MDDUS
Protecting professionals

Annual Report & Accounts

2021

2021

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Foreword from our Chair

Professor Iain Cameron

From the seismic shock of the Covid-19 pandemic, 2021 delivered us into a year that saw our health service begin the task of rebuilding and recovery.

There is no question it has been a challenging year. It has also been my first year as Chair of MDDUS, and I am proud to say that once again we have delivered strongly on our values and purpose to support our members to emerge from the pandemic and ready for what the future may hold.

We were established in 1902 to help doctors and dentists keep pace with the acceleration of advances in medicine and dentistry. Our purpose was then, and remains today, to support the professional interests of our members and assist them when they face challenges "made when they are least expected".

Our expert teams have been a source of resilience for our members. Throughout the year they offered doctors and dentists support as they responded and reacted to disruptions to established practice in healthcare while continuing to work in pandemic conditions.

This year we've assisted our members in areas including the digitisation of health delivery, and represented their interests nationally, as the governments of the UK introduced wide-ranging reforms to the way the NHS is organised, and regulators and courts tackled their own reform agendas.

I am immensely proud of the tireless dedication of our staff which has enabled us to play such a leading role in supporting our members during the pandemic. On behalf of our members, I thank all of our staff for their ongoing commitment.

Of course, the pandemic isn't the only driver of significant changes in health services and the ways in which services interface with patients, stakeholders and society. That's why, for MDDUS, standing still has not been – and never will be – an option.

As we strive to deliver even more for our members, we continue to invest in enhanced digital communication, individualised, bespoke support, and extending our products and services beyond indemnity. To realise our purpose as we go into our 120th year, we are also further enhancing our use of data and delivering ever more member-centric customer service.

The next stage of our development will be shaped by a strategy review, with which our executive team is being ably assisted by colleagues across the organisation. This will ensure that our people are fully involved as we transform to deliver a modern, superior service for healthcare professionals across the United Kingdom.

We have a strong, diverse and experienced Board, which proved its effectiveness throughout the year. As the new Chair, I wish to thank and pay tribute to my predecessor, Dr Jonathan Berry, who made such a strong impact on the culture and capability of the Board as a member and as its Chair.

Three other members of our Board stepped down, and also leave with my sincere thanks – Dr Robert Donald, Mr Peter McDonald and Dr Linsey Semple.

I have also been delighted to make three new appointments to the Board – Mr Satya Bhattacharya, Dr Rebecca Sadler and Dr John Taylor.

Satya and Rebecca bring enormous expertise from their own surgical and dental practices and as senior professional leaders in their organisations. John has a strong track record in the commercial sector, in financial regulation and as past president of the Institute and Faculty of Actuaries.

All three exemplify the commitment to excellence and member service which lies at the heart of what MDDUS constantly strives for, and I welcome them to the Board.

Finally, I would like to thank the Board for their work during the year, and once more thank our staff for their unstinting dedication. I would also like to say thank you to all MDDUS members for your contribution to clinical services at a most challenging time. Your protection and support remains our priority.

Our values

We were established in 1902 to help doctors and dentists keep pace with the acceleration of advances in medicine and dentistry.

Our purpose was set out by our founding convener, Dr Robert W Forrest, who said MDDUS would exist to support the professional interests of its members and support them when they faced challenges “made when they are least expected”.

Today, 120 years later, our purpose holds fast.

Trusted

We are proud to be a mutual business, and strive to reflect what’s most important to our members.

Personal

We care about each of our members, offering tailored services and supportive care to give them faith in an uncertain future.

Responsive

Whenever our members need us, we work hard to achieve the best results for them.

Valued

We challenge ourselves to innovate and improve, to devise future-proofed solutions that meet our members’ needs.

Highlights 2021

Performance highlights

Income:
£69.9m

Total net income available for transfer to reserves:
£32.6m

Fixed assets, investments and cash on deposit:
£675.2m

Provision for reported claims and non-claims:
£130.5m

Membership highlights

Membership:
5.6% increase on 2020

UK-wide GP membership:
10.8% increase on 2020

UK-wide hospital doctor membership:
22,499

UK-wide hospital doctor membership:
4% increase on 2020

Total dental active membership:
8,827

Membership growth over last five years (2016 – 2021):
42%

Year	Members*
2021	54,057
2020	51,190
2019	50,040
2018	46,741
2017	43,448
2016	38,137

*Membership, excluding associates, retired and deferred members

Support highlights

Total membership calls handled:
42,456

Number of training course* topics offered in 2021:
40

*Additional hot topics also delivered via live and on-demand webinars, free for all members to attend at their own convenience

Strategic report

By Chris Kenny Chief Executive

The twelve months of 2021 have been a year of recovery, rebuilding and transformation for our members, healthcare, and society at large.

We have been proud to support our members through the disruption and challenge this created, while building a robust and sustainable business fit for the post-pandemic world.

Reflecting across our performance in 2021, I am pleased to report that MDDUS has grown stronger as a result of our responsible decisions, commitment to our values and clarity of purpose. In today's environment of geopolitical stress and a worldwide cost-of-living crisis, this approach feels especially prudent.

And with a further annual growth in membership, we have secured our place as the first-choice defence organisation, not only for tens of thousands of doctors and dentists, but an increasing number of other clinical professionals across the United Kingdom.

The Board has been fully behind the Executive Committee as colleagues across MDDUS worked tirelessly on behalf of our members. We continued to lead from the front, extending into 2021 our offer of free membership and support to our retired members who wished to work in support of the NHS. We maintained flexibility as clinical workloads have shifted in response to changing priorities.

We have kept innovation to the forefront of our efforts, mirroring the pioneering changes and improvements our members have brought to the delivery of health services, ranging from elective surgery to digital consulting, since the outbreak of Covid-19.

Our focus has been on innovation and investment.

Our 182 staff in Glasgow and London are integral to our performance now and in the future. Their ability to be agile and adaptive, to grasp the opportunities of transformation, contributed to our successes in 2021. We continue to invest in our people and have broadened our recruitment base, driven forward a comprehensive diversity plan and delivered management and leadership training to ensure that we are well placed to meet our members' future needs.

We sought new ways to improve our service to our members via our wholly owned subsidiary company, MDDUS Solutions. We launched an insurance product as an alternative to our classic discretionary indemnity.

Unlike other market participants, we do not have to rely on a third party and instead offer this insurance on a claims-made basis via MDDUS Insurance Limited (MIL).

Our insurance policyholders are indemnified for claims that arise from incidents that occur and are notified during the policy period or any period of "run off" under the policy. Indemnity is provided by MIL in line with the terms of the insurance contract.

Both our insurance and classic discretionary options provide individuals with the well-respected range of advice, support and representation that every MDDUS member values.

MDDUS Solutions further expanded its product portfolio to introduce a suite of financially sustainable products and services that allow us to respond to the changing needs and expectations of healthcare professionals. Working with the specialist insurer, NPAI, our corporate group members can purchase Surgery, an employers/public liability product.

And we are also working with specialists PG Mutual to provide an MDDUS-branded income protection product.

As the pandemic lockdowns have subsided, our move to hybrid working has been central to our ambitions for the future. Personally, a genuine highlight of 2021 was opening our new offices in central Glasgow. They are designed to enable collaboration and a collective effort. We've made sure the space is inclusive for all our people and accommodates how they want to work.

We worked hard to improve the customer journey on our website, building in enhanced features and putting user experience at the top of our priorities.

We have continued to stay close to what our members need and have evolved beyond the traditional role of a defence organisation. We are increasingly helping organisations as well as individual clinicians, for example through our Dental Corporate Clinical Indemnity, guarding dental practice owners against claims for vicarious liability.

We have learned from what worked well over the past year. We will continue to reflect on what can be done better to ensure MDDUS continues to evolve as an organisation, whilst retaining our culture and clarity of purpose. We strive, as ever, to serve our members by doing more and doing better. We seek to provide

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a workplace where everyone can be their authentic selves and do their best work, that is truly inclusive and reflective of the communities we work in and serve.

Pandemic and policy

After the exceptional year that preceded it, the impact of working during the global pandemic became more normalised. New practices became business as usual, and the calls for support and advice to our medical and dental advisers returned to levels we are more accustomed to.

Our teams continued to adapt to the disruption being felt by the dental and medical professions. For our members, the "normalisation" of living with Covid-19 masked some of the very significant challenges faced by those working in healthcare. Patients, and those caring for them, are exhausted. The impact on mental health across the piece has been significant.

We recognised this as a major impact and reinforced our support, both for our members and for our teams who provide them with expert advice and support.

For our **members'** benefit:

- we introduced a Vulnerable Member Protocol
- our frontline advisory staff underwent training provided by the Samaritans charity
- we launched YourHalo, a completely free mental health and wellbeing telephone counselling service that's led by medical professionals.

For our **colleagues'** benefit:

- we continued to support our team of mental health first aiders
- we provided access to an employee wellbeing support service
- we ensured their resilience was protected through a peer-to-peer support network.

In 2021, we saw an immense shift in the speed and intensity of health delivery policy reform – some of it welcome, but all still requiring careful interrogation and input from organisations such as ours. For example, we remain active in shaping how the patient safety and learning culture in the NHS is managed into the future. We will continue to hold the UK Government to its commitment to reform clinical negligence legislation

Medical

The team replied to **3,074** emails seeking specialist medico-legal advice, a **6%** increase on the pre-pandemic rate in 2019.

The time spent by our medico-legal advisers delivering advice increased by **9%** on the pre-pandemic rate in 2019, due in part to the additional complexity of cases our members have had to deal with.

Throughout the year, it was not uncommon for our advisers to be contacted by distressed doctors seeking reassurance and support. This prompted us to launch our free, confidential counselling service called YourHalo.

Dental

Our specialist dental team saw requests for advice in 2021 reduce in comparison to 2020. However, **11%** more written advice files were opened in 2021 than in comparison to the pre-pandemic rate last seen in 2019.

The team opened **2,836** new case files, an increase of **8%** on pre-pandemic figures.

In common with our medical team, our dento-legal advisers were called on to support and reassure many more of our dentist members, many of whom suffered emotional and financial distress in 2021.

Strategic report

– a long overdue policy action if we are to deter unjustified claims and reduce costs for our members and the NHS alike. The commitment to reform the professional healthcare regulatory landscape is also welcome but insufficiently ambitious, and we will continue to press for early and urgent attention to be given to General Dental Council legislation, as well as that for the General Medical Council.

Meanwhile, the Health and Care Act represents the biggest legislative shake-up of the NHS in England for a decade. The UK Government's response to the recommendations made by the Paterson report will have far-reaching impacts on clinical delivery and accountability, especially in the private sector. We believe that Government is beginning to better understand our stance that it is critical to allow clinicians to choose between the indemnity and insurance markets, and a mistake in terms of patient protection to mandate one over the other. We look forward to continuing to discuss these important issues with them.

In Scotland, the plans to establish a single National Care Service look set to have a significant impact on how GPs deliver community healthcare. We will continue to develop our strong partnership with the Scottish Government on this and other issues around NHS recovery and primary care indemnity among other matters. We have been grateful for the attention both the current and previous cabinet secretaries for health have given to our concerns, and we were particularly pleased to welcome Humza Yousaf MSP to formally open our new Glasgow office in February of this year.

