Registered number: 21708

The Medical Defence Union Limited

(A company limited by guarantee)

Directors' report and financial statements

for the year ended 31 December 2013

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THE MEDICAL DEFENCE UNION LIMITED
(A company limited by guarantee)

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Report of the chairman
for the year ended 31 December 2013

"The help the MDU gave was timely, unfailingly helpful, efficient and professional, and I am very grateful for your assistance in a difficult time."

In last year's annual report I stressed how the quality of the service we give matters enormously to us. Despite a year of growing demand and an increasingly hostile medico-legal environment, I am pleased to say all the indicators show we have maintained that commitment.

In 2013, demand for our claims and legal services rose for the seventh year running – a reflection of the considerable pressures medical and dental professionals experience every day. The advisory team, meanwhile, received an unprecedented 33,400 calls for assistance or advice from members. Our staff rose to the challenge and throughout the year member satisfaction figures remained high. In fact, in our two main member surveys of 2013, 100% of respondents indicated that they were quite or very likely to recommend the MDU to friends and colleagues.

The number of new claim notifications increased by over 20% for medical claims and almost 10% for dental claims. This is in addition to the many active claims files which carry over from year to year. In the last quarter of 2013 claims against dentists slowed – a glimmer of hope, perhaps, that the effects of the Jackson reforms, and in particular the scrapping of the old conditional fee (or 'no win, no fee') arrangements, are starting to be felt.

This does not appear to be the case for medical claims, which continued their inexorable rise and with more than one million GP consultations taking place every day in the UK, it is perhaps not surprising that the rise in claims against GPs was sharper than for other specialties.

Compensation payments, too, are spiralling. As a not-for-profit mutual organisation, our subscriptions must inevitably reflect money paid out to compensate patients. Of course, we continue to challenge claims for damages that we believe to be excessive, and our high value claims unit, set up in 2012 to give special attention to such cases, carefully monitors claims in specialties that attract the largest compensation payments, such as general practice, neurosurgery and obstetrics.

As Dr Christine Tomkins describes in the strategic report, we are campaigning vigorously at government level to effect changes in the law that will cap damages payments at a point that is affordable and fair to all parties.

A claim can be a distressing experience for a member, but a referral to the GMC or GDC can be traumatic, as many members who have been through one will testify. The psychological and emotional pressures are tremendous when your reputation and livelihood are at risk.

We pride ourselves on offering the best possible advice, guidance and support to a member who is going through a regulatory investigation or fitness to practise hearing. Thanks to the expert skills of our advisers and legal team, we have an excellent track record of concluding cases at the investigation stage, without referral to a full fitness to practise hearing.

Members also comment on the high level of emotional support they receive from our team during this difficult time.

A learning culture

2013 saw a proliferation of new regulations, recommendations and quality measures, which our members had to absorb and adjust to while continuing to meet their patients' expectations for very high levels of care and treatment. One of the recurring areas of national discussion was the development of a 'learning culture'.

Espoused by the government and in two of the year's most influential reports – the inquiry into care at Mid-Staffordshire Hospital and the follow-up Berwick Report – a 'learning culture' has long been a cornerstone of the MDU's work. It may be that errors are inevitable in medicine and dentistry, especially when practitioners are stressed, or tired, or place too much reliance on 'common things occurring commonly'. But everyone can learn from them, in order to avoid a similar risk in the future.

Report of the chairman
for the year ended 31 December 2013

In this respect, we continued to help members learn to mitigate risk in their practice during 2013. Our programme of seminars for members of the GP GroupCare scheme and for hospitals remained in constant demand. In addition, our medico- and dento-legal advisers delivered over 250 presentations at the request of groups of practitioners at all stages of their careers. The subjects were wide-ranging – from confidentiality and mental capacity, to GMC and GDC fitness to practise procedures and child protection.

Our regional medico-legal roadshows also proved popular. These invitation-only events offered members an opportunity to learn more about key medico-legal and risk issues from our senior advisers and members of the MDU executive.

Learning can take many forms, of course. In practice, you are well used to auditing significant events and taking lessons from them. Other skills may need expert input, and in recognition of this, our education programme continues to offer specialist training. One of the most important, I believe, is communication, especially as care services become more fragmented. It is significant that poor communication by the practitioner is cited in around 30% of patient complaints that members notify to us. Communicating well – whether that is talking empathetically to patients, or giving clear instructions to colleagues, or writing full contemporaneous patient or handover notes – is paramount for today's practitioners and a key element of risk mitigation.

Here to guide, support and defend

If evidence were needed that a learning culture is at the heart of improvements in patient care, the words of one consultant member speak volumes. The member was the subject of a seven-year investigation into a single incident. When eventually the matter was resolved, he commented:

'Many doctors go through the mill like I did. It's important to realise that with the MDU's help you do survive, get through it, continue practising and in many ways become a better doctor.'

Seeing a problem through, though painful and disruptive, can result in growth and personal development. If the importance of learning from error is at the forefront of our mind, we will go a long way towards preventing problems in the future.

Council news

I should like to thank two members of the dental advisory committee who retired having given many years of service to the company. Mrs Mabel Slater and Mr Richard Caddick both served the dental membership with expertise and skill. I thank them for their contributions and assistance with many complex dental cases.

Meanwhile, we welcome two new faces to the team. Mr Eric Whaites, consultant dental radiologist and head of the dental radiological imaging department at King's College London Dental Institute, has joined the dental advisory committee and the MDU Council, where he will provide expert clinical opinion on negligence claims against dental members.

Also joining the Council is Dr Jane Whittaker, a practising GP and GP trainer based in Stockport.

Finally, I warmly thank Mr Richard Pearson who retired after many years' valuable service on the MDU Board and the audit committee. In particular, he was instrumental in formalising the audit committee and introducing standardised practices that have benefited the company's financial strength. We all wish him a long and happy retirement.

Dr Peter R Williams
Chairman of the board of management and President of the MDU

Strategic report
for the year ended 31 December 2013

"When we needed you, you were there. It fully justified many years of comparatively quiet interaction before."

"100% of members surveyed are likely to recommend the MDU to a friend or colleague."

"It's been a long haul for everyone involved and I thank the DDU from my heart for the opportunity to come back to the profession I love."

"The great outcome speaks volumes for your expertise and judgement in the handling of the case."

2013 was a year of major change within the NHS as 1 April saw the implementation of the reorganisation introduced by the Health and Social Care Act 2012. Our medical members rose to the challenge and continued to provide a high level of service for patients in their usual way, and the MDU was on hand providing medico-legal advice and support.

The full consequences of these far-reaching changes have not yet played out and with revalidation still being rolled out, increased regulation in all spheres of practice, and an election in prospect for 2015, there is going to be no let up. We remain ready to help members put themselves in the best position to face the future.

2013 was our busiest year yet. Our advisory team answered over 33,000 calls from members to our 24-hour advice line. Our claims handling team opened over 20% more new medical claims files than in 2012, and dental claims rose by almost 10%. The steep rise in claims is again largely attributable to the legal changes on 1 April 2013. Realising they were going to have to reduce their fees in future, solicitors rushed to take on claimants under the old conditional fee agreements where their clients had no interest in costs and solicitors could recover an uplift by way of a success fee from the defendant. They continue to notify cases under the old arrangements, prolonging the disproportionately high costs the legal changes are intended to address.

