000	£'000	£'000	£'000
Carrying value based on historical cost	3,547	-	471	-	4,018
Accumulated depreciation based on historical cost	2,418	-	1,410	-	3,828

The investment properties Pemberton Row, Bracton House, Cannon Street and Red Lion Court were valued on 31 December 2019 by an external valuer, Daniel Watney LLP, which the directors believe to reflect their fair value at that date. The valuation was prepared in accordance with the requirements of the RICS Valuation - Global Standards effective 31 January 2020 incorporating the UK National Supplement effective 14 January 2019 and the IVSC International Valuation Standards (the 'Red Book') and UK Generally Accepted Accounting Principles (UKGAAP) and FRS 102. The property has been valued on the basis of Fair Value subject to occupational tenancies.

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

The 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 (2018: £Nil).

10. Operating leases

MDDUS Property Limited holds investment properties which are let to third parties. These non-cancellable leases have remaining terms of between 1 years and 19 years.

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

	2019	2018
	£'000	£'000
Not later than one year	3,540	3,533
After one year but not more than five years	12,604	13,116
After five years	5,265	7,897
	21,409	24,546

11. Investments

	Group 2019	Group 2018	Company 2019	Company 2018
Valuation	£'000	£'000	£'000	£'000
Market value at 1 January 2019	714,495	649,981	759,933	722,175
Additions	284,101	220,909	335,870	192,369
Disposals	(514,036)	(127,784)	(514,036)	(126,478)
Movement in cash	(6,349)	465	(6,646)	961
Changes in fair value of investments	28,606	(29,076)	(11,653)	(29,094)
Market value at 31 December 2019	506,817	714,495	563,468	759,933
Listed investments	418,102	690,634	381,381	569,349
Cash equivalents	88,715	23,861	75,152	45,397
Unlisted investments	-	-	106,935	145,187
	506,817	714,495	563,468	759,933
Historical cost	474,541	694,058	532,712	741,006

Unlisted Investments at 31 December 2019 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; the entire issued share capital of 115,000,000 ordinary £0.65 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; and the entire issued share capital of 2,000,001 ordinary £1 shares of MDDUS Services Limited, a service 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 2019 (continued)

11. Investments (continued)

Subsidiary share capital and reserves:

	MDDUS Service Limited	MDDUS Insurance Limited	MDDUS Property Limited	MDDUS Education Limited
	£'000	£'000	£'000	£'000
Called up share capital	2,000	30,000	74,750	1,700
Profit and loss account	(1)	18,196	8,219	(1,513)
Aggregate of share capital and reserves	1,999	48,196	82,969	187
(Loss)/profit for the year	(1)	(1,253)	6,145	3

12. Debtors and payments in advance

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Trade debtors	23,481	48,186	21,488	45,956
Other debtors	186,287	2,058	185,273	1,234
Payments in advance	204	219	204	220
Other taxes and social security costs	1	1	-	-
Amounts owed by subsidiary undertakings	-	-	19	-
	209,973	50,464	206,984	47,410

Included in other debtors of £186.3m is an amount of £184.4m which equals our estimate of notified claims on behalf of our English GP members in relation to the ELS transaction (see Note 7).

13. Sundry creditors and accrued charges due within one year

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Deferred income	33,164	63,308	32,205	62,341
Other taxes and social security costs	742	757	397	416
Sundry creditors and accruals	6,939	2,333	6,257	1,722
Amounts owed to subsidiary undertakings	-	-	17	32
	40,845	66,398	38,876	64,511

14. Provision for liabilities and charges

	Deferred taxation	Claims	Non- claims	Total
Group	£'000	£'000	£'000	£'000
At 1 January 2019	1,562	222,800	31,600	255,962
Charged to statement of income and retained earnings in year	3,328	120,313	6,729	130,370
Paid in year	-	(34,413)	(7,129)	(41,542)
At 31 December 2019	4,890	308,700	31,200	344,790
Company				
At 1 January 2019	1,984	222,800	31,600	256,384
Charged to statement of income and retained earnings in year	2,636	120,313	6,729	129,678
Paid in year	-	(34,413)	(7,129)	(41,542)
At 31 December 2019	4,620	308,700	31,200	344,520

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 2019.

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 2019 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. The actuaries have however estimated the value of these IBNR claims and non-claims to be £134.5m (2018: £319.8m) and £14.7m (2018: £14.1m), respectively.

The above liabilities include those secured by the ELSGP transaction (see Note 7), as MDDUS was still legally responsible for these as at 31 December 2019. On 6 April 2020 the legal assumption of these liabilities by DHSC took place, resulting in a significant proportion of the above liabilities being extinguished at no cost to MDDUS. IBNR presented above is exclusive of the ELSGP transaction.