We continued to lobby on behalf of all our members, leading from the front in efforts to ensure any post-pandemic regulatory investigation or litigation is heard from the perspective of doctors and dentists as they worked at the peak of Covid-19. Our commitment is to stand in defence of the clinical leaders who helped to shape the UK's response to the pandemic. It may be inevitable that, in retrospect, decisions may look less than perfect – but we are working to ensure that the true nature of the pandemic, incomplete information and immense pressure is recognised when those decisions are scrutinised. Those members involved, both north and south of the border, can rest assured of our continued support throughout what could be a protracted and stressful process.

I was delighted when our public affairs and communications teams, who did so much to support and promote these efforts on behalf of our members, saw their work recognised in the finals of national awards presented by two professional bodies – the Chartered Institute of Public Relations and the Public Relations and Communications Association.

People and culture

Again, our people have been superb. I am proud of the commitment to member service and support that exists across the company, aligned with our business purpose and values.

As part of our commitment to continuously develop and improve our member experience, we have redesigned and refreshed the quality assurance framework and introduced new 'team coach' roles within our membership services team. We assess the quality and efficiency of our service against rigorous criteria to ensure high standards of customer service, maintaining the all-important personalisation of each interaction.

Legal

In 2021, our in-house legal team worked on **137** General Medical Council and General Dental Council cases, avoiding the most serious sanction in **99%** of cases.

Despite a high number of clinical negligence cases being referred into our Legal and Advisory department in 2021, with some cases seeking six-figure or multimillion pound settlements, the team successfully challenged a vast number and settled others for a fraction of the sum claimed.

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Our colleagues' expertise and skills are instrumental to our success. In 2021, we invested in our people and future talent, providing £120,000 in funding for learning and development. We are committed to continually investing in our people and how the organisation works to deliver our strategy. This will include further developing our ways of working and culture to enable greater empowerment for teams serving members and innovating our products. We will help colleagues develop knowledge for the present and key skills of the future, confident that they have the member service commitment for both.

Diversity remained a priority from both a corporate and Board perspective. In 2021, we took additional steps to ensure our Board itself reflects diversity, not just gender, disability or ethnic diversity but skills, experience, educational and professional background to provide the range of perspectives, insights and challenge needed to support good decision making.

Our Equality, Diversity and Inclusion (EDI) statement was updated to reflect our policies and approach to being an inclusive and diverse organisation. Internally, our employee forum focused on EDI through inclusive engagement activities and promotion initiatives. They continually generate new ideas and feedback from colleagues on our approach to EDI and what we can all do differently. In 2021 we had campaigns on diversity initiatives, including Pride and International Women's and International Men's days. Externally, MDDUS is a proud partner of the Association of Financial Mutuals' Diversity Alliance.

Performance

Despite the challenges of 2021, we retained our healthy fully funded position throughout the year and into 2022. A combination of our strong starting financial position, good investment performance and a fall in claims payouts led to a surplus of £32.4m and our net assets stood at £544.6m, putting us in a strong position and lending confidence to our ability to protect members in meeting unforeseen as well as forecast liabilities. As explained in the Finance Director's report, our overall solvency position remains strong (see page 10).

We will enhance customer service experience by leveraging data and analytics, and by empowering colleagues to identify process improvements and make suggestions for change.

Planet

As a company based in London and in Glasgow, where COP26 took place in November 2021, climate change was very much on our minds throughout the year. We have developed a climate change strategy, which includes identifying the transition, liability and physical risks and opportunities of the organisation's business activities which may be affected by climate change. We are keen to support our members in their response to climate change and to ensure that our investment portfolio responds to the wishes of our wider membership and wider society.

The overall basis for our climate change strategy is that we are committed to meaningful reductions in our greenhouse emissions and moving towards net-zero emissions in line with UK and Scottish Government targets, or sooner, if possible. We have adopted a "roadmap" of specific activities to help us deliver the strategy. Over the coming years we will:

- expand our carbon footprint reporting
- explore how to support the transition to a low-carbon economy through our procurement activities
- consider sustainability certification of our offices
- incorporate climate change within the work we are already undertaking on reviewing our investments from a wider environmental, social and governance (ESG) perspective
- as an organisation operating within the UK's healthcare industry, seek to reflect, as appropriate, the expectations of the English NHS climate change strategy and those of our membership
- explore what additional activities we can undertake to support members.

Our purpose was set in 1902 and remains today a constant that drives us as a mutual membership organisation and sits at the heart of our strategy. I believe it also continues to set us apart from our market competitors, both new and old. It has enabled us to deliver effectively and sustainably on behalf of our healthcare professionals throughout 2021 and will continue to do so into the future.

On behalf of the Board

Chris Kenny

Chief Executive

4 July 2022

Our Section 172(1) statement

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 in doing so have regard (amongst other matters) to: (a) the likely consequences of any decision in the long term; (b) the interests of the company's **employees**; (c) the need to foster the company's business relationships with **suppliers, customers** and others; (d) the impact of the company's operations on the **community and the environment**; (e) the desirability of the company maintaining a reputation for **high standards of business conduct**; and (f) the need to act fairly as between members of the company.

MDDUS aims to create value for its members and its strategic plan is focussed on the short-term and long-term success of the company for our membership as a whole. These efforts are informed by our open and transparent engagement with our stakeholders, which in turn shapes our decision making and outcomes in a number of key areas. Illustrations of how S172(1) factors have been applied in the reporting year can be found throughout the Strategic report, and are cross referenced here.

Who are our stakeholders?	Why we focus on these stakeholders?	How do we engage them?	What have we learned?	How have we responded?
Our members Members are our stakeholders who use our products and seek our advice and support to protect their professional reputation. Ultimately, they are the owners of the company to whom the Board are accountable. **Our suppliers** The businesses we contract with to ensure we provide an excellent service to our members.	Our members are central to our business and without them we would have no reason to exist. Our supplier relationships need to be strong, offer value for money and be efficient so we can deliver an excellent service to our members. Above all, there is an exact alignment between the objectives of the company as set out in our Articles of Association – to promote honourable and high standards of clinical practice – and of our members as individual professional practitioners.	We engage our members through our continuing professional development (CPD) and risk training and in 2021 updated our offer to include training that reflects the changes and challenges in healthcare due to the pandemic, with face-to-face contact in person or by video conference. We conduct a range of membership research to understand their priorities and concerns and provide members with excellence in customer service. We started work on a contract and procurement management policy, which will be rolled out in 2022. It aims to ensure and demonstrate: • A fair, unbiased and consistent approach to procurement • Positive relationships with third party suppliers • Value for money • Effective governance and control.	That our members value our responsive ethos that sits behind our training and CPD offer. Positive feedback on our new courses confirmed this. The importance of being easy to contact and responsive, and in listening to the voice of our customers. The professional and personal issues that have had the biggest impact on our members in 2021.	In 2021 we developed new services for our members: • A training and CPD package responsive to the changes and challenges in the delivery of healthcare ushered in by Covid-19 • An enhanced customer contact function • Increased our engagement with key stakeholders in the regulatory and policy-making spaces • Held ourselves to high standards in all our interactions on behalf of members in the courts, with regulators and also in providing expert advice and support.
Our colleagues Our colleagues embody our internal values of collaboration, integrity and excellence. They support all our efforts on behalf of our members.	Our people all make a positive difference to our business and for our members. They are our greatest asset. We invest in them to protect our effectiveness going forward.	We continued to support the staff forum that acts as a voice for all our colleagues. We gauged how colleagues were feeling through pulse surveys. We worked hard to ensure everyone knew how we were managing the changes to working practices, especially moving to a hybrid home/office working model by holding virtual Town Halls and publishing regular blogs.	We learned that colleagues valued opportunities to work collaboratively, and that working from home during the pandemic had increased their desire to be able to do this on return to the office. We investigated and then invested in a new office space in Glasgow, an open plan space over two floors offering contemporary, agile facilities. This matches what is available to colleagues in our London base. We took soundings from the staff forum to shape our new hybrid working approach. Informal thank you notes, wellbeing support, and other all-staff activities were organised.	The responses we received shaped decisions we took on how we run the business which, we hope, had a positive impact on all our colleagues. We kept everyone informed through a combination of executive committee (ExCom) communication and information cascaded by our manager community. We focussed support on resilience and mental health initiatives. We continued to promote and develop our accredited mental health first aiders and the benefits of our Employee Assistance Programme.
Society Is the combination of the communities we represent and engage with, and the places we work in and call home.	We continued to develop and nurture relationships with organisations and interest groups with connections to our members and influence on the healthcare landscape, as well as the physical environment. Despite the advice from government to work from home for much of 2021 as a result of the pandemic, we continued this year to prioritise planning how to reduce our business' environmental impact when colleagues return to office working.	Our audiences are many and varied and we put considerable effort into meeting them this year at virtual conferences, roundtables and in 1-2-1 meetings. We participated in working groups run by stakeholders such as the British Medical Association and General Dental Council. We invested time in scoping a comprehensive environment strategy; this will shape our response to the Net-Zero Challenge. We put greater importance on our ESG policies, including in our investment strategy.	Our stakeholders' interest in how members had been impacted by the pandemic remained high. 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. We used the opportunity of moving to new offices to implement enhanced recycling processes, including a "paper lite" approach to reduce the amount of paper used in daily business.	We undertook a second, extensive survey of our members and the outcomes fed into decision making around how the business supports our members' mental health and wellbeing. More generally, MDDUS engaged with our stakeholders through a blend of direct and general communications, both face-to-face and across online platforms. New appointments to our Board saw us achieve an equal balance of male and female non-executive directors. We also developed the diversity of our Board, while maintaining our principle of making all appointments on merit. Our investment managers report to us on a range of ESG matters and we are currently undertaking a review of how we can best ensure we continue to drive higher ESG standards across our portfolio in the years ahead (see page 8).
Regulators/policy makers/government Our stakeholders who influence and govern us, as well as having a stake in our sustainability and success as a business.	Our decisions and effectiveness are impacted by the impact and influence of multiple stakeholders, especially governments across the UK.	We conducted extensive engagement with officials and elected representatives both lobbying and in working groups. Our core purpose was to maintain open and transparent relationships with these groups to contribute to the safe and effective management of healthcare during 2021. We maintained existing relationships and forged new, better connections with important stakeholders.	Our engagement strategy kept us abreast of developments in a hugely busy period of change and development of healthcare delivery. We used this insight to help shape our responses to multiple public consultations, in our engagement with policy officials on matters of the highest importance to our members (for example, the recommendations of the Paterson report and how this will change the delivery of medical care). We made every effort to ensure our inputs were useful and relevant.	Our discussions with parliamentarians, regulators and royal colleges included: • How the mental health and wellbeing of clinicians needed to be at the top of their agenda • The development of choice for clinicians between traditional indemnity products and insurance. We took the important issue of how our market is allowed to sustainably develop in support of doctors and dentists (and their patients) to the highest levels of government.