Overall, 2013 saw an increase of 21.3% in the number of active medical claims files our claims team manages (14.5% in 2012). This figure reflects the department's increased workload of new files opened during the year as well as ongoing files from previous years. It further demonstrates the number of additional cases that claimants' solicitors took on in anticipation of less favourable costs arrangements post 1 April 2013.

On the advisory side, we opened 3.2% more medical files. The increase in requests for MDU assistance with GMC investigations continued, though the GMC received fewer complaints in 2013. The 9,872 complaints or enquiries that went through the GMC triage process in 2013 were 5% fewer than in 2012. However, 2,941 complaints resulted in Stream 1 investigations, a 9% increase on 2012. The GMC considers that Stream 1 cases raise potentially serious issues and it is usually at this stage that members contact us. As a result, 2013 saw an increase in members who sought our help.

The number of new dental advisory team files increased slightly, reflecting a levelling off of NHS complaints and GDC investigations, but an increase in more general dento-legal and ethical inquiries. Many of these were dental members seeking clarification of the GDC's revised Standards guidance.

Over the past couple of years we have expanded our in-house legal department and in 2013 instructed in-house solicitors on 30% more advisory and claims files than in 2012. This avoided the need to instruct external solicitors in these cases and meant that, despite more members seeking our assistance, the overall spend on advisory legal costs continued to reduce. However, the unprecedented number of claim notifications led to an increase in claims legal costs. Our total legal spend for discretionary and insured claims increased from £25.1m in 2012 to £26.9m in 2013. We are continuing to take additional measures to control legal costs, including introducing fixed fee arrangements for certain types of case with some external solicitors.

The MDU continues to represent members' interests with the government, regulators and other bodies. We made sure we understood the potential impact of the main changes planned for 2013 that spanned the implementation of both the Health and Social Care and the Legal Aid, Sentencing and Punishment of Offenders Acts, as well as the continued roll out of revalidation and the introduction of CQC regulation for primary medical care. We advised members on a diverse range of medico-legal matters from ensuring they had the right type of indemnity for their practice, including taking on new roles such as becoming appraisers, through to anticipating the effect on medical and dental members of the new, single performers list. We also provided GP members

Strategic report (continued)
with an online tool to help them with CQC regulation and inspection. As the year progressed, new programmes and legal changes were announced that will also have an effect on many members. The latter part of 2013 was spent representing members' interests with policy makers and other organisations on new matters such as care.data, the introduction of a statutory duty of candour, a proposed criminal sanction for wilful neglect, as well as CQC's development of its new inspection models for medical and, in due course, dental primary care. As a medico-legal specialist the MDU doesn't take a political position and our input is intended to highlight potential medico-legal repercussions and potential pitfalls. We are also able to suggest solutions and ways in which new procedures can be developed to ensure they are fair, and that their effect is not unnecessarily burdensome or punitive upon our members.

We continued to draw attention to the unsustainable cost of clinical damages awards. Patients who are negligently damaged must be compensated, but the cost of compensation must be affordable and fair for all parties. With claims inflation outstripping other measures of inflation every year, the cost of clinical negligence claims is doubling approximately every seven years. Even if the current economic climate picks up, society cannot afford to pay such overly inflated claims indefinitely. With an election planned for May 2015 it is unlikely there will be any radical change in the short term. But the cost of claims must be addressed before it becomes a full blown crisis. On your behalf we continue to pursue a package of reforms, including caps on future care costs and loss of earnings awards.

Our multi-disciplinary teams continue to work with the medical and dental regulators in their core medico-legal areas of fitness to practise (FTP) procedures and standards guidance. For example, we regularly discuss case management aspects of the FTP hearings run by the Medical Practitioners Tribunal Service and feed back our experiences of assisting members and make suggestions for improvement. We are also closely involved with the GMC's ongoing pilot of meetings with doctors, with the aim of reaching decisions on cases that protect patients but avoid the need for an FTP hearing. We are also in regular contact with the GDC in respect of its FTP procedures, and contributed enthusiastically to the GDC's process for revising its core Standards guidance which came into effect on 30 September 2013.

The pace of change to the regulators' FTP procedures is not as fast as we would wish for our members. This is not because of a lack of willingness on the part of the GMC or GDC but because the current legal framework inhibits swifter change. There are proposals to address this that would bring improvements for patients as well as registrants in terms of enabling more efficient procedures while retaining fairness. We hope the framework will be changed and for our part we will do what we can to bring this about.

Business review

Strategy

In each annual report I explain the combination of factors that create the backdrop against which we need to plan the MDU's long-term strategy.

The best that can be said for the current economic climate is that it has not deteriorated, though members will be acutely aware of the financial constraints within which the NHS operates and the impact this has on them personally as well as professionally. The medico-legal climate also remains harsh. Members will be familiar with the concept of multiple jeopardy where they may be held accountable in several different ways, and before different tribunals, after just one incident. The proposals for further regulation and the introduction of a new criminal sanction for healthcare professionals, if they come to pass, will only increase the potential for greater scrutiny of all members.

Against such a background it is even more important for the MDU to be successful in meeting the company's objective of providing the highest quality medico-legal support to members at the lowest cost compatible with financial security. We continue to listen to our members and to make sure we understand the economic and wider environment in which you are working and its effect on you. As well as controlling the funding and cost of indemnity going forward, we continue to take every opportunity to represent our members by promoting tort reform and contributing to the development of other medico-legal changes that will affect you. Most important are our core services and it is vital we remain in the best position to provide members with specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise.

Strategic report (continued)

Key performance indicators

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

The MDU monitors its business activity by means of a number of key performance indicators (KPIs) which the Board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2013.

Membership statistics

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

Quality of service

We understand how important it is to members that your calls are answered as quickly as possible. I am pleased to report that our membership staff answered 99% of the 150,000 calls received. In addition, we answered 99% of members' correspondence within five days.

In recognition of the high standard of service we provide to members, our membership department was successfully reaccredited under the Customer Service Excellence Standard. This is a recognised independent benchmark of excellent service. The Standard tests in depth the areas that research shows are important to you – timeliness, accuracy, professionalism and staff attitude – and places great emphasis on how well the MDU understands our members' experience of service.

During 2013 we needed to update most of our literature and stationery to include our new email and website address. We took the opportunity to adopt a new, bolder look and clearer messaging, incorporating the principles of "plain English", which has been well received by members.

At a time when claims and complaints against members are rising and their incomes have been hit by economic pressures, we must ensure our pricing accurately represents risk. This has resulted in increased subscriptions for some activities, such as bariatric surgery.

Our pricing analysis also indicated an opportunity to reduce subscriptions for members working in Scotland, where medico-legal conditions are more favourable than other areas of the UK. With a number of our medico-legal advisers and sales liaison managers based in Scotland, we are in a strong position to build our membership base north of the border through our expert professional service.

We continue to expand the services we offer to members and in the last year have added an attractive childcare voucher scheme and manual handling training for our GP GroupCare members as well as employment advice for dental partners.

Our corporate business continues to grow, providing rapid and high quality support to members who set up companies to bid for contracts from clinical commissioning groups. Through long term relationships we have been able to support our clients as they develop and grow their activities.