15. Deferred taxation

Deferred taxation provided for at 17% (2018: 19%) in the financial statements is set out below:

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Timing differences on fixed asset investments	4,620	1,984	4,620	1,984
Timing differences on property	270	(422)	-	-
At 31 December 2019	4,890	1,562	4,620	1,984

Notes to the accounts

For the year ended 31 December 2019 (continued)

16. Reserves

	Group 2019	Group 2018	Company 2019	Company 2018
	£'000	£'000	£'000	£'000
Accumulated fund				
At 1 January 2019	554,520	547,363	523,110	519,227
Transferred from statement of income and retained earnings in the year	(116,537)	7,157	(113,260)	3,883
At 31 December 2019	437,983	554,520	409,850	523,110

17. Reconciliation of movement in funds

	2019	2018
	£'000	£'000
Total recognised (losses)/gains in the year	(116,537)	7,157
Opening funds available to meet future liabilities as previously stated	554,520	547,363
Closing funds available to meet future liabilities	437,983	554,520

18. 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	418,102	-	-	418,102
At 31 December 2019	418,102	-	-	418,102
Listed investments	690,634	-	-	690,634
At 31 December 2018	690,634	-	-	690,634

18. Investments fair value determination (continued)**Company**

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	381,381	-	-	381,381
At 31 December 2019	381,381	-	-	381,381
Listed investments	569,349	-	-	569,349
At 31 December 2018	569,349	-	-	569,349

19. Financial instruments

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

	Group 2019	Group 2018	Company 2019	Company 2018
Financial assets	£'000	£'000	£'000	£'000
Financial assets measured at fair value through surplus or deficit	506,817	714,495	456,533	614,746
Financial assets that are measured at amortised cost	242,671	91,694	231,459	85,593
Financial liabilities				
Financial liabilities measured at amortised cost	6,939	2,333	6,257	1,722

Financial assets measured at fair value through surplus or deficit comprises 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.

20. Other financial commitments**Company**

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

	2019	2018
	£'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	502	848
Total commitment	2,228	2,574

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

Notes to the accounts

For the year ended 31 December 2019 (continued)

21. Pension commitments

Group and Company

	2019	2018
	£'000	£'000
Charge through the statement of income and retained earnings in the year	1,197	1,547
Balance outstanding at the year end	-	371

22. Member's guarantee

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

23. 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.

24. Post balance sheet events

WELS: On 11 February 2020, MDDUS entered into agreements with the Minister for Health and Social Services, Welsh Government, under which the Welsh Government agreed, with effect from 17 February 2020, to provide access, through the establishment of a new Welsh state-backed existing liabilities scheme (WELS), to discretionary indemnity and claims handling and administration to current and former MDDUS members for liabilities arising from clinical negligence relating to incidents that occurred prior to 1 April 2019 while they were members of MDDUS in the provision of NHS primary medical services (and, in some circumstances, other ancillary NHS services provided by general practice) in Wales as part of general practice. The liabilities falling within the scope of this transaction included both liabilities which had been reported to MDDUS and those which had been incurred but not yet reported (IBNR).

Upon the introduction of the WELS, MDDUS's obligations in respect of these liabilities would cease and the Welsh Government would also take on responsibility for making arrangements for the handling and administration of claims arising in relation to those liabilities.

As required under the legal agreements, MDDUS made a payment to the Welsh Government in consideration for the assumption by DHSC of its responsibilities under the WELS. The consideration paid was, in the directors' opinion, fair. This consideration remains subject to adjustment in accordance with the terms of the legal agreements. This transaction constitutes a non-adjusting post balance sheet event.

Property sale: on 13 March 2020 the Group sold one of its properties, Bracton House, for £22m less associated sale costs.

COVID-19: The COVID-19 pandemic commenced in early 2020 and will undoubtedly have an impact on MDDUS, both operationally as well as financially. Refer to the Directors' report for more details.

25. Contingent liabilities

Under the transaction agreed with DHSC (see Note 7) there is an adverse experience clause contained in the Agreements which gives DHSC the right to seek an additional payment should the liabilities assumed by DHSC as part of the ELS be significantly worse than expected. The additional payment would only become due if the liabilities assumed are significantly greater than the estimate of liabilities as at 31 December 2019 and in any event are subject to a threshold and a cap. If the threshold is exceeded, MDDUS would be liable to make a payment equal to 50% of the deterioration above the threshold, up to the cap, subject to certain adjustments that would be made in accordance with the terms of the legal agreements. Based on the estimated value of liabilities as at 31 December 2019, the directors do not believe it likely that this additional payment will be required, and therefore no provision was made within the financial statements.

In 2019 HMRC raised an enquiry into MDDUS 2015 and 2017 tax returns. The enquiry is in its very early stages and a variety of possible outcomes are possible, including a refund due to MDDUS, no impact at all, or a payment due to HMRC. The impact cannot be quantified reliably and the likelihood of additional liability is not considered significant. On this basis no provision has been made within the financial statements.

MDDUS Board and honorary fellows

Chair

Jonathan P Berry^{2,3,4}
MB ChB MBA MA

Vice-Chair

**James Black^{2,3}
FFA

Senior Independent Director

Linsey C Semple¹
MB ChB FRCGP DRCOG

Chief Executive and Secretary

*Chris Kenny
MA FRSA

Other directors

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

**Joanna L Bayley²
MB ChB MA MRCEM MRCP

**Iain T Cameron^{1,4}
BSc MA MD FRCOG FRCP (Edin)

**Robert Donald²
BDS (Hons) DGDP (UK)

**Marian Glen¹
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LLB (Hons) French Diploma of Law
(Appointed 6 September 2019)

*James Parker
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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

MDDUS executive management

Chief Executive and Secretary

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MA FRSA

Finance Director

*James Parker
ACMA BSc

Director of Advisory and Legal Services

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Director of Development

David Sturgeon

Director of Governance

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Director of People and Corporate Services

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Head of Advisory Services (medical)

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Company Actuary

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FIA DPhil MSc

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