Finance Director's report

Financially for MDDUS, as in so many other ways for us all, 2021 turned out to be very much a case of "more of the same" compared to 2020. The challenges of Covid-19 continued to test us, but our finances remained strong throughout the year, and we delivered a set of results that position us well entering 2022. You, our members, rely on us to deliver excellent and responsive service and support as you deal with the pandemic, on top of the usual daily challenges of healthcare provision in the 21st century. Our good financial performance means you can be confident we will be able to continue doing that both now and in the future.

Financial performance

Overall, for 2021 we generated a surplus after tax of £32.4m (2020: £74.2m). Our operating result was close to breakeven; however, we saw gains on our investment portfolio and made some changes to our actuarial reserving assumptions, in the light of better than previously expected claims, advisory and legal cost experience in respect of prior years, which combined to produce a positive result.

Subscriptions and other income

Member subscriptions and other income totalled £69.9m in 2021, an increase of 7% (2020: £65.3m). Whilst we saw a recovery compared to 2020, the impact of Covid-19 on activity in private healthcare and dentistry meant that our subscription income remained lower than in pre-pandemic times. Our membership grew, which was a good result in a year when sales activity was necessarily curtailed. This membership growth, combined with increasing marketing and educational activity levels as and when the Covid-19 effect eases, will allow us to show further revenue growth in the years ahead.

Claims cost

Claims costs in 2021 were £26.1m, which, although higher than in 2020 (£14.0m), remained well below the level we expected. This was in part due to positive effects from changes in our actuarial reserving assumptions for the expected costs of open claims at the end of the year. These assumption changes also resulted in our advisory and non-claims legal costs showing a credit of £2.5m for the year, rather than the charge we would usually expect and such as we saw in 2020 (£6.8m).

Provision for liabilities and charges

As well as the costs of claims and non-claims activity incurred during the year, MDDUS must also make provision for the expected future costs of those claims and non-claims cases that have been reported to us, but which have not yet concluded. This provision was £130.5m as at 31 December 2021, a £13.8m decrease compared to 2020 (£144.3m).

MDDUS also continues to take the view that to fully understand our financial position our current and potential members should be aware of the total projected cost of claims and non-claims cases which have not yet been reported to us, but which relate to incidents that arose during a prior period for which we provided membership. Without this information, members, future members and other stakeholders cannot make reliable and well-informed judgements about the solvency and financial resilience of the company.

This is known as the cost of "incurred but not reported" (IBNR) items. Our actuaries calculate the appropriate value of the IBNR at the end of 2021 as £181.9m (2020: £184.2m), based on experience and allowing for expected future trends. IBNR is not a liability on our balance sheet as, having not seen the individual items involved, we have not yet been able to exercise our discretion on them. It is worth noting however that, as in previous years, our net assets of £544.6m remain significantly higher than the IBNR figures quoted above. In addition, whilst MDDUS is not subject to the Solvency II capital requirements that apply to insurers, we do assess our financial position against them through our internal actuarial team, with external peer review support.

Investments

As will be evident from the description of IBNR above, the nature of MDDUS' business means that claims and non-claims costs for any given period of membership will take some time to emerge. Depending on the precise nature of the case involved, this time can range from a few months to many years. On average, we currently see cases closed approximately six years after the incident to which they relate, but the tail liabilities can be of far greater duration. This means MDDUS must ensure we have enough put aside to cover these future costs, which in turn means we have a significant sum of money that we need to manage over a prolonged

Finance Director's report

period. We invest this money carefully in a balanced portfolio that takes account of risk, inflation, return and financial security.

Our portfolio is apportioned into two funds: a "matching fund" and a "growth fund". Our matching fund invests in high-quality bonds, and we allocate sufficient assets to this to cover our known provisions and liabilities plus the expected cost of our IBNR. This portfolio will generally grow in value as interest rates fall, and fall in value as interest rates rise, mitigating the effect of interest rate changes on our claims provisions which will broadly move in the same way.

The remaining assets, other than some cash needed to ensure we have sufficient liquidity for our day-to-day operations, is invested in our growth fund. The growth fund comprises assets such as equities and property that we expect to provide higher levels of return than bonds over the medium to long term. This helps mitigate the effects of inflation on the ultimate cost of our claims and non-claims but using investment guidelines around volatility that mean we avoid taking undue risk.

Members who invest in financial products are likely to be familiar with the phrases "the value of investments can go down as well as up" and "past performance is no guarantee of future performance". This is as true for MDDUS as for any private investor and the expectation of rising interest rates held back performance in our matching fund over the year. However, I am pleased to report that, whilst we did not repeat the excellent £50.7m return we saw in 2020, we did achieve a positive return of £14.1m in 2021.

Taxation

MDDUS is and always has been a mutual by virtue of its ownership structure. Mutuality can lead to a mutual trading tax exemption whereby tax is due only on non-trading surpluses, such as investment income and property rental profits. MDDUS applied this exemption in our financial statements up to and including 2019. As disclosed in last year's Annual Report and Accounts, in 2019 HMRC raised an assessment for tax on prior MDDUS trading surpluses. This was based on the assertion that the clause in the MDDUS Articles of Association dealing with the treatment of surplus on winding-up did not technically satisfy the conditions needed to qualify for the mutual trading tax exemption.

To date HMRC have raised assessments back to 2015 and have not indicated that they are intending to revisit any earlier periods. MDDUS have contested these assessments and provided calculations supporting claims for tax losses in 2016 and 2019. Whilst discussions regarding the dispute are ongoing, we have, as in last year's accounts, deemed it prudent to prepare the financial statements on the basis that the mutual trading tax exemption does not apply.

This treatment results in a tax charge for 2021 of £12.9m (2020: £5.8m). However, under this treatment we also have £53.3m of unrelieved losses carried forward into 2021. After utilising some of these unrelieved losses against 2021 surpluses we have £23.7m remaining losses carried forward which reduce the deferred tax liability by £4.6m (2020: £10.1m).

Net financial position

As of 31 December 2021 MDDUS had net assets of £544.6m, an increase of £32.4m over 2020 (£512.2m). This is after taking account of known liabilities and remains well in excess of our IBNR, allowing members to take comfort that, in a world that remains uncertain, MDDUS has the financial strength to continue to meet their needs.

Directors' report

Overview

The Board of Directors is committed to a high standard of corporate governance.

As a member of the Association of Financial Mutuals (AFM), MDDUS applies, and reports against, the principles of the AFM Corporate Governance Code (January 2019) ('the Code'). In doing so, the Board has regard to:

- the guidance provided in the Code
- our business model, management and mutual ownership status
- the overriding statutory and fiduciary duties of a director.

This report considers each of these principles in turn, before turning to other matters relevant to the corporate governance of MDDUS.

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 in 2021 (and, where relevant, 2022).

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.

Strategic statement and values

The Board has agreed a strategic statement for 2020-23. This was used to inform and monitor performance against the annual business plan for 2021, which itself was reviewed regularly in response to the Covid-19 pandemic. The business plan for 2022 was agreed in December 2021.

The focus of these plans, and the underlying goals and objectives, is to deliver against our new mission statement – to protect, support and advise healthcare professionals and organisations through our advisory, legal, financial, practice management and risk education services. This was introduced, with new corporate branding, in March 2021.

All of the above are supported by our external and internal values and behaviours, which are used to evaluate colleagues' 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.

The MDDUS Fair Treatment Policy Statement is available on our website. We treat all complaints fairly, reasonably and promptly, and seek to identify root causes and apply lessons learned. The Board received an annual report about our work to resolve and learn lessons from complaints about our member-facing activities in June 2021.

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 is set out later in this report (p. 51). Biographies are available on our website. At the Annual General Meeting (AGM) in September 2021, there were 17 directors, comprising 14 non-executive directors and three executive directors: the Chief Executive, the Finance Director, and the Director of Professional Services and General Counsel. At the year-end, there were 14 directors, comprising 11 non-executive directors and three executive directors, collectively bringing experience from the fields of medicine, dentistry, business development, financial services and law.

Ten of the 11 non-executive directors were 'independent', having served nine years or less since their first appointment to the Board. The term of office for the director considered under this criteria not to be 'independent' will expire at the AGM in 2022.

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 Articles of Association, 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.

During 2021, the Remuneration and Nominations Committee instructed executive search firm, Saxton Bampfylde, to identify candidates with experience as a practising dentist within a dental chain or large practice, and a practising hospital doctor within a private hospital or healthcare group. Included in the search criteria was a commitment to increase diversity on the Board to reflect the membership of MDDUS. A panel of directors considered applications from, respectively, 48 and 35 candidates, who were subsequently short-listed and interviewed. Two candidates from strong fields were identified and were appointed in June 2021. The Board subsequently recommended Rebecca Sadler and Satya Bhattacharya's re-appointment, for three-year terms, to the AGM. The re-appointment of one other non-executive director for a three-year term was also agreed at the AGM.

In light of the Board succession plan, the Committee also instructed executive search firm, Odgers Berndtson, to identify a candidate with experience in actuarial, risk and investment matters. Diversity was again included in the search criteria. A panel of directors considered applications from 19 candidates, who were subsequently short-listed and interviewed. One candidate from a strong field was identified and was appointed in November 2021. The Board plans to recommend John Taylor's re-appointment, for a three-year term, to the AGM in 2022.

Non-executive directors 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 senior executive and a 'mentor' from the Board (generally the Senior Independent Director). We also provide recent Board and committee papers, the strategic and business plans and relevant policies and guidance relating to their role and 'good governance'. In addition, we aim to meet the individual and collective training needs of directors as they are identified, including, in 2021, a workshop to inform the Remuneration and Nominations Committee, regular briefings from our advisers to inform the Investment Committee and general sessions about clinical matters relevant to the business of MDDUS. Directors are also invited to participate in the regular webinars facilitated by the AFM, of which the Chief Executive is a Board member. The contracts for service (and committees' terms of reference) also enable 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 at the AGM, Jonathan Berry, was appointed as a non-executive director in 2007 and as Chair in 2018. As noted in last year's report, the Board acknowledged that he was not 'independent' on appointment as Chair, having served as a director for more than nine years, but considered this departure to have been justified by the external operating environment, in particular the introduction of the state-backed indemnity schemes for GPs in England and Wales, the changing government policy in each of our jurisdictions and the Covid-19 pandemic. Dr Berry stood down as Chair and as a director at the AGM.

Iain Cameron was appointed 'Chair-elect' by the Board in February 2021 to shadow Dr Berry until the AGM. Prof. Cameron is independent and will be for the duration of his term of office. Dr Berry was not engaged in the process to appoint his successor. Jo Bayley was appointed to succeeded Linsey Semple as Senior Independent Director after the AGM. An independent Vice-Chair will be appointed to succeed Jim Black after the AGM in 2022.

The Vice-Chair and the Senior Independent Director were independent on appointment. 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 MDDUS Governance Handbook sets out, amongst other things, a schedule of matters reserved to the Board, committee and group terms of reference and role profiles for non-executive directors. This is reviewed against governance 'good practice' annually by the Company Secretary, the senior executive and the Audit and Risk Committee, before being updated, as required, by the Board. An extract of the Handbook is available on our website.