Principal risks and uncertainties

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

The MDU has an established risk management procedure which includes assessment of reinsurance security, currency risk and risks associated with financial instruments. More information is set out below. The MDU also has a staff development and retention policy, a conflict of interest policy, and a strategy to ensure members are treated fairly. These are regularly reviewed by the Board to ensure the necessary procedures and strategies are in place to manage risks appropriately.

Strategic report (continued)

An assessment is given below of the principal risks:

Increasing claims cost

A significant increase in claims cost could affect the funding levels of the MDU. The MDU mitigates against this risk in the following ways. First, by having in place highly trained claims and legal staff, managing claims on behalf of members. Second, by the purchase of a well established programme of reinsurance cover to protect against unexpected changes to claims frequency and inflation, including an assessment of the reinsurance security. Third, by continuing to lobby for reform on how medical claims can best be funded. On your behalf we continue to pursue a package of reforms, including caps on future care costs and loss of earnings awards.

Government changes that impact members

The MDU actively represents members' interests with the government, regulators, and other bodies where there may be a medico-legal impact. The main changes planned for 2013 spanned the implementation of both the Health and Social Care and Legal Aid, Sentencing and Punishment of Offenders Acts, as well as the continued roll out of revalidation and the introduction of CQC regulation for primary medical care.

Competition

The MDU aims to differentiate itself from the competition on the quality of service it provides to its members. The MDU continuously monitors its status in the market and has processes in place to respond quickly to potential threats. The MDU monitors all areas of membership and evaluates any movements in renewals activity; leavers; junior doctor, graduate and student applications; and recruitment overall.

Loss of confidential information

The MDU has information management and security policies and procedures in place. These policies and procedures are subject to monitoring and review by the IT and knowledge and information management departments and the information risk and security officer.

Failure of internal controls

The MDU has department procedures and controls in place and ensures ongoing investment in our IT systems to support the service. The MDU also has a risk management process in place. The MDU's risks and internal controls are subject to review by internal and external audit. The MDU has an audit committee that assesses the adequacy of internal controls and reports to the Board.

Lack of effective corporate governance

The directors' report explains the committee structures in place which help to mitigate this risk.

Investment risk

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

During the year the fund managers held derivative financial instruments in order to achieve the group's financial risk management objective. These instruments involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future. The net finance income and cost of these contracts are included in note 3 to the financial statements.

Risk characteristics of financial instruments

Strategic report (continued)
Market risk

The MDU has adopted a prudent investment strategy that identifies the levels of risk and return acceptable in its portfolio. External professional advice is regularly sought and investment performance is subject to regular review.

Asset volatility is addressed as follows. First, by the majority of its assets being in corporate and government bonds and pooled funds which have a relatively low level of volatility compared to equities. Second, by the fact that exposure to a single issuer of any corporate bond is limited to 3% of the fund, unless specifically agreed otherwise. Third, by the use of derivative financial instruments.

Credit risk

The MDU manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment.

Interest rate risk

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to interest rate risks. Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative to determine the number and type of derivatives that need to be held.

Inflation risk

The estimate of the MDU's indemnity provision is influenced by the likely cost of future claims, some of which can take many years to settle and are affected by compensation for future costs and losses, such as loss of earnings and cost of future care. Such costs are affected by inflation and therefore, to mitigate against this risk, the MDU holds the majority of its investments in UK index linked government gilts and UK index linked corporate bonds, which by their very nature provide protection against movements in inflation.

Liquidity risk

This year the level of total assets less current liabilities has increased by £113m while the estimate of known provisions has increased by £68m. The MDU group monitors the likely timing of the payment of its claims liabilities and its policy is to finance these through matching subscription and other receipts, and investment assets. As the group's investment assets are mostly in easily traded financial instruments or cash, the group ensures that any liquidity risk is minimal.

Currency risk

The MDU group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to currency rate risks. The group monitors its likely exposure to non-sterling claims and advisory costs and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. Where investments are held in non sterling currencies the exchange rate risk is hedged.

Financial performance

Every quarter the Board reviews the MDU's overall financial performance including subscription levels, insurance premiums, claims payments, legal costs and claims reserves. Details are given in the financial review, but the key figures are:

The MDU's net assets now total £174m (2012:£131m) after indemnity, insurance, and other provisions of £192m (2012: £124m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). As these are notified they will be picked up either by the MDU under its discretionary indemnity or by the insurance policy provided to members .

Strategic report (continued)

Financial review

Income

Total subscription income for the year ended 31 December 2013 was £225.2m (2012: £213.9m), of which 98% was received from our UK members, the remainder, amounting to £4.5m, being from our members in Ireland.

Expenditure

In 2013 the MDU paid out £28.5m (2012: £32.2m) in discretionary indemnity claims and legal costs, of which £1.8m relates to our Irish members' claims.

Insurance and reinsurance premiums in 2013 were £42.6m (2012: £139.6m) following the decision, reported last year, to no longer provide an insurance policy to members renewing from 1 April 2013.

Medical and dental advisory costs amounted to £24.7m in 2013 (2012: £22.7m), the increase of £2m reflecting enhancements in medical and dental advisory services for our members.

Administration and finance costs in 2013 were £17.9m (2012: £15.2m), the increase relating to other support staff and investment in IT systems.

Assets/indemnity provision

The balance sheet for the MDU now shows total assets less current liabilities of £366m compared to £253m in 2012. This increase is primarily due to the reduction in insurance and reinsurance premiums paid out in 2013 following the decision to no longer provide an insurance policy to members renewing from 1 April 2013.

In assessing the provision for indemnity, the MDU takes account of all reported incidents notified up to the balance sheet date. This includes all notifications from members, including incidents relating to potential claims, pre-claims where incidents are still being investigated and actual claims where there has been a demand for compensation or where legal proceedings have been served. It does not include any case where the Board has declined to exercise or to continue to exercise its discretion to assist.

No provision is made for discretionary indemnity claims that may arise from incidents occurring before the balance sheet date but not reported to the MDU at that date, or for defendant legal costs. As these claims are notified to us they will be picked up, either by the MDU under its discretionary indemnity or by the insurance policy provided to members.

The level of indemnity and insurance provision, see note 14, has been estimated on the advice of the company actuary, taking all the above factors into consideration, and is shown in the accounts at £192m (2012: £124m).

In summary the MDU is a not-for-profit mutual owned by its members. We concentrate on providing the best advisory, risk management and claims handling service to members, while controlling costs and managing funds prudently for members' financial security.

This strategic report was approved by order of the board of management

C. Tomkins

Dr Christine Tomkins
Chief executive

For and on behalf of the board of management

Directors' report
for the year ended 31 December 2013

The directors present their report and the financial statements for the year ended 31 December 2013.

Activities

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

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

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

Until the end of March 2013, through MDU Services Limited (MDUSL), the group provided paying members in the UK with insurance policies against claims of clinical negligence. These are underwritten by SCOR UK Company Limited and International Insurance Company of Hannover PLC. MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the Financial Conduct Authority as an insurance intermediary.

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

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

Directors

The following served as directors in 2013:

Board member	No. of meetings attended
P R Williams 1 2 3 4 5	6
K A V Cartwright 1	5
H E Clarke 1 2 4 5	6
Sir Alan W Craft	6
N A Dungay 4	6
C L A Edginton 1 2 4 5	6
M M Gallivan 4 5	6
C W Heron	6
I D Hutchinson 1 2 3 4 5 7	6
M T Lee 4	6
R J C Pearson 1 2 4 5 6	4
K F Richardson 1 2 4	6
M S Richmond 6	3
P Riordan-Eva 1 2 3 4 5	6
P D Robinson 2 4	5
C M Tomkins 1 3 4 5	6
P D Webster 1 2 4 5	5

1 **Members of the remuneration committee**
2 **Members of the audit committee**
3 **Members of the nomination committee**
4 **Directors of MDU Services Limited**
5 **Members of the investments committee of MDU Investments Limited**
6 **Retired 17 September 2013**
7 **Appointed 11 February 2013**

Directors' report
for the year ended 31 December 2013

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

H E Clarke
P D Robinson
C M Tomkins
P D Webster

Mr K F Richardson retires by rotation under article 49 but will not put himself forward for re-election.

The MDU's articles of association give the members of the Board an indemnity (including qualifying third party indemnity provisions within the meaning of section 234 Companies Act 2006, which were in force during the year ended 31 December 2013 and remain in force) against liabilities incurred in relation to the affairs of the MDU. The group also purchases directors' and officers' liability insurance which gives appropriate cover for legal action brought against directors of group companies.

Corporate governance

Set out below is a summary of the MDU's approach to corporate governance. The participation of MDU members on the Board is a particular feature and strength of the governance arrangements.

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

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

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

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

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

The Board met six times in the year. The attendance record of the directors at the Board meetings is set out on page 9. The Board has a schedule of matters reserved to it for decision, including the following:

- Approval of commercial strategy
- Changes to corporate structure
- Internal control arrangements
- Board and committee appointments
- Contracts not in the ordinary course of business

The Board has a procedure for directors to obtain independent advice. All Board members have access to the advice and services of the company secretary.

Audit committee

The Board has an audit committee, which meets as often as necessary. The committee is chaired by Mr I D Hutchinson, a non-executive director without MDU membership. Mr Hutchinson is a chartered accountant. The

committee now includes seven other non-executive members of the Board. The committee meets, and spends time alone with, the internal and external auditors. The committee reviews risk management and internal control

arrangements, and their effectiveness. It guides the activities and reviews the results of internal audit. The committee also reviews the scope and results of the external audit, and reviews the annual financial statements and other information in the annual report before publication. The committee meets the company actuary each year, reviews the results of his work and receives and considers a report from consulting actuaries on their peer review.

The audit committee has a written policy dealing with any recommendation to the Board concerning the appointment of the external auditors, and with their remuneration including fees for non-audit work.

Nomination committee

The Board's nomination committee, chaired by the chairman of the Board, makes recommendations on the appointment of directors. Membership of the nomination committee comprises the chairman and vice-chairman of the Board, the chairman of the audit committee and the chief executive. Other Board members may be co-opted by the committee according to the nature of the vacancy under consideration. The committee prepares a description of the role and capabilities required for a particular appointment. It selects a shortlist of candidates for consideration by the Board, on merit and against objective criteria.

Remuneration committee

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

Internal control

The Board is ultimately responsible for the internal control and risk management of the MDU and for the effectiveness of these systems. The audit committee has authority to advise the Board on these matters. Management is responsible for identifying, assessing, managing and monitoring risk, and for developing, operating and monitoring the system of internal control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The Board considers regular reports on the risks inherent in the business. The principal risks are identified in the strategic report at pages 5 to 8.

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

Going concern

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

Relations with members

The MDU uses the annual report and annual general meeting to communicate with members about the business. It values highly communications with members, and encourages members to attend the annual general meeting. Members of the audit, remuneration and nomination committees attend the AGM to respond to any relevant questions if necessary. The notice for the AGM is sent to members at least 14 days before the meeting.

Directors' report
for the year ended 31 December 2013

Disabled employees

The MDU group gives full and fair consideration to applications for employment from disabled people where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the MDU's policy wherever practicable to provide continuing employment under normal terms and conditions.

Training, career development and promotion are provided to disabled employees where possible.

Staff involvement

Employees are provided with information about the group's performance at annual staff briefings and more frequently through the group's intranet.

Employees' views are sought when decisions are required which are likely to affect their interests.

Statement of directors' responsibilities

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

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' report
for the year ended 31 December 2013

Provision of information to auditor

In the case of each of the directors who are directors of the company at the date when this report is approved:

- so far as they are individually aware, there is no relevant audit information of which the company's auditor is unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of the information.

By order of the directors.

N J Bowman
Company secretary
29 April 2014

Independent auditor's report to the members of The Medical Defence Union Limited

We have audited the financial statements of The Medical Defence Union Limited for the year ended 31 December 2013 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost profit and loss, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013 and of the group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of The Medical Defence Union Limited

Matters on which we are required to report by exception

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

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

BDO LLP

Jason Homewood (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
Date 22 May 2014

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

THE MEDICAL DEFENCE UNION LIMITED

(A company limited by guarantee)

Consolidated income and expenditure account for the year ended 31 December 2013

	Note		2013 £000		2012 £000
Members' subscriptions			**225,157**		213,931
Less:					
Medical and dental advisory services		**24,710**		22,745	
Indemnity, legal, reinsurance and insurance costs	5	**142,080**		183,098	
Administrative costs		**16,544**		13,852	
Finance cost	6	**1,428**		1,351	
			184,762		221,046
Operating surplus/(deficit)			**40,395**		(7,115)
Net investment income/(expense)	3		**4,895**		(1,345)
Interest payable	4		**(111)**		-
Result before taxation			**45,179**		(8,460)
Taxation	9		**(340)**		757
Result after taxation transferred to/(from) accumulated fund			**44,839**		(7,703)

All activities relate to continuing operations

Consolidated statement of total recognised gains and losses for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Result after taxation		**44,839**	(7,703)
Revaluation (loss)/gain on investments		**(1,212)**	6,400
Actuarial loss on pension scheme	16,21	**(2,300)**	(500)
Deferred tax	15	**300**	-
Tax credit/(charge) on unrealised gain on investments	9	**1,158**	(2,353)
Total recognised gains and losses since the last annual report		**42,785**	(4,156)

Note of historical cost profit and loss for the year ended 31 December 2013

	2013 £000	2012 £000
Reported profit/(loss) on activities before taxation	**45,179**	(8,460)
Realisation of revaluation gains/(losses) of previous years	**6,085**	(1,422)
Historical cost profit/(loss) on activities before taxation	**51,264**	(9,882)
Historical cost profit/(loss) on activities after taxation	**50,924**	(9,125)

The notes on pages 22 to 41 form part of these financial statements.