The Board also has a forward business programme, which helps the Chair, the Chief Executive and the Company Secretary to shape the agenda for each meeting. A typical meeting will consider emerging strategic and policy matters, for example, the changing government policy in each of our jurisdictions and our support for the membership during the Covid-19 pandemic. The Board also receives regular reports about progress against the business plan, a newly developed management information pack and minutes and verbal updates from meetings of its committees and subsidiary boards. The substantive papers presented to the Board are considered in draft by a Pre-Board Group of the senior executive. All papers are issued on a meeting portal and report how they will help to deliver against the business plan and section 172 of the Companies Act 2006 (i.e. 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).

There were six meetings of the Board in 2021, with an average attendance rate of 98 per cent. The attendance rates of individual directors are detailed in Table 1.

Table 1 Directors who served in 2021

Director	Meetings attended*
Angiolini, E	6 (6)
Bayley, J	6 (6)
Berry, J P**	3 (3)
Bhattacharya, S	4 (4)
Black, J	6 (6)
Cameron, I **	6 (6)
Donald, R M	2 (3)
Glen, M	6 (6)
Kenny, C	6 (6)
Leitch, J	6 (6)
Macleod, V	6 (6)
McDonald, P	2 (3)
McPhail, M	6 (6)
Parfitt, E	6 (6)
Parker, J	6 (6)
Sadler, R	4 (4)
Semple, L	3 (3)
Taylor, J	1 (1)

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

** Chair

Board committees and groups

There are three committees supporting the work of the Board: Audit and Risk, Investment, and Remuneration and Nominations. In addition, directors are appointed to the Actuarial Reserving and Pricing Committee.

The membership of these committees is set out later in this report (p. 51). All non-executive directors serve on at least one committee. Executive directors and the Company Secretary attend or are members of each committee.

A report about the work of the **Audit and Risk Committee** is provided later in this report (p. 25). There were four meetings of the Audit and Risk Committee in 2021, with an average attendance rate of 91 per cent. The attendance rates of individual directors are detailed in Table 2.

Table 2 Director attendance at Audit and Risk Committee meetings in 2021

Director	Meetings attended*
Bhattacharya, S	2 (2)
Cameron, I	1 (1)
Glen, M	4 (4)
Macleod, V	4 (4)
McDonald, P	1 (3)
McPhail, M**	4 (4)
Sadler, R	2 (2)
Semple, L	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. There were three meetings of the Committee in 2021, with an average attendance rate of 88 per cent. The attendance rates of individual directors are detailed in Table 3.

Table 3 Director attendance at Investment Committee meetings in 2021

Director	Meetings attended*
Bayley, J	3 (3)
Berry, J P	2 (2)
Black, J**	3 (3)
Cameron, I	1 (1)
Donald, R M	1 (2)
Leitch, J	2 (3)
Parker, J	3 (3)

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

** Chair

The **Remuneration and Nominations 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 the senior executive, being consulted about our pay and reward practices and leading an open and transparent process to identify and nominate candidates to fill vacancies on the Board, its committees and subsidiaries. The Board Chair is a member of the Committee.

When nominating suitable candidates, the Committee takes into account the structure, size and diversity of the Board, the Group's governance framework and the current and potential needs of MDDUS. Diversity enables more effective discussions and better decision

Directors' report

making, so it is defined by the Committee in its widest sense, to include gender, social and ethnic background, and cognitive and personal strengths. We have an aim of maintaining at least 50 per cent female directors. The Committee aims to long-list candidates in light of the succession planning needs of the Board, and to develop the diversity of the Board across all areas. All nominations are based on merit.

There is a regularly reviewed role profile for non-executive directors (and each of the Board's office holders) and an induction programme for new directors.

The Committee is also responsible for determining, and reviewing the outcomes of, the processes to evaluate the performance of the Board, its committees and individual non-executive directors. Action plans from these evaluations are agreed and their implementation is monitored by the Committee and the Board. A Board evaluation review is planned for 2022.

There were three meetings of the Committee in 2021, with an average attendance rate of 100 per cent. The attendance rates of individual directors are detailed in Table 4. A statement about our remuneration (pay and reward) practices is provided later in this report (p. 19).

Table 4 Director attendance at Remuneration and Nominations Committee meetings in 2021

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

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

** Chair

The **Actuarial Reserving and Pricing Committee** 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, who regularly attend the meetings. In addition, the Committee reviews and challenges the capital management work of our in-house actuaries. Although MDDUS is not subject to the insurance company Solvency II requirements, we assess our financial position against the level of assets we would be required to hold were we subject to these requirements. This assessment is subject to independent actuarial peer review. The Chief Executive is the Chair of the Committee. There were three meetings of the Committee in 2021.

Subsidiary companies

There is a board for each of the Group's four subsidiary companies.

The Board of **MDDUS Insurance Limited** (MIL) 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 executive search firm, OSA, was instructed in 2021 to identify a new non-executive director. Included in the search criteria was a commitment to increase diversity on the Board. A panel considered applications from six candidates, who were subsequently short-listed and interviewed. One candidate from a strong field was identified and appointed in July 2021. An independent, resident Chair was appointed from the existing directors following the retirement of a resident director in July 2021. From the MDDUS Board, Prof. Cameron succeeded Dr Berry as a director in September 2021. There were seven meetings of the Board in 2021.

The Board of **MDDUS Services Limited**, operating as **MDDUS Solutions**, oversees our UK-based intermediary that places business with MIL. The company was incorporated in December 2018 and was authorised by the Financial Conduct Authority (FCA) in February 2020. A Group non-executive director with experience from the fields of insurance and financial services was appointed as a director in December 2020 and as Chair in May 2021. Two MDDUS non-executive directors with experience from the fields of dentistry, general practice and healthcare groups were appointed as directors in November 2021. There were five meetings of the Board in 2021.

Directors' report

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. The Group Finance Manager was appointed as a director in April 2021. The MDDUS Chief Executive was appointed from the existing directors as Chair following the retirement of a director in September 2021. There were two meetings of the Board in 2021.

The Board of **MDDUS Education Limited** oversees the financial impact of a small number of revenue raising educational and training activities. There was one meeting of the Board in 2021.

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 and risk appetites, following a thorough assessment of the organisation and its strategic and operating environments. 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.

In 2021, the Board continued to work with the executive to increase its oversight of the principal risks facing the organisation through the development of our Own Risk and Solvency Assessment (ORSA) process. ORSA is a process used by organisations regulated by the Prudential Regulation Authority (PRA) to assess adequacy of the risk management framework and current and prospective solvency positions. Although MDDUS is not required to undertake an ORSA, we voluntarily adopted the process to further strengthen our risk management framework and increase oversight of risks, whilst also aligning our capital and strategic approaches. Following the significant development of supporting policies and processes, the first MDDUS ORSA report was delivered in June 2021. Work now continues to refine the process, further embed the disciplines described in the ORSA, and further improve our understanding of our risk environment.

The principal risks facing MDDUS are as follows:

Strategic risk

Our strategic risk environment continues to be influenced by political and regulatory developments and operating within competitive markets. The development of new products and services, and forging industry partnerships to provide choice for our members, has very much been a focus across 2021. The UK Government has still to decide whether it will pursue its proposals to regulate the discretionary indemnity insurance market or require healthcare professionals to purchase a regulated insurance product. Even though the final position on the scope of regulation remains uncertain, we have taken steps to ensure that MDDUS is already in a position to offer a range of regulated products, whether the demand for this comes from regulation being imposed or market sentiment.

We recognised that demands within the market were also changing as professional roles and healthcare organisations evolve, which presents both opportunities and risks. Through MDDUS Solutions, our insurance intermediary authorised by the FCA, we are able to respond to demands for insurance products via our subsidiary, MIL, and through partnerships with other providers. This 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.

We still maintain our position that any changes to the markets should enable choice for individual clinicians and organisations between discretionary indemnity and insurance within a diverse market space.

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 three ways. First, by having suitable underwriting processes, rules, and guidelines to assess and manage the level of risk posed by individual and corporate members, policyholders and applicants. Second, by ensuring, through robust case management at the level of both individual cases and the business as a whole, that valuations are kept up to date in real time in the light of changing circumstances. Third, and building from the previous point, by developing and applying robust actuarial pricing and reserving methodologies, we ensure that our pricing is as accurate and reliable as possible. As noted above, the pricing and reserving work carried out by our actuarial team is peer reviewed by external actuaries and our external auditors.

Operational risk

This is the risk of reputational and financial loss and service degradation arising from inadequate or failed internal processes, personnel or systems, or from external events. It includes managing operational and IT service and continuity arrangements resulting from factors such as the pandemic, changes in the current geopolitical and economic situation and failure to adapt technology and working practices in light of experience and pressures.

Operational risk therefore continues to be a significant area for focus in 2022 and in our next phase of developing our risk management framework. To further understand and manage our risk profile, we are using and developing a comprehensive governance, risk and compliance software solution. This improves and refines our risk and compliance assessments, monitoring and reporting, and ongoing development will enable a true enterprise-wide approach to the management of risk and our systems of internal control. We continue to build and refine our operational risk appetite with associated thresholds, indicators and dashboards to provide key data with which to monitor and respond to this risk area.

The risk registers for the Group, including specific registers for the subsidiaries, are maintained throughout the business cycle and include descriptions of key strategic, financial 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 are reviewed regularly by the executive and biannually in detail by the Audit and Risk Committee and the Board.

The increasing risk of malware and ransomware attacks means that information governance and security are areas of particular focus for the Audit and Risk Committee and the Board. The cyber environment grows ever more challenging and we continue to work to ensure that our systems are robust and secure. In 2021, our internal auditors assessed our assurance across this area and we recruited a dedicated IT Security resource to further strengthen our security framework.

The Audit and Risk Committee is responsible for reviewing our internal and 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 management, and in particular 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 and management information about large claims activity. In addition, the Audit and Risk Committee agrees an annual Internal Audit Plan through which it gains independent assurance on the design and effectiveness of internal controls across the organisation.

Investment 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 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 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 our investment managers and separate, independent, assessments of the performance of those managers.

Public policy risk (see also Strategic risk)

This is the risk of the UK Government and/or the devolved administrations and other statutory bodies intervening in the sector without a proper assessment of the impact on our members or failing to intervene where there is a clear case for action. We seek to mitigate this risk by ensuring open and frank discussions on a wide range of issues to improve understanding about the sector with the UK Government, the devolved administrations and dependent territory governments, but also by ensuring that our commercial approach is sufficiently robust to respond effectively to the widest range of possible outcomes.

The Covid-19 pandemic has presented a separate and wholly unique risk both to our business and the wider sector. Prolonged disruption of dental and private medical services has impacted the revenue of the Group and the investment markets remain volatile. We continue to respond to these challenges proactively and pragmatically and have always aimed to ensure that members' needs are at the centre of our strategic and operational decisions. Our intentions throughout have been to continue to effectively service the membership, while ensuring the safety of our colleagues.