THE MEDICAL DEFENCE UNION LIMITED
(A company limited by guarantee)
Registered number: 21708

Consolidated balance sheet
as at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Tangible assets	10		**6,092**		4,523
Investments	11		**436,454**		215,977
			442,546		220,500
Current assets					
Debtors: amounts falling due after more than one year	12	**7,305**		12,693	
Debtors: amounts falling due within one year	12	**25,346**		12,366	
Cash at bank and in hand		**17,488**		31,283	
		50,139		56,342	
Creditors: amounts falling due within one year	13	**(126,579)**		(23,658)	
Net current (liabilities)/assets			**(76,440)**		32,684
Total assets less current liabilities			**366,106**		253,184
Provisions					
Indemnity and insurance	14		**(192,243)**		(124,205)
Net assets excluding pension scheme (liability)/asset			**173,863**		128,979
Pension (liability)/asset	21		**(300)**		1,800
Net assets including pension scheme (liability)/asset			**173,563**		130,779
Reserves					
Revaluation reserve	16		**13,249**		20,546
Income and expenditure account	16		**160,314**		110,233
			173,563		130,779

The financial statements were approved and authorised for issue by the Board on 29th April 2014 and signed on its behalf by

C M Tomkins - Chief executive

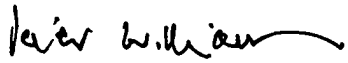
P R Williams - Chairman

Company balance sheet
as at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Tangible assets	10		**26**		48
Investments	11		**5,160**		5,160
			5,186		5,208
Current assets					
Debtors: amounts falling due after more than one year	12	**7,305**		12,693	
Debtors: amounts falling due within one year	12	**323,562**		213,144	
Cash at bank		**14,472**		11,668	
		345,339		237,505	
Creditors: amounts falling due within one year	13	**(2,226)**		(10,461)	
Net current assets			**343,113**		227,044
Total assets less current liabilities			**348,299**		232,252
Provisions					
Indemnity and insurance	14		**(192,243)**		(124,205)
Net assets excluding pension scheme (liability)/asset			**156,056**		108,047
Defined benefit pension scheme (liability)/asset	21		**(300)**		1,800
Net assets including pension scheme (liability)/asset			**155,756**		109,847
Capital and Reserves					
Income and expenditure account	16		**155,756**		109,847
			155,756		109,847

The financial statements were approved and authorised for issue by the Board on 29th April 2014 and signed on its behalf by

C M Tomkins - Chief executive



P R Williams - Chairman

The notes on pages 22 to 41 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Net cash inflow/(outflow) from operating activities	17	**91,520**	(6,438)
Returns on investments	18	**4,516**	6,135
Taxation		**(2,213)**	(3,716)
Capital expenditure and financial investment	18	**(222,594)**	10,993
Movement in other liquid funds	18,20	**(1,985)**	760
Cash (outflow)/inflow before financing		**(130,756)**	7,734
Financing	18	**116,961**	-
(Decrease)/increase in cash		**(13,795)**	7,734

Notes to the financial statements
for the year ended 31 December 2013

1. Accounting Policies

1.1 Changes in presentation of the financial statements

The directors have decided to make minor presentational changes to the primary financial statements, as follows:

Subscription and investment income have been separated within the income and expenditure account whereas previously they were combined as mutual income. Provisions are now included within net assets on the balance sheet. On the face of the cash flow statement, movements have been classified into the following categories: return on investments, capital expenditure and financial investment, and movement in other liquid funds.

All presentational changes are consistent with industry practice. Comparative figures have not been restated and are directly identifiable.

1.2 Basis of preparation of financial statements

The group financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of certain fixed asset investments and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. As permitted by the Companies Act 2006, the financial statements formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the company and group.

1.3 Basis of consolidation

The group income and expenditure account and balance sheet consolidate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2013. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006.

1.4 Members' subscriptions

Members' subscriptions consist of subscriptions for members' services and insurance premiums received from members for payment to SCOR UK Company Limited (SCOR) and International Insurance Company of Hannover PLC (Hannover) in the UK. These are accounted for on the basis of amounts received by the group before the balance sheet date, without apportionment.

Subscriptions retained by the company and group, net of insurance premiums paid, referred to in note (1.5) below, represent additional income for the funding of indemnity payments and the provision of advisory services to members. It is not practical to allocate a separate fair value to these two components.

1.5 Insurance premiums

As explained in note (1.4) above premiums paid to SCOR and Hannover are charged to the income and expenditure account. The insurance arrangements in place provide for an adjustment in premiums if the actual claims experience is better than envisaged at the time the premium is initially established. Such amounts are brought into the accounts as debtors (premium element adjustment) when they can be reliably measured and are re-assessed each year.

1. Accounting Policies (continued)

1.6 Indemnity, legal, reinsurance and insurance costs

Expenditure on indemnity payments, including the movement on the indemnity and insurance provision between the beginning and end of the year, and on legal charges covers the aggregate of all indemnity payments, and legal services provided for members, together with insurance premiums, including those collected on behalf of and paid over to SCOR and Hannover in the UK as and when received from members. These costs include claimants' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

1.7 Indemnity and insurance provision

Provision is made for the estimated outstanding cost of settlement including insurance premiums and for related claimants' costs for discretionary indemnity cases from all reported incidents notified as at the balance sheet date. The gross provision is calculated by the company actuary and peer reviewed by consulting actuaries. The provision has been discounted to allow for future investment returns in accordance with FRS12.

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

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the company actuary. The provision will be paid over an extended period and subject to agreement by all parties. It is not practical to estimate the periods in which the indemnity provision might be paid. The movement on the provision separately identifies the unwinding of the discount which is disclosed as a finance cost in the income and expenditure account. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 1.26% (2012: 1.195%) per annum.

The principal financial assumptions used in the actuary's calculation of the gross indemnity provision for the company and the group are that claims inflation will be 8.0% per annum (2012: 8.0% per annum) over the period of settlement and that a net discount rate of 0.99% per annum (2012: 0.92% per annum) is used to discount the claims payments to the balance sheet date.

1.8 Tangible fixed assets and depreciation

The cost of tangible fixed assets is written off evenly over their estimated useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear. The principal rates of depreciation per annum, on a straight line basis, are as follows:

Leasehold property improvements-	The shorter of the length of the lease and 10 years
Furniture, office equipment, - computer equipment and software	3 - 5 years

Notes to the financial statements
for the year ended 31 December 2013

1. Accounting Policies (continued)

1.9 Investments

(i) Recognition

Initial recognition of investment financial assets/liabilities occurs when the entity becomes party to the contractual provisions of the instrument. The investment financial asset/liability is recognised initially at the transaction price (including transaction costs).

Investments in subsidiaries are included at cost less any necessary provision for impairment.

(ii) Subsequent Measurement

Investment financial assets and liabilities at the balance sheet date are subsequently measured at market value. Movements on revaluation are accounted for through the investment revaluation reserve.

(iii) Derecognition

A financial asset is derecognised when: the contractual rights to cash flows expire or are settled, substantially all the risks and rewards of ownership are transferred to another party, or some of the risks and rewards are transferred to another party, in addition, control of the asset is transferred to that party such that the other party will be able to sell the whole asset externally without any restrictions.

When some significant risks and rewards are retained by the entity and the entity retains control of the asset, this does not result in derecognition of the asset, but instead the recognition of a financial liability for the consideration received. These are not offset. On derecognition, the proceeds are compared to the carrying value and the resulting gain or loss, credited or charged to the income and expenditure and account; and the amount of the unrealised gain or loss included in the carrying value is transferred from the revaluation reserve to the income and expenditure reserve.

(iv) Hedging

Derivative financial instruments "derivatives" are held and traded in conjunction with the groups' risk management objectives. Derivatives are defined as a financial instrument that derives its value from the price or rate of some underlying item. Derivatives are carried on the balance sheet at market value ("marked to market") with changes in that value recognised in the investment revaluation reserve. This method is used for all derivatives which are held for trading purposes.

1.10 Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date or the appropriate forward contract rate. All differences are taken to the income and expenditure account.

Notes to the financial statements
for the year ended 31 December 2013

1. Accounting Policies (continued)

1.11 Taxation

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

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

Where gains and losses on investments are recognised in the Statement of Total Recognised Gains and Losses, the related taxation is also taken directly to the Statement of Total Recognised Gains and Losses.

1.12 Investment income

Investment income is accounted for on an accruals basis.

1.13 Operating leases

Operating lease rentals are charged to the income and expenditure account on a straight line basis over the term of the lease.

Notes to the financial statements
for the year ended 31 December 2013

1. Accounting Policies (continued)

1.14 Pension costs

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

Contributions to the defined contribution pension scheme are charged to the income and expenditure account in the year to which they relate.

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

The assets of the defined benefit pension scheme are measured at their market value at the balance sheet date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on an AA corporate bond of equivalent term to the liabilities. The extent to which the scheme's assets exceed/fall short of their liabilities is shown as a surplus/deficit in the balance sheet to the extent that a surplus is recoverable by the company or that a deficit represents an obligation of the company. The following are charged to the income and expenditure account:-

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

Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

Notes to the financial statements
for the year ended 31 December 2013

2. Employee Information

	2013 £000	2012 £000
Salaries	**21,501**	19,743
Social security costs	**2,426**	2,218
Pension costs - defined benefit scheme	**2,000**	1,224
Pension costs - defined contribution scheme	**932**	776
Other staff costs	**1,507**	1,352
	28,366	25,313

	2013	2012
Average number of employees in the year	**401**	369

3. Net investment income/(expense)

	2013 £000	2012 £000
Loss on investments re exchange rate movements	**(1,175)**	(1,224)
Bond and interest income	**3,874**	4,618
Bank interest	**175**	279
Other investment income	**1,033**	1,166
Gain/(loss) on disposal of investments	**988**	(6,184)
	4,895	(1,345)

4. Interest payable

	2013 £000	2012 £000
Bank interest	**111**	-

5. Indemnity, Legal, Reinsurance and Insurance Costs

	2013 £000	2012 £000
Insurance and reinsurance premiums	**42,550**	139,598
Increase in indemnity and insurance provision (see note 14)	**93,349**	30,207
Legal costs	**12,591**	13,050
Reinsurance recoveries (including the movement in reinsurance provision)	**(6,410)**	243
	142,080	183,098

6. Finance cost

	2013 £000	2012 £000
Finance cost relating to indemnity and insurance provision (note 14)	**1,228**	1,051
Finance cost relating to pension provision (note 21)	**200**	300
	1,428	1,351

7. Result Before Taxation

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

	2013 £000	2012 £000
Depreciation (note 10)	**1,587**	1,483
Loss on disposal of fixed assets	**1**	52
Operating lease rentals:		
- land and buildings	**1,163**	1,024
- office equipment	**4**	4
- motor vehicles	**177**	191
Fees payable to the company's auditor and its associates:		
- for the audit of the company's accounts	**54**	53
- for the audit of accounts of subsidiaries	**90**	89
- for tax services	**174**	139

8. Directors' Remuneration

	2013 £000	2012 £000
Fees	**485**	458
Directors' emoluments	**1,051**	1,010
Amounts due and receivable under long term incentive plans	**200**	416
	1,736	1,884

The highest paid director in the Medical Defence Union Ltd earned

	2013 £000	2012 £000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP).	**455**	475
Accrued annual pension (excluding indexation)	**163**	143

Retirement benefits are accruing to 3 directors (2012: three) under a defined benefit scheme.

The fees disclosed above represent the remuneration of the non-executive directors of The Medical Defence Union Limited. In addition five (2012: seven) of the non-executive directors received fees totalling £36,000 (2012: £45,000) for acting as expert witnesses on behalf of members.

Notes to the financial statements for the year ended 31 December 2013

Executive directors

	Fees/Salary £000	Benefits (note1) £000	STIP (note2) £000	LTIP (note3) £000	2013 £000	2012 £000
C M Tomkins	268	18	93	76	455	475
M M Gallivan	184	16	52	45	297	400
N A Dungay	116	15	33	31	195	217
M T Lee	188	15	53	48	304	334
	756	64	231	200	1,251	1,426

Non executive directors

	Fees/Salary £000	Other (notes 4&5) £000	STIP (note2) £000	LTIP (note3) £000	2013 £000	2012 £000
C C Evans	-	-	-	-	-	65
P R Williams	72	6	-	-	78	54
R J C Pearson	28	4	-	-	32	45
K A V Cartwright	22	23	-	-	45	46
H E Clarke	33	6	-	-	39	39
A W Craft	9	12	-	-	21	25
C L A Edginton (note5)	34	3	-	-	37	24
C W Heron	10	12	-	-	22	9
I D Hutchinson	29	6	-	-	35	-
K F Richardson	33	5	-	-	38	38
M S Richmond	7	7	-	-	14	17
P Riordan-Eva	39	25	-	-	64	34
P D Robinson	9	12	-	-	21	24
P D Webster	33	6	-	-	39	38
	358	127	-	-	485	458

Note 1 - Benefits include car allowances, medical and other benefits in kind or their equivalent monetary value.

Note 2 - STIP represents those amounts that have been paid in 2013 and amounts accrued in respect of the year to 31 December 2013. The STIP is determined by comparing actual performance against set targets for key performance indicators over the year.

Note 3 - LTIP represents those amounts that have been paid in 2013 and amounts accrued in respect of the year to 31 December 2013. The LTIP is determined by comparing actual performance against set targets over a three year period; and relates primarily to the overall financial position of the Company and its key membership statistics.

Note 4 - "Other" represents expenses paid to Board members and any fees and expenses for attendance at council and committee meetings other than the MDU Board and its related committees.

Note 5 - Mr Edginton's fee is paid to a third party with additional VAT being incurred

9. Taxation

	2013 £000	2012 £000
Income and expenditure account		
Corporation tax for the year at 23.25% (2012: 24.5%)	**425**	(681)
Adjustments in respect of previous years	**(158)**	(3)
	267	(684)
Deferred taxation (note 15)	**73**	(73)
Taxation charge/(credit)	**340**	(757)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - lower than) the standard rate of corporation tax in the UK of 23.25% **(2012** :24.5%**)**. Reconciling items are explained below:

	2013 £000	2012 £000
Result from mutual activities before taxation	**45,179**	(8,460)
Result before taxation multiplied by standard rate of corporation tax in the UK of 23.25% **(2012** :24.5%**)**	**10,504**	(2,073)
Effects of:		
Net mutual income not subject to corporation tax	**(9,736)**	1,415
Other income not subject to corporation tax	**(202)**	(286)
Capital allowances (less)/more than depreciation	**(14)**	86
Losses not allowable	**134**	176
Expenses not allowable	**1**	1
Gains offset against losses brought forward	**(262)**	-
Adjustments in respect of previous years	**(158)**	(3)
	267	(684)

Statement of Total Recognised Gains and Losses

	2013 £000	2012 £000
Corporation tax for the year on unrealised (losses)/gains on investments	**(1,158)**	2,353