The pandemic is now entering a 'living with Covid-19' stage and the return to operations resembling 'business as usual' seems closer than at any other stage in the pandemic. The executive continues to advise and consult the Board about decisions and approaches made to mitigate the impacts of the pandemic, review processes and apply any lessons learned to protect and improve operational resilience. The Board considers that our risk controls and mitigations have been appropriate for assessing the differing impacts of Covid-19. It continues to assess the immediate and medium-term impact of the pandemic and its potential future trajectory in order to authorise corrective action 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.

The executive Remuneration Review Group (RRG) sets the strategy and practice for remunerating the majority of colleagues. In 2021, the RRG adopted an approach designed to reduce variances in pay across the organisation and the gender pay gap. This approach was used also in 2022.

Overall remuneration for colleagues is reviewed on an annual basis and we ensure that we exceed the living wage at the lower end of salaries. Although we are not required to report our gender pay gap, as we do not meet the threshold number of employees, we remain committed to promoting equality, diversity and inclusion. Our pay gap based on net pay at the beginning of 2022 was 31 per cent (2021: 33 per cent), with the variances between male and female colleagues in each pay gap quartile much lower than the overall figure. The pay gap in the bottom quartile was in favour of female colleagues. This reduction reflects the development of colleagues internally, as well as careful consideration of recruitment at the correct pay levels for current market conditions.

We continued to offer voluntary benefits to colleagues in 2021 and 2022, with selections taking place in the preceding December. Colleagues have the option to buy or sell annual leave, to purchase critical illness cover, dental and health plans, and to join the cycle to work scheme.

The Remuneration and Nominations Committee considered an annual report about the above matters and determined and kept under review the remuneration and terms and conditions of service for non-executive directors and the members of the RRG – the Chief Executive, the Finance Director, the Director of People and Corporate Services, the Director of Professional Services and General Counsel, and the Group Director of Governance. The members of the RRG do not participate in the Committee's discussions about their own pay. The gap between the Chief Executive's salary and the lowest paid salary is 96 per cent. The Chief Executive to median colleague pay ratio is 12.4:1.

PwC continued to provide advisory services to the executive and the Committee in 2021 and early 2022. These services included:

- providing benchmark remuneration details for members of the RRG, based on a review of comparator groups of other financial service mutual organisations and private and listed companies of comparable complexity and revenue to MDDUS
- providing benchmark remuneration details for non-executive directors, which was considered alongside the strategy and practice for remunerating colleagues to ensure that approaches were broadly comparable
- facilitating a workshop for the Committee and RRG in February 2021 to consider themes relevant to reward and remuneration practices.

Collectively, these services support and challenge our approach to rewarding our colleagues, having regard to the external environment and, in particular, the Covid-19 pandemic.

Principle six – Stakeholder relationships and engagement

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 environment, and, of course, our mutual owners/members.

We remain committed to supporting, developing and enabling our colleagues to deliver their roles. As the impact of, and restrictions relating to, the Covid-19 pandemic evolved in 2021, so too did our approach to engaging with colleagues and ways of working. This was supported by our People Strategy, which is set in the foundations of embedding our internal behaviours of integrity, excellence and collaboration.

Our 'work from home' guidance was in place for much of the year with office presence limited to essential colleagues only. This further enhanced our focus on ensuring effective communication across the organisation. In addition to weekly 'blog' updates and quarterly all-colleague calls, two-way communication was embedded through our Employee and Management Forums. The Chief Executive and senior executive colleagues continued their virtual 'open door' approach.

Following on from our all-colleague survey in 2020, we conducted a number of pulse surveys in 2021. These were designed to assess the engagement levels of our colleagues and to ensure that they had the necessary tools to do their jobs effectively. These surveys also enabled us to understand any wellbeing or health and safety issues facing our colleagues.

We remain committed to promoting the health and wellbeing of our colleagues. In 2021, our accredited mental health first aiders continued to promote their services to all colleagues, we commissioned wellbeing sessions from third-party companies and an internal shared site was set up to access wellbeing support. All colleagues were able to access our Employee Assistance Programme. Wellbeing is an area that we take extremely seriously and, as well as sharing the support available to colleagues, we encourage our people to be open and honest about how they are feeling.

We have a substantial budget for colleague training and development and we encouraged managers and teams to review their development needs at performance and development reviews throughout the year. Our leaders are key to embedding our People Strategy and supporting our colleagues to deliver for our members. We invested in leadership development for all line managers in 2021 by partnering with The Leadership Factory to provide bespoke training. This eight-month programme provided training workshops, coaching sessions and support and challenge groups to our leaders. This has led to further proposals for development to be considered by the Executive Committee.

In addition to developing our policies, processes, colleagues and leaders, we took the opportunity to review our working environment in 2021. To enable effective hybrid working, all colleagues were provided with laptops, home-working equipment and relevant health and safety assessments. We also moved to our new Glasgow office. This provides a modern, open-plan working environment that allows colleagues to collaborate more effectively and to meet internal and external stakeholders.

We continued to support charities and the wider community in 2021. We support the Payroll Giving scheme by contributing to monthly charity payments as well as contributing directly to colleagues' fundraising activities. We provide colleagues a day's leave to support charity endeavours. At Christmas, MDDUS donated £1,500 to Crisis. Our total charitable donations in 2021 from MDDUS and colleagues was £22,198.

Our Equality, Diversity and Inclusion statement, which is available on our website, shows our commitment to making a difference over time for colleagues and members. We continued to engage with externally led initiatives in 2021, including the Mutual Diversity Alliance supported by the AFM.

In relation to our suppliers, MDDUS is required by the Reporting on Payment Practices and Performance Regulations 2017 to submit payment practice reports every six months. We also publish an annual Modern Slavery Statement (p. 21).

Directors' report

More generally, MDDUS continued to engage 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 in each of our jurisdictions, retained our membership of the health professionals public affairs network in Scotland, and continued our formal and informal engagement with regulators and a wide range of healthcare bodies. Our work in this area was designed to ensure our corporate messages were heard across our spectrum of stakeholders and, where appropriate, to influence policy and processes to the benefit of our members. In particular, we sought again, with some success, to focus the attention of the media, politicians and regulators on wellbeing issues facing our members during the Covid-19 pandemic. Similarly, we emphasised the need to find mechanisms to recognise the issues presented by the pandemic in future regulatory action, criminal proceedings and litigation. We used our online 'Coronavirus Hub' to provide members with relevant medico- and dento-legal advice and support and to publicise our free mental health and wellbeing service. Known as YourHalo, this service was launched in 2021 in response to the findings of a second membership survey, which showed the impact the pandemic continues to have on wellbeing and morale.

In relation to the environment, our new Glasgow office has a smaller floor plate, with a view to reducing our carbon emissions in the medium to longer term. Our commitment to promoting sustainability and tackling climate change was incorporated into the design brief, including by optimising recycling and using sustainably sourced furniture, where possible. Our significant investment in technology has already reduced paper usage, and the completion of a 'paperlite' project overhauled and reduced our hard copy filing and archiving arrangements. We worked with an external consultancy during 2021 to understand, and determine our response to, challenges emerging from climate change. We agreed and launched a Climate Change Strategy and Roadmap in November 2021, when the COP26 summit was meeting in Glasgow, with actions to be progressed in 2022. A statement is provided in support of our Streamlined Energy and Carbon Disclosure (SECR) (p. 22).

Finally, a principal aim of this Annual Report is to demonstrate the delivery of our objectives, mission statement and values to our mutual owners/members during 2021, having regard to our other stakeholders.

This is subject to the overriding statutory duty of directors 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. 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

The Board believes firmly that there are no circumstances in which it is acceptable to support and/or encourage slavery, forced labour and/or human trafficking.

The Board agreed its first modern slavery statement in 2017. Since then, the Group has developed and implemented an annual action plan to enable it to demonstrate compliance with the Modern Slavery Act 2015. The Board statement for the financial year ending 31 December 2020 was agreed in June 2021 and is available on our website. A review of the current action plan and a new procurement policy should ensure that MDDUS more robustly meets both the letter and spirit of the legislation in 2022.

Streamlined Energy and Carbon Disclosure (SECR)

The reporting period covered by this disclosure is 1 January to 31 December 2021.

The UK energy usage and associated emissions for MDDUS across the reporting period for electricity, gas and transport is illustrated below. Comparison data for the prior year's reporting period is also included.

Directors' report

Table 5 MDDUS Emissions – 2021 Reporting Period

	Electricity	Gas	Transport	Total
Energy consumed - in kWh	206,037	243,347	7,177	**456,561**
Emissions - in CO2e kg	43,748	44,571	1,755	**90,074**
Emissions - in CO2e tonnes	44	45	2	**90**
Total emissions per FTE – in CO2e per employee	n/a			**0.56**

Table 6 Previous Year Comparatives

	Total 2021	Total 2020
Energy consumed - in kWh	456,561	482,709
Emissions - in CO2e kg	90,074	99,402
Emissions - in CO2e tonnes	90	99
Total emissions per FTE – in CO2e per employee	0.56	0.66

The energy usage within this SECR disclosure relates only to the parent company, MDDUS. Our subsidiaries do not individually meet the large company criteria under the Companies Act 2006 and as such their energy usage has been excluded.

All calculations have been performed using actual data across the reporting period. Data for electricity and gas usage was obtained from utility invoices, save for electricity data relating to 206 St Vincent Street Glasgow, where meter reading information was used. Transport energy usage relates to travel carried out in employee-owned vehicles, broken down for both diesel and petrol engine cars. There are no company-owned vehicles.

All conversion factors used are derived from figures published by the Department for Business, Energy & Industrial Strategy relating to energy usage in 2021.

The conversion factor for electricity is calculated using the location-based grid-average figures. For travel, an average car size has been assumed when converting miles travelled into energy consumed (kWh) and associated emissions (CO2e). An operational control approach has been used when calculating energy consumed.

MDDUS undertook energy efficiency action during 2021 by investing in the transition to a new office in Glasgow with a smaller floor plate and modern, efficient heating and lighting. There has been a reduction in total emissions per full-time equivalent employee since the previous year, but the impact of this energy efficiency action is likely to become more apparent now that our vacant Glasgow office has been sold.

Viability statement 2021

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 and combined operating 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 2024. The directors' assessment has been made with reference to MDDUS' current financial position and future prospects, its strategy, the market outlook and its principal risks and management thereof.

A period of three years was chosen as this is the normal length of our strategic planning 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 impact on MDDUS of the Covid-19 pandemic and investment market volatility, for example, following the Russian invasion of Ukraine. 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 and investment market volatility were 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' solvency and liquidity of lower revenue, investment losses and increased outgoings during 2022. The Board also considered the impact of these scenarios on the financial position of MDDUS over the period to 2024 and the output of a reverse stress test to determine the conditions that would cause MDDUS to become insolvent. Note 1k gives more detail of the scenarios and tests undertaken.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and company financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and company and of the profit or loss 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 accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditor

So far as the directors are aware, there is no relevant audit information of which MDDUS' 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
4 July 2022

Audit and Risk Committee report

The Audit and Risk Committee is charged with, amongst other things: reviewing the governance arrangements of the Group and any developments in governance 'good practice'; considering the reports of the external and internal auditors and the executive's responses; recommending the Annual Report and financial statements to the Board; endorsing the (re-) appointment of the external auditor to the Board; and oversight of risk management and financial and other internal controls.

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 2021 and 2022 were:

- reviewing the financial statements for the years ending 31 December 2020 and 2021, with particular reference to the consolidated statements of income and retained earnings, balance sheets, and cash flows, the requirements of the Code and the external auditor's report, and recommending their approval to the Board
- monitoring the effectiveness, independence and objectivity of the external auditor
- recommending the re-appointment of 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
- monitoring the effectiveness and independence of the internal auditor
- monitoring the effectiveness and independence of the risk and internal compliance functions
- reviewing the effectiveness of financial and other internal controls
- considering the MDDUS ORSA reports for 2020 and 2021
- oversight and monitoring of the risk culture
- reviewing the risk management processes, including the risk management policy and risk registers
- considering the lessons learned in relation to our business continuity response to the Covid-19 pandemic
- considering the review of the Articles of Association of MDDUS
- considering the FRC principles for operational separation of audit practices.

The Committee also received reports about the directors' register of interests and 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 2021

The lead partner from BDO LLP attended the Committee for all four meetings in 2021. He 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, with accounting for the two separate Existing Liabilities Schemes in England and Wales (ELS) and the impact of Covid-19 on the going concern assessment no longer considered significant risks. The ELS were one-off developments in 2019. The impact of Covid-19 in early 2020 brought more uncertainty to the going concern position than the current impact of the ongoing pandemic. Valuation of investment properties is now considered a significant risk due to the relative size of the portfolio. 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 2021 were recommended by the Committee to the Board meeting in June 2022.

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

Audit and Risk Committee report

independent and proportionate. This work focused primarily on tax advisory matters, particularly in relation to HMRC's challenge of MDDUS' mutual tax exemption.

On the basis of our 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 October 2020 and agreed to proceed with a review in 2021. In light of the very limited responses received to the tender, the Board agreed to postpone the review to 2023.

Internal audit for the year ending 31 December 2021

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. The annual report from Deloitte LLP confirmed that it had, through its work, obtained assurance that the governance, risk and control framework within MDDUS was operating effectively in parts. Where findings were identified, the executive takes action to improve the control environment.

On the basis of our annual evaluation process, the Committee agreed that Deloitte LLP continued to provide the level of service required and value for money for our membership.

Compliance assurance reviews for the year ending 31 December 2021

The Committee also agreed a programme of inhouse 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 registers

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

The framework and processes used to manage, assess and address risk for MDDUS are constantly updated and remain a top priority. The strategic, financial and operational risk registers were fully discussed by the Committee biannually before being recommended to the Board. The Committee also recommended updates to the risk management policy. The registers and policy were agreed at the Board meeting in December 2021.

Margaret McPhail
Chair, Audit and Risk Committee
4 July 2022

Independent auditor's report

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Medical and Dental Defence Union of Scotland (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Income and Retained Earnings, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report

Other Companies Act 2006 reporting

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

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

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

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

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

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

- performing analytical procedures to identify unusual or unexpected relationships that may indicate risks of material misstatements due to fraud. Areas of identified risk were then tested substantively;
- reading minutes of meetings of those charged with governance to identify indications of non-compliance with laws and regulations;
- assessing the design and implementation of the control environment to identify areas of material weakness to focus the design of our testing;
- assessing the operating effectiveness of controls over the IT systems relevant to financial reporting;

- determining whether the accounting policies and presentation adopted in the financial statements are in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice);
- identifying whether there are instances of potential bias in areas with significant degrees of judgement and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- challenging management's experts on areas of significant estimation or judgement such as the provision for future claims and investment property valuation and consulting with our own experts;
- performing data analytics testing in respect of revenue to recalculate key balances and identify anomalies to be investigated further; and
- addressing the risk of fraud through management override of controls by testing the appropriateness of a sample of journal entries and other adjustments; assessing whether the judgements made in accounting estimates are indicative of a potential bias; and evaluating the business rationale of significant transactions that are unusual or outside the normal course of business;
- vouching balances and reconciling items in key control account reconciliations to supporting documentation as at 31 December 2021; and
- carrying out detailed testing, on a sample basis, of transactions and balances agreeing to appropriate documentary evidence to verify the completeness, existence and accuracy of the reported financial statements.

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: **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

7 July 2022

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

MDDUS

Financial statements for 2021

Financial statements for 2021

Consolidated statement of income and retained earnings

For the period from 1 January 2021 to 31 December 2021

	Notes	2021	2020
		£'000	£'000
Income			
Members' subscriptions and other income	1(c)	69,944	65,270
Expenditure			
Claims costs and associated legal costs	14	26,057	14,037
Reinsurance premium	1(n)	792	609
Advisory and non-claims legal costs	14	(2,520)	6,789
Other settlement costs	8	-	444
Administration costs		14,184	14,101
		38,513	**35,980**
Surplus/(deficit) of income over expenditure	3	31,431	29,290
Realised gains/(losses) on disposal of fixed assets and investments		5,738	15,785
Changes in fair value of investments	9&11	(4,531)	22,505
FX (losses) / gains	11	4,105	-
Release of lease incentive asset on disposal of investment property		-	(590)
Investment income	1(g)&6	8,797	13,020
Interest payable	7	(2,126)	-
Surplus/(deficit) on ordinary activities before taxation		43,414	80,010
Taxation	1(i)&7	11,001	5,791
Net and total comprehensive result available for transfer to reserves		**32,413**	**74,219**
Accumulated fund brought forward		512,202	437,983
Accumulated fund carried forward		**544,615**	**512,202**

All amounts relate to continuing operations.

Consolidated and company balance sheets

As at 31 December 2021

Company Number SC005093

	Notes	Group 2021	Group 2020	Company 2021	Company 2020
		£'000	£'000	**£'000**	£'000
Fixed assets					
Tangible assets	9	52,747	52,565	2,757	1,564
Investments	11	601,074	575,536	638,097	611,538
		653,821	**628,101**	**640,854**	**613,102**
Current assets					
Debtors and payments in advance	12	26,118	26,384	24,086	23,778
Cash at bank, in hand and on deposit		21,403	39,408	14,622	29,149
Corporation tax debtor		12,960	-	12,535	-
		60,481	**65,792**	**51,243**	**52,927**
Creditors: amounts falling due within one year					
Sundry creditors and accrued charges	13	35,411	32,338	34,031	31,508
Corporation tax provision		-	7,766	-	8,248
		35,411	**40,104**	**34,031**	**39,756**
Net current assets		25,070	25,688	17,212	13,171
Total assets less current liabilities		678,891	653,789	658,066	626,273
Provision for liabilities and charges	14	134,276	141,587	133,498	141,528
Total net assets		**544,615**	**512,202**	**524,568**	**484,745**
Reserves					
Accumulated fund	16	544,615	512,202	524,568	484,746
		544,615	**512,202**	**524,568**	**484,746**

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of income and retained earnings in these financial statements.

The surplus for the year of the parent company, MDDUS is £39.822m (2020: £74.896m). These financial statements were approved by the Board of directors on 4 July 2022.

Iain Cameron
Chair

Chris Kenny
Chief Executive

The notes on pages 34 to 50 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

	2021	2020
	£'000	£'000
Cash flow from operating activities		
Surplus/(deficit) for the financial year	**32,413**	74,219
Adjustments for:		
Depreciation of fixed assets	312	186
Gains on sale of fixed assets	(5,738)	(15,785)
Net fair value (losses) / gains recognised in statement of income and retained earnings	4,531	(22,505)
Net interest receivable	(816)	(1,275)
Dividend income from fixed and current asset investments	(7,981)	(11,745)
Change in investments unrealised foreign exchange (gains) / losses	(4,105)	-
Taxation charge	11,001	5,791
Decrease/(Increase) in trade and other debtors	3,025	183,589
Increase/(Decrease) in creditors	3,073	(8,507)
(Decrease)/Increase in provisions	(13,748)	(195,648)
Income taxes paid	(25,290)	(9,437)
Cash from operations	**(3,323)**	**(1,117)**
Cash flow from operating activities		
Proceeds from sale of tangible fixed assets	10	21,654
Purchases of tangible fixed assets	(1,607)	(69)
Purchases of investments	(306,017)	(695,049)
Cash movement in investments	-	960
Proceeds from sale of investments	286,894	667,106
Interest received	816	1,275
Dividends received on fixed and current asset investments	5,222	11,745
Movement on long-term deposits	-	-
Movement on cash equivalents	(807)	(87,908)
Net cash from investing activities	**(15,489)**	**(80,286)**
Cash flows from financing activities	-	-
Net (decrease)/increase in cash and cash equivalents	(18,812)	(81,403)
Cash and cash equivalents at the beginning of year	40,215	121,618
Cash and cash equivalents at end of year	**21,403**	**40,215**
Cash and cash equivalents at end of year comprise:		
Cash at bank, in hand and on deposit	21,403	39,408
Cash equivalents	-	807
	21,403	**40,215**

Notes to the accounts

For the year ended 31 December 2021

1. Accounting policies

a) Accounting convention

MDDUS is a company incorporated in Scotland under the Companies Act and limited by guarantee. The address of the registered office is 206 St Vincent Street, Glasgow, G2 5SG 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. 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 2021. No income and expenditure account is presented for The Medical and Dental Defence Union of Scotland as permitted by section 408 of the Companies Act 2006. The company surplus for the period included a surplus after tax of £39.822m (2020: Surplus £74.896m) 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 period, apportioned to accounting periods on a time basis. Subscription income is generated within the UK.

Other income is derived from MDDUS Education Limited, MDDUS Property Limited, MDDUS Insurance Limited and MDDUS Services Limited.

MDDUS Education Limited's income represents the invoiced sales for the period 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's income consists of investment income and insurance income in the year. Insurance income is apportioned to accounting periods on a time basis. Insurance income is generated in Guernsey.

MDDUS Services Limited income represents the brokerage fees for the introduction of members to MDDUS and third party providers.

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 and office equipment have been depreciated on the reducing balance basis at the rate of 25% per annum to 2020. In 2021 these were converted to a straight line 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.

v) Leasehold improvements have been depreciated on a straight line basis at the rate of 20% per annum.

Investment properties are revalued annually to open market value which the directors consider to be their fair value in accordance with FRS 102. No depreciation is provided. The directors consider that this accounting policy results in the financial statements giving a true and fair view.

The aggregate surplus or deficit arising on revaluation is recognised in the income and expenditure account.

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. The lease for MDDUS' head office is directly held by a subsidiary. The subsidiary is considered to be an agent to this agreement by virtue of the sub-lease arrangement in place between the parent company and its subsidiary. The parent company has accounted for all transactions related to the lease as the principal.

Notes to the accounts

For the year ended 31 December 2021

1. Accounting policies (continued)

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 2021. The provision is the discounted value of the expected future settlement and handling costs. The provision relates to all incidents notified at 31 December 2021.