Notes to the financial statements
for the year ended 31 December 2013

10. Fixed Assets - Tangible

Group	Leasehold properties and improvements under 50 years £000	Furniture, office equipment, computer equipment and software £000	Total £000
Cost			
At 1 January 2013	1,933	9,593	11,526
Additions in year	-	3,157	3,157
Disposals	-	(1,042)	(1,042)
At 31 December 2013	**1,933**	**11,708**	**13,641**
Depreciation			
At 1 January 2013	1,885	5,118	7,003
Charge for the year	22	1,565	1,587
Disposals	-	(1,041)	(1,041)
At 31 December 2013	**1,907**	**5,642**	**7,549**
Net Book Amount			
At 31 December 2013	**26**	**6,066**	**6,092**
At 31 December 2012	48	4,475	4,523

Included in furniture, office equipment, computer equipment and software is £1,309,000 in respect of assets in the course of construction (2012 : nil)

Company	Leasehold properties and improvements under 50 years £000
Cost	
At 1 January 2013 and 31 December 2013	**1,933**
Depreciation	
At 1 January 2013	1,885
Charge for the year	22
At 31 December 2013	**1,907**
Net Book Amount	
At 31 December 2013	**26**
At 31 December 2012	48

Notes to the financial statements
for the year ended 31 December 2013

11. Fixed Assets - Investments

Group

	Cash & investment in cash fund £000	Funds held by investment managers £000	2013 £000	2012 £000
Value at 1 January 2013	2,719	213,258	**215,977**	230,390
Additions	-	332,515	**332,515**	138,649
Disposals at carrying value	-	(112,090)	**(112,090)**	(157,404)
Foreign exchange (losses)	-	(1,175)	**(1,175)**	(1,212)
Movement in cash and accrued income	5,254	(2,815)	**2,439**	(846)
Revaluation of investments	-	(1,212)	**(1,212)**	6,400
Value at 31 December 2013	7,973	428,481	**436,454**	215,977

Analysis of funds held by investment managers

	%	2013 £000	%	2012 £000
UK index-linked Government gilts - [1]	**47.9**	**205,152**	45.4	96,894
Sterling index-linked corporate bonds	**14.7**	**62,888**	22.4	47,738
UK fixed interest Government gilts	**-**	**-**	1.1	2,218
Sterling fixed interest corporate bonds	**3.7**	**15,898**	8.6	18,420
Non sterling bonds	**-**	**-**	7.5	16,069
UK equities	**3.3**	**14,079**	3.2	6,817
Overseas equities	**5.0**	**21,365**	5.8	12,252
Forward and future contracts	**0.8**	**3,283**	0.2	477
Cash and liquidity balances	**2.1**	**9,104**	5.8	12,373
Pooled funds - [2]	**22.5**	**96,712**	-	-
	100.0	**428,481**	100.0	213,258

[1] - Index-linked gilts include the assets with a carrying value of £115.0m (2012 : nil) provided as collateral against the bank borrowings detailed in note 13.

[2] - Pooled funds represent investments in funds that hold short term debt and similar instruments; medium to long term debt; and diversified assets that aim to balance equity, interest rate and inflation risks.

A £nil (2012 : nil) tax charge would arise should the equities and bonds held be sold at the market values at which they are included in the balance sheet.

The historic cost of funds held by investment managers is £415.2m (2012 : £192.7m)

	Subsidiary undertakings £000
Cost at 1 January & 31 December 2013	**5,160**

The company, either directly or indirectly, holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the company's financial statements: directly MDU Services Limited and MDU Investments Limited both incorporated in England and indirectly MDU Reinsurance Limited, an insurance company, incorporated in Guernsey.

The Directors of the company consider that disclosure of dormant subsidiary undertakings would result in a statement of excessive length and have therefore, as permitted under Schedule 5 of the Companies Act 2006 dispensed with the requirement.

12. Debtors

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Amounts falling due after more than one year				
Reinsurance and insurance recoveries	**7,305**	12,693	**7,305**	12,693
	7,305	12,693	**7,305**	12,693

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Due within one year				
Reinsurance and insurance recoveries	**13,259**	3,228	**13,262**	3,228
Amounts owed by subsidiary undertakings	**-**	-	**304,213**	205,029
Other debtors	**2,643**	2,659	**25**	2
Prepayments and accrued income	**7,274**	2,072	**5,722**	537
Premium element adjustment	**-**	4,259	**-**	4,259
Corporation tax	**1,795**	-	**340**	89
Deferred tax (see note 15)	**375**	148	**-**	-
	25,346	12,366	**323,562**	213,144

Notes to the financial statements
for the year ended 31 December 2013

13. Creditors - falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Bank borrowings*	**116,961**	-	-	-
Corporation tax	-	1,308	-	-
Taxation and social security	**723**	669	**27**	33
Other creditors and accruals	**8,895**	21,681	**2,199**	10,428
	126,579	23,658	**2,226**	10,461

*Bank borrowings are secured against the index-linked gilts as in note 11 as part of a sale and repurchase agreement, with repurchase to occur within one year.

14. Provisions - indemnity and insurance

Group and company

	2013	2012
	£000	£000
At 1 January	**124,205**	148,207
Finance costs	**1,228**	1,051
Indemnity and insurance paid	**(26,539)**	(55,260)
Increase in indemnity and insurance provision (note 5)	**93,349**	30,207
At 31 December	**192,243**	124,205

15. Deferred tax

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
At 1 January	**148**	75	-	(1)
(Charged)/credited to income and expenditure account	**(73)**	73	-	1
Released during the year (STRGL)	**300**	-	-	-
At 31 December	**375**	148	-	-

15. Deferred tax (continued)

The deferred taxation balance is made up as follows:

	Group	
	2013	2012
	£000	£000
Accelerated capital allowances	**75**	148
Tax losses carried forward	**300**	-
	375	148

The deferred tax asset for the group represents potential relief due to capital allowances on tangible fixed assets held by the group being less than the depreciation that has been charged in the financial statements and the timing difference between when gains or losses on certain investments are recognised for tax and accounting purposes.

16. Reserves

Group	**Revaluation reserve £000**	**Income and expenditure £000**
At 1 January 2013	20,546	110,233
Result for year	-	44,839
Actuarial loss on pension scheme	-	(2,300)
Revaluation of fixed asset investments	(1,212)	-
Realised on disposal of investments	(6,085)	6,085
Tax credit on unrealised loss on investments	-	1,457
At 31 December 2013	**13,249**	**160,314**

Company	**Income and expenditure £000**
At 1 January 2013	109,847
Result for year	48,209
Actuarial loss on pension scheme	(2,300)
At 31 December 2013	**155,756**

Notes to the financial statements
for the year ended 31 December 2013

17. Net cash flow from operating activities

	2013 £000	2012 £000
Operating surplus/(deficit)	**40,395**	(7,115)
Depreciation	**1,587**	1,483
Loss on disposal of fixed assets	**1**	52
(Increase)/decrease in debtors due within one year (excluding tax)	**(10,958)**	14,821
Decrease in debtors due in more than one year	**5,388**	11,104
(Decrease)/increase in creditors (excluding corporation tax and bank borrowings)	**(12,731)**	5,519
Increase/(decrease) in indemnity and insurance provision	**68,038**	(24,002)
Cash contributions (more) than current service cost and past service gain/loss	**(200)**	(8,300)
Net cash inflow/(outflow) from operating activities	**91,520**	(6,438)