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 period to 31 December 2021 have been included.

h) Investments

Listed investments held at 31 December 2021 are stated at the bid or single price valuation on that date which the directors consider to be its fair value under FRS 102. Derivative investments are initially recognised at fair value at the date the derivative contract is entered into and subsequently revalued at the end of each reporting period with the gains and losses accounted through income and expenditure account. The company uses derivative instruments to protect against currency, interest and market volatility. Unlisted investments have been valued at the lower of cost and net asset value which the directors consider to be its fair value under FRS 102. Movements on revaluation are accounted for through the income and expenditure account.

In the company financial statements, investments in subsidiary undertakings are carried at the lower of cost and net asset value which is reviewed at 31 December each year.

i) Taxation

Corporation tax has been provided using the rate of 19% (2020: 19%).

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. The rate used is 19% for all items expected to materialise prior to 1 April 2023 and 25% thereafter (2020: 19%). 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 conclusion. The Board considered the potential impact of a range of potential scenarios and the effect on MDDUS' solvency and liquidity of lower revenue, investment losses and increased outgoings, including claims and non-claims, during 2021. The Board assessed the impact of these scenarios on the financial position of MDDUS over the period to 2024 and the output of a reverse stress test to determine the conditions that would prevent MDDUS from being able to continue as a going concern. The Group's and the parent company's strong cash reserves mean that they will continue to be able to pay its liabilities as they fall due.

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.

Derivative financial instruments including forwards, swaps and options are initially recognised at fair value and subsequently remeasured to their fair value at each reporting date with the resultant gain or loss being recognised through the income and expenditure account.

Notes to the accounts

For the year ended 31 December 2021

1. Accounting policies (continued)

n) Reinsurance

Reinsurance premiums paid are accounted for proportional to the exposure period to which they relate on an earned basis. Reinsurance recoveries are accounted for in the same accounting period as the claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities in addition to an estimate of future recoveries on notified claims. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Where appropriate a reinsurance bad debt provision is assessed and recognised in respect of reinsurance debtors, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly and this is taken as an indication of a reinsurer's difficulty in meeting its obligations under the reinsurance contracts. This also includes an assessment in respect of the ceded part of the claims provisions to reflect the counterparty default risk exposure to long-term reinsurance assets. Increases in this provision affect the Group by reducing the carrying value of the asset and the impairment loss is recognised in the income statement.

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

Provision for liabilities and charges (see Note 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.

Notes to the accounts

For the year ended 31 December 2021

3. Surplus/(deficit) of income over expenditure

	2021	2020
This is stated after charging:	**£'000**	£'000
Emoluments of directors (excluding benefits in kind)	1,619	1,982
Auditor's remuneration	151	141
Pension costs	1,311	1,123
Depreciation on owned assets	312	186
Auditor's remuneration consists of:		
Group auditor's - audit	112	89
Group auditor's - taxation advisory	39	52
	151	141
Company only auditor's remuneration	**71**	49

4. Emoluments of directors

	2021	2020
	£'000	£'000
The detail of directors' emoluments (including executive directors) was as follows:		
Emoluments (including benefits in kind)	1,624	2,040
Pension costs	10	10
	1,634	2,050
The detail of the highest paid director's emoluments was as follows:		
Emoluments (including benefits in kind)	535	599
Pension entitlement taken as salary	80	80
	615	679
	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 2021

5. Employees' remuneration

	2021	2020
	£'000	£'000
Salaries (including non-executive directors)	10,785	10,831
Social security costs	1,187	1,238
Pension costs	1,311	1,123
	13,283	13,192
Group		
Average number of employees in the year	**Number**	Number
Non-executive directors and administrative	182	171
	182	171
Company		
Average number of employees in the year	**Number**	Number
Non-executive directors and administrative	178	167
	178	167

6. Investment income

	2021	2020
	£'000	£'000
Dividends		
Franked	1,477	3,566
Unfranked	6,504	8,179
Interest	816	1,275
	8,797	13,020

Notes to the accounts

For the year ended 31 December 2021

7. Taxation

	2021	2020
	£'000	£'000
Corporation tax		
Corporation tax expense for the year	4,356	6,389
Corporation tax expense for prior years	208	6,957
Total current tax charge	**4,564**	13,346
Deferred tax		
Timing differences, origination and reversal	6,726	(7,328)
Change in tax rate	(289)	(227)
Total deferred tax charge/(credit)	**6,437**	(7,555)
Total tax charge through statement of income and retained earnings	**11,001**	5,791

Factors affecting the tax (credit)/charge

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

	2021	2020
	£'000	£'000
Surplus/(deficit) on ordinary activities before tax	**43,414**	80,010
Surplus/(deficit) on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%):	8,249	15,202
Effects of :		
Non-taxable franked investment income of Group	(281)	(678)
Unfranked and interest income of Guernsey subsidiary not taxed	(157)	(156)
Chargeable losses/(gains) not recognised in current year	1,498	3,239
Deferred tax movement in year	6,437	(7,555)
Loss/(gain) on disposal of investments and assets	861	(4,276)
Adjustment in respect of prior periods	208	6,951
Losses brought forward utilised	(5,408)	(7,013)
Other	(406)	77
Current tax charge/(credit) through statement of income and retained earnings	**11,001**	5,791

Notes to the accounts

For the year ended 31 December 2021

7. Taxation (continued)

In 2019, HMRC raised an enquiry. The enquiry is still progressing and a variety of possible outcomes remain, including a refund due to MDDUS, no further impact at all, or a payment due to HMRC. However, the directors believe the most likely outcome will be a payment due to HMRC. Accordingly, a payment of £19.804m was made in 2021 in respect of 2015 and 2017. However, the change of approach to taxation if applied in the same manner to 2016, 2018 and 2019 would also generate tax refunds of approximately £12.8m which is included as a debtor in these financial statements. In addition, this outcome would create tax losses carried forward, part of which has been utilised to cover part of the tax liability for 2020 and 2021. Losses not utilised in the current year have reduced the deferred tax liability presented in the financial statements. In line with the most likely outcome, £2.1m of interest has been recognised through the statement of income and retained earnings.

8. Other settlement costs

The financial statements as at the end of December 2020 include other settlement costs of £444k in respect of the Welsh state-backed existing liability scheme. No further costs of this nature are reported in 2021.

9. Tangible fixed assets

Group

	Freehold property	Investment property	Furniture fittings & office equipment	Leasehold improvements	Total
Cost/Valuation	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	6,653	45,759	1,384	-	53,796
Additions	-	92	610	904	1,606
Disposals	-	-	(34)	-	(34)
Revaluation	-	(1,102)	-	-	(1,102)
At 31 December 2021	**6,653**	**44,749**	**1,960**	**904**	**54,266**
Depreciation					
At 1 January 2021	83	-	1,148	-	1,231
Provided during year	28	-	226	58	312
On disposals	-	-	(24)	-	(24)
Revaluation	-	-	-	-	-
At 31 December 2021	**111**	**-**	**1,350**	**58**	**1,519**
Net book value					
At 31 December 2021	**6,542**	**44,749**	**610**	**846**	**52,747**
At 31 December 2020	6,570	45,759	236	-	52,565

Notes to the accounts

For the year ended 31 December 2021

9. Tangible fixed assets (continued)

Company

	Freehold property	Investment property	Furniture fittings & office equipment	Leasehold improvements	Total
Cost/Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2021	1,412	-	1,383	-	2,795
Additions	-	-	610	904	1,514
Disposals	-	-	(34)	-	(34)
Revaluation	-	-	-	-	-
At 31 December 2021	**1,412**	**-**	**1,959**	**904**	**4,275**
Depreciation					
At 1 January 2021	83	-	1,147	-	1,230
Provided during year	28	-	226	58	312
On disposals	-	-	(24)	-	(24)
Revaluation	-	-	-	-	-
At 31 December 2021	**111**	**-**	**1,349**	**58**	**1,518**
Net book value					
At 31 December 2021	**1,301**	**-**	**610**	**846**	**2,757**
At 31 December 2020	1,329	-	236	-	1,565

Notes to the accounts

For the year ended 31 December 2021

9. Tangible fixed assets (continued)

Group and company

	Freehold property	Investment property	Furniture fittings & office equipment	Leasehold improvements	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Carrying value based on historical cost	6,437	41,387	760	846	49,430
Accumulated depreciation based on historical cost	3,303	6,563	1,767	58	11,691
Company					
Carrying value based on historical cost	3,309	-	760	846	4,915
Accumulated depreciation based on historical cost	2,657	-	1,767	58	4,482

The investment property portfolio was valued on 31st December 2021 by an external valuer, Avison Young (UK) Limited. The valuation was prepared in accordance with the RICS Valuation - Global Standards effective 31st January 2020 (the 'Red Book'). The valuer's opinion of Fair Value was primarily derived using comparable recent market transactions on arm's length terms.

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 31 December 2021.

Capital commitments and subsequent events

Capital expenditure approved and contracted for amounted to £Nil (2020:£Nil).

Notes to the accounts

For the year ended 31 December 2021

10. Operating leases

MDDUS holds investment properties which are let to third parties. These non-cancellable leases have remaining terms of between 1 years and 5 years.

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

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	£'000	£'000
Not later than one year	1,652	2,236	-	-
After one year but not more than five years	3,910	5,612	-	-
After five years	-	2,118	-	-
	5,562	9,966	**-**	-

Future minimum rental payable under non-cancellable operating leases are as follows:

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	£'000	£'000
Not later than one year	293	-	589	345
After one year but not more than five years	1,215	-	2,206	1,036
After five years	-	-	-	502
	1,508	-	**2,795**	1,883

Notes to the accounts

For the year ended 31 December 2021

11. Investments

	Group 2021	Group 2020	Company 2021	Company 2020
Valuation	**£'000**	£'000	**£'000**	£'000
Market value at 1 January 2021	575,536	506,817	611,538	563,468
Additions	306,824	695,049	305,042	646,043
Disposals	(281,156)	(651,968)	(281,156)	(602,028)
Movement in cash	(807)	(960)	-	337
Movement in unrealised currency gains / (losses)	4,105	-	4,105	-
Capital reduction in subsidiary	-	-	-	(21,850)
Impairment of subsidiaries	-	-	(398)	(433)
Changes in fair value of investments	(3,428)	26,598	(1,034)	26,001
Market value at 31 December 2021	**601,074**	575,536	**638,097**	611,538
Listed investments	601,611	574,729	554,530	526,885
Unlisted investments	-	-	84,254	84,653
Derivative asset investments	3,540	-	2,894	-
Derivative liability investments	(4,077)	-	(3,581)	-
Cash equivalents	-	807	-	-
	601,074	575,536	638,097	611,538
Historical cost	**573,069**	535,794	**611,102**	572,863

Unlisted investments at 31 December 2021 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, the entire issued share capital of 30,000,000 ordinary £1 shares of MDDUS Insurance Limited, an insurance company incorporated and registered in Guernsey, the entire issued share capital of 115,000,000 ordinary £0.46 shares of MDDUS Property Limited, a property company incorporated in Great Britain, registered in Scotland and the entire issued share capital of 2,000,001 ordinary £1 share of MDDUS Services Limited, a service company incorporated in Great Britain, registered in Scotland.