18. Analysis of cash flows for headings netted in cash flow statements

	2013 £000	2012 £000
Return on investments		
Investment income	**3,907**	4,839
Movement in accrued interest	**609**	1,296
Net cash inflow from returns on investments	**4,516**	6,135

	2013 £000	2012 £000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(3,157)**	(1,582)
Sale of tangible fixed assets	**-**	4
Purchase of investments	**(332,515)**	(138,649)
Sale of investments	**112,090**	157,404
Gain/(loss) on disposal of investments	**988**	(6,184)
Net cash (outflow)/inflow from capital expenditure	**(222,594)**	10,993

	2013 £000	2012 £000
Movement in other liquid funds		
Movements in other liquid resources (note 20)	**(1,985)**	760

Notes to the financial statements
for the year ended 31 December 2013

18. Analysis of cash flows for headings netted in cash flow statements (continued)

	2013 £000	2012 £000
Financing		
Bank borrowings	**116,961**	-

19. Analysis of changes in net funds

	At 1 January 2013 £000	Cash flows £000	At 31 December 2013 £000
Cash at bank and in hand	31,283	(13,795)	**17,488**
Debt:			
Due within one year	-	(116,961)	**(116,961)**
Net funds	31,283	(130,756)	**(99,473)**

20. Movements in other liquid resources

	At 1 January 2013 £000	Cash flows £000	At 31 December 2013 £000
Cash held for investment and investment in cash funds	2,719	5,254	**7,973**
Cash with investment managers	12,373	(3,269)	**9,104**
	15,092	1,985	**17,077**

21. Pension costs

As explained in accounting policy note 1.14 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pension schemes are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 March 2012 and has been updated to 31 December 2013 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2013 reflects the status of the Defined Benefit Section of the Scheme only. The funded status reported for previous years included the value of the Defined Contribution Section at the relevant dates, these figures have now been restated to exclude the amounts that related to the Defined Contribution Section of the Scheme. At 31 December 2012, the previously reported figure included £5.3m in assets and liabilities (in respect of Defined Contribution assets and liabilities). At 31 December 2013, the Defined Contribution funds were worth £7.8m.

Notes to the financial statements
for the year ended 31 December 2013

The major assumptions made by the actuary were:

	2013	2012	2011
Rate of increase in salaries	**3.7%**	3.8%	3.8%
Rate of increase in pensions pre 16 February 2009 retirees	**2.5%**	2.6%	2.3%
Rate of increase in pensions post 16 February 2009	**3.3%**	3.2%	3.2%
Discount rate	**4.6%**	4.6%	4.7%
RPI Inflation assumption	**3.5%**	3.3%	3.3%
CPI Inflation assumption	**2.5%**	2.6%	2.3%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23 years if they are male and a further 25 years if they are female. For a member who retires in 2033 at the age of 65 the assumptions are they will live on average for a further 25 years after retirement if they are male and a further 27 years after retirement if they are female.

Long-term rate of return expected:

	2013	2012	2011
Equities	**7.7%**	7.0%	7.2%
Property	**7.3%**	6.0%	6.2%
Government bonds	**3.4%**	2.9%	2.9%
Corporate bonds	**3.8%**	4.0%	4.3%
Other	**0.8%**	1.0%	1.8%

Fair Value:

	£000	Restated £000	Restated £000
Equities	**10,800**	8,800	8,600
Property	**12,400**	11,300	11,200
Government bonds	**19,700**	12,500	12,400
Corporate bonds	**52,600**	53,200	47,300
Other	**800**	8,200	300

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

	2013 £000	Restated 2012 £000	Restated 2011 £000	Restated 2010 £000	Restated 2009 £000
Total market value of assets	**96,300**	94,000	79,800	72,460	65,560
Present value of scheme liabilities	**96,600**	92,200	85,800	78,160	69,960
Net pension (liability)/asset before deferred taxation	**(300)**	1,800	(6,000)	(5,700)	(4,400)
Assets as a percentage of liabilities	**99.7%**	102.0%	93.0%	92.7%	93.7%

Notes to the financial statements
for the year ended 31 December 2013

Movement in the present value of the scheme liabilities during the year

	2013 £000	Restated 2012 £000
Opening defined benefit obligations	**92,200**	85,800
Current service cost	**2,000**	1,224
Interest cost	**4,200**	4,000
Contributions by scheme participants	**300**	300
Actuarial losses on the scheme liabilities	**600**	3,876
Net benefits paid out	**(2,700)**	(3,000)
Closing defined benefit obligations	**96,600**	92,200

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

	2013 £000	Restated 2012 £000
Opening fair value of scheme assets	**94,000**	79,800
Expected return on scheme assets	**4,000**	3,700
Actuarial gain on scheme assets	**(1,700)**	3,376
Contributions by employer	**2,400**	9,824
Contributions by scheme participants	**300**	300
Net benefits paid out	**(2,700)**	(3,000)
Closing fair value of scheme assets	**96,300**	94,000

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

A building block approach is employed in determining the long-term rate of return on the defined benefit pension scheme's assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at the 31 December 2013.

Analysis of the amount charged to Income & Expenditure

	2013 £000	Restated 2012 £000
Current service cost	**2,000**	1,224

The total estimated pension expense in 2014 is £2.0m

Notes to the financial statements
for the year ended 31 December 2013

Analysis of the amount charged to other finance costs

	2013 £000	Restated 2012 £000
Expected return on scheme assets	**(4,000)**	(3,700)
Interest on scheme liabilities	**4,200**	4,000
Net return	**200**	300

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL)

	2013 £000	Restated 2012 £000
Actuarial gains on scheme assets	**(1,700)**	3,376
Actuarial losses on scheme liabilities	**(600)**	(3,876)
Actuarial loss recognised in the STRGL	**(2,300)**	(500)

History of experience gains and losses:

	2013 £000	Restated 2012 £000	Restated 2011 £000	Restated 2010 £000	Restated 2009 £000
Actual return less expected return on scheme assets	**(1,700)**	3,376	3,300	3,400	3,400
As a percentage of the scheme assets	**1.8%**	3.6%	4.1%	4.7%	5.2%
Experience (losses)/gains arising on the scheme liabilities	**-**	(600)	200	(400)	600
As a percentage of the present value of the scheme liabilities	**0.0%**	0.7%	0.2%	0.5%	0.9%
Actuarial loss recognised in the STRGL	**(2,300)**	(500)	(800)	(2,000)	(5,400)
As a percentage of the present value of the scheme liabilities	**2.4%**	0.5%	0.9%	2.6%	7.7%

22. Financial commitments

Group

	Other		Land & buildings	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year	**56**	16	**-**	9
Between one and five years	**85**	152	**1,203**	1,204

Company

	Land & buildings	
	2013	2012
	£000	£000
Operating leases which expire:		
Between one and five years	**977**	977

23. Contingent liabilities

Claims are made against The Medical Defence Union Limited in the ordinary course of business. Having obtained legal advice on such claims and on the basis of the information available, in the opinion of the directors no provision is needed for such claims.

24. Members' liability

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

25. Related party transactions

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