Notes to the accounts

For the year ended 31 December 2021

11. Investments (continued)
Subsidiary share capital and reserves:

	MDDUS Services Limited	MDDUS Insurance Limited	MDDUS Property Limited	MDDUS Education Limited
	£'000	**£'000**	**£'000**	**£'000**
Called up share capital	2,000	30,000	52,900	1,700
Profit and loss account	(646)	18,955	1,103	(1,724)
Aggregate of share capital and reserves	**1,354**	**48,955**	**54,003**	**(24)**
(Loss)/Profit for the year	**(331)**	**(1,956)**	**565**	**(91)**

12. Debtors and payments in advance

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	**£'000**	£'000
Trade debtors	21,255	21,536	20,301	20,106
Other debtors	4,337	4,329	3,005	3,143
Payments in advance	503	508	496	399
Other taxes and social security costs	23	11	-	-
Amounts owed by subsidiary undertakings	-	-	284	130
	26,118	26,384	**24,086**	23,778

13. Sundry creditors and accrued charges due within one year

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	**£'000**	£'000
Deferred income	30,804	30,198	29,989	29,473
Other taxes and social security costs	2,782	642	2,515	454
Sundry creditors and accruals	1,825	1,498	1,232	932
Amounts owed to subsidiary undertakings	-	-	295	649
	35,411	32,338	**34,031**	31,508

Notes to the accounts

For the year ended 31 December 2021

14. Provision for liabilities and charges

	Deferred Taxation	Claims	Non-Claims	Total
Group	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2021	(2,665)	112,763	31,489	141,587
Charged/(Credited) to income and expenditure account in period	6,437	26,057	(2,520)	29,974
Paid in year	-	(29,416)	(7,869)	(37,285)
At 31 December 2021	**3,772**	**109,404**	**21,100**	**134,276**
At 1 January 2020	4,890	308,700	31,200	344,790
(Credited)/Charged to income and expenditure account in period	(7,555)	14,037	6,789	13,271
Reduction due to ELS	-	(189,921)	-	(189,921)
Paid in year	-	(20,053)	(6,500)	(26,553)
At 31 December 2020	(2,665)	112,763	31,489	141,587

	Deferred Taxation	Claims	Non-Claims	Total
Company	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2021	(2,724)	112,763	31,489	141,528
Charged/(Credited) to income and expenditure account in period	5,722	26,053	(2,520)	29,255
Paid in year	-	(29,416)	(7,869)	(37,285)
At 31 December 2021	**2,998**	**109,400**	**21,100**	**133,498**
At 1 January 2020	4,620	308,700	31,200	344,520
(Credited)/Charged to income and expenditure account in period	(7,344)	14,037	6,789	13,482
Reduction due to ELS	-	(189,921)	-	(189,921)
Paid in year	-	(20,053)	(6,500)	(26,553)
At 31 December 2020	(2,724)	112,763	31,489	141,528

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 2021.

In addition to events reported at the end of the accounting period 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 2021 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 period 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 company's actuaries have however estimated the value of these IBNR claims and non-claims to be £157.2m (2020: £157.6m) and £24.7m (2020: £26.6m) respectively. This has been subject to peer review.

The above liabilities as at 1 January 2020 include those secured by the ELS (Existing Liability Scheme) transaction as MDDUS was still legally responsible for these as at 31 December 2019. On 6 April 2020 and 30 June 2020, legal assumption of these by DHSC (Department of Health and Social Care) and the Welsh Government respectively took place resulting in a significant proportion of these being extinguished at no cost to MDDUS.

Notes to the accounts

For the year ended 31 December 2021

15. Deferred taxation

Deferred taxation provided for at 19% for all items expected to materialise prior to 1 April 2023 and 25% thereafter (2020: 19%) in the financial statements is set out below:

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	£'000	£'000
Capital gains	7,649	7,403	7,649	7,403
Losses and other deductions	(4,651)	(10,127)	(4,651)	(10,127)
Timing differences on property	774	59	-	-
At 31 December 2021	**3,772**	(2,665)	**2,998**	(2,724)

16. Reserves

	Group 2021	Group 2020	Company 2021	Company 2020
	£'000	£'000	£'000	£'000
Accumulated fund				
At 1 January 2021	512,202	437,983	484,746	409,850
Transferred from income and expenditure account	32,413	74,219	39,822	74,896
At 31 December 2021	**544,615**	512,202	**524,568**	484,746

17. Reconciliation of movement in funds

	2021	2020
	£'000	£'000
Total recognised gains/(losses) in the year	32,413	74,219
Opening funds available to meet future liabilities	512,202	437,983
Closing funds available to meet future liabilities	**544,615**	512,202

Notes to the accounts

For the year ended 31 December 2021

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	601,611	-	-	601,611
Derivatives	(45)	(492)	-	(537)
At 31 December 2021	**601,566**	**(492)**	**-**	**601,074**
Listed investments	574,729	-	-	574,729
Derivatives	-	-	-	-
At 31 December 2020	574,729	-	-	574,729

Company

	Category (a)	Category (b)	Category (c)	Total
	£'000	£'000	£'000	£'000
Listed investments	554,530	-	-	554,530
Derivatives	(42)	(645)	-	(687)
At 31 December 2021	**554,488**	**(645)**	**-**	**553,843**
Listed investments	526,885	-	-	526,885
Derivatives	-	-	-	-
At 31 December 2020	526,885	-	-	526,885

Notes to the accounts

For the year ended 31 December 2021

18. Investments fair value determination (continued)

The MDDUS Investments Committee set out and review the company's investment strategy. In doing so they consider the estimated provision for future claims payments and consider how they are affected by market, interest rate and currency risks. MDDUS is investing in derivative instruments to protect its capital and hedge against sizable movements in foreign exchange rates, interest rates and market volatility exposures. These derivatives include FX Forwards £0.366m (2020: nil) to protect against short-term currency volatility of the non-Sterling investments, interest rate swaps (£0.891m) (2020: nil) to protect against longer duration exposures to interest rate changes, futures (£0.045m) (2020: nil) and options £0.033m (2020: nil) to protect against market volatility.

19. Financial instruments

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

	Group 2021	Group 2020	Company 2021	Company 2020
Financial assets	**£'000**	£'000	**£'000**	£'000
Financial assets measured at fair value through surplus or deficit	605,151	574,729	557,424	526,885
Financial liabilities				
Financial liabilities measured at fair value through surplus or deficit	(4,077)	-	(3,581)	-
	601,074	**574,729**	**553,843**	**526,885**

Financial assets measured at fair value through surplus or deficit comprises fixed asset listed investments and derivative instruments.

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

20. Pension commitments

Group and company

	2021	2020
	£'000	£'000
Charge through the statement of income and retained earnings in the year	1,311	1,123
Balance outstanding at the year end	**-**	-

Notes to the accounts

For the year ended 31 December 2021

21. Member's guarantee

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

22. Related party disclosures

The company has taken advantage of the exemption conferred by s33.1A of FRS102 not to disclose transactions with its wholly owned subsidiaries. The directors do not consider there to be any one single controlling party of the company. Key management personnel are considered to be the directors.

23. Related party transactions

During the year, the company made settlements amounting to £931.60 (2020: nil) to Scottish Centre for Excellence in Dentistry, a company in which Dr R Sadler is a director. There are no amounts outstanding to or from the company at the period end (2020: nil).

24. Post Balance Sheet Events

In April 2022 MDDUS Property Limited sold the Cannon Street building for the total consideration of £30m. As part of the transaction the Group will also pass to the buyer capital allowances valued at £0.5m at the current tax rates. Professional fees and miscellaneous costs associated with the transaction are not yet known, but are estimated at approximately £0.5m.

In MDDUS Property Limited a share capital reduction took place on 3 May 2022 where each of the 115m shares was reduced by £0.26.

Following share capital restructuring MDDUS Property Limited made a distribution of £28m to the parent company.

MDDUS Board and honorary fellows

Chair
**Iain T Cameron[2,3,4]
BSc MA MD FRCOG FRCP (Edin)

Vice-Chair
James Black[2,3,4]
FFA

Senior Independent Director
**Joanna L Bayley[2,3]
MBChB MA MRCEM MRCGP

Chief Executive
*Chris Kenny[4]
MA FRSA

Other directors
****The Rt Hon. Dame Elish Angiolini[3]**
DBE QC
(Resigned 20 May 2022)

****Satyajit Bhattacharya[1]**

****Marian Glen[1,3,4]**
MA (Hons) LLB

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

****Vikki Macleod[1,4]**

****Margaret A McPhail[1,3,4]**
Dip Man MIoD

***Emma Parfitt**
LLB (Hons) French Diploma of Law

***James Parker[2,4]**
ACMA BSc

****Rebecca Sadler[1]**
BDS (Hons)

****John Taylor[2,4]**
BSc (Hons), PhD, FFA
(Appointed 21 November 2021)

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

J Douglas Bell
MBChB FRCP (Edin) FFOM DIH

Jonathan P Berry
MBChB MBA MA
(Appointed 3 September 2021)

Judith M Chapman
MA MB BChir FRCGP DRCOG

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

Gordon C A Dickson
MLitt PhD FCII FIRM

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

John Garner
MBChB FRCGP FRCPEd DCH DRCOG

Douglas G Garvie
OBE FRCGP

James Graham
MBChB FRCS (Ed & Glasg)

John R Griffiths
BA (Oxon) LLB WS

Colin J Slevin
MA (Hons) MBA CA
(Appointed 3 September 2021)

Brendan Sweeney
MBE MA MBChB DRCOG FRCGP

Key

1 Member of the Audit and Risk Committee

2 Member of the Investment Committee

3 Member of the Remuneration and Nominations Committee

4 Member of the Actuarial, Reserving and Pricing Committee

* Executive director

**Independent non-executive director

Accurate as at 1 June 2022

Our management

Chief Executive
*Chris Kenny
MA FRSA

Director of Professional Services and General Counsel
*Emma Parfitt
LLB (Hons) French Diploma of Law

Finance Director
*James Parker
ACMA BSc

Customer and Development Director Managing Director, MDDUS Services Limited
Chris Godeseth
BMedSci (Hons) BM BS MRCS (Ed)

Director of People and Corporate Services
Kimberly Johnstone
BA MSc Assoc CIPD

Group Director of Governance
Dawn Reid
LLB (Hons)

IT Director
Elaine Whitefoot

Joint Head of Legal
James Doake
BSc (Hons)

Joint Head of Legal
Sara Foster
BA (Hons) Dip Law

Company Actuary
Dermot Grenham
FIA DPhil MSc

Head of Dental
Stephen Henderson
BDS LLM FFGDP (Hon)

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

Chief Medical Officer
John Holden
MB BS MPhil MRCGP FFFLM DCH DRCOG

Head of Medical
Naeem Nazem
MBCLB BSc (Hons) MRCP LLB (Hons)

* Executive director

Accurate as at 1 June 2022

External professional advisers

Auditor

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

Banker

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

Barclays Corporate Banking
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Canary Wharf
London E14 5HP

Internal auditor

Deloitte LLP
110 Queen Street
Glasgow G1 3BX

Investment consultant

Mercer Limited
Tower Place
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Investment managers

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