The Medical Defence Union Limited

(Registered number 21708)

Consolidated Financial Statements

for the year ended 31 December 2012

The Medical Defence Union Limited
for the year ended 31 December 2012

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Over 90% of members facing GMC or GDC complaints, assisted by in-house lawyers, avoided referral to a fitness to practise (FTP) hearing

CHAIRMAN'S REPORT

The very nature of our business means that members usually contact us when they are in difficulties. When that happens, members need us to respond quickly and appropriately with expert advice and empathy The quality of the service we give matters greatly both to the member and to us During my 16 years on the board of management I have seen the commitment and effort which goes into making every contact with members productive and helpful Not only do we pride ourselves in being the largest medical defence organisation in the UK, but in always endeavouring to provide the best and most responsive service

2012 saw a further substantial increase in demand for our service in the claims, advisory and legal departments Dr Christine Tomkins, in her operating and financial review of the year, fleshes out this increase in figures and offers some explanations for the year-on-year rise It is, of course, a reflection of the difficulties faced by you all in your professional life in a sea of rising expectations. Never has it been so important to belong to an organisation which has your interests at heart Not only has the volume of complaints risen, so has the number of referrals to regulatory bodies like the General Medical Council (GMC) and General Dental Council (GDC) That tide of criticism is part of a wider societal issue, in which increasingly there is a demand for people, as well as organisations, to be held accountable when things go wrong.

During the year, we have met this increased demand by expanding and improving our services Our in-house legal team has now grown, employing 23 specialist solicitors Charles Dewhurst, in his legal review, comments on their singular success in representing members at the GMC, the GDC, in the courts and at tribunals and inquests

Similarly, in the claims review, Jill Harding explains how her team has kept pace with rising demand, continuing to rebut around 70% of all claims brought against members and also successfully defending over half of the cases that reach the high court Of course in some cases it is appropriate that damages payments should be made and in a small but growing number of cases, the damages awarded are very high indeed Usually, this is because the claimant requires life-long care, such as a brain-damaged child or a patient who is left paraplegic following surgery, and this can be compounded by compensation for loss of future earnings It makes sense to give particular attention to high value claims and so we have established a high value claims unit, led by Dr Sharmala Moodley, deputy head of the claims department, to better understand and deal with these cases.

On the medical advisory side, Dr Michael Devlin details the work of his team Members contact our 24-hour advisory service for help with a wide range of medico-legal issues arising from their clinical care of patients Members will always be put through to someone who is medically qualified, with substantial experience of working in clinical settings, and often with additional qualifications in legal and ethical matters. Wherever possible, members are encouraged to remain in contact with the same adviser until the concern is resolved It is attention to detail, such as availability and speed of service and offering advice that is personal and specific to the member's situation that makes our advisory department so successful in meeting members' needs

Rupert Hoppenbrouwers, head of the DDU, outlines the work of the dental team in his review of the year. Our dental members have faced challenges unique to their discipline and Rupert describes how the DDU team has supported them

Giving accurate and up-to-date information is an important aspect of our work and we meet our members' need for this in a number of ways Our CPD-accredited education courses, held in London and Manchester, on key medico- and dento-legal topics are proving increasingly popular A recent medico-legal roadshow held in London was so over-subscribed that we hosted another Our advisers and liaison managers also travel to hospitals and practices around the country offering help and support to doctors and dentists

In a technology-driven world, our members are increasingly looking to our website for help Redesigned at the end of the year, the website includes our regular advice articles, and new sections such as a detailed question and answer page on revalidation, an interactive module to help our GP GROUPCARE practices meet the requirements of the Care Quality Commission (CQC), and online learning modules focusing on medical and dental ethics This has attracted praise from many who have used it

The MDU continues to champion the interests of members by making strong representation to government and the regulators on issues of concern to the profession as a whole A multi-disciplinary team at the MDU examines and responds to all consultations and proposals for change that potentially affect members. We are also in regular discussion with the regulators on matters relating to fitness to practise procedures, including the GMC pilot scheme for meeting doctors early on in the complaints investigation process. We believe the scheme is likely to have a positive impact, resolving issues at a much earlier stage and sparing some members the rigours of a formal hearing

Financially, the company's focus has always been on investing our members' money wisely and effectively to ensure the company maintains its financial strength to meet future challenges At a time of economic turmoil, when defence costs are spiralling, I am pleased to report that your company continues to be in a secure financial position, as the year's accounts and operating and financial review show We are in a robust position to face future challenges from whatever quarter they arise.

As to our standards of service, be assured they will remain high There is a commitment from every member of staff to give 'gold standard' levels of service Knowing you can call on that service at any time, should give you an extra measure of confidence in your day to day practice

The MDU Council

Three long-standing members of Council left during 2012. I would like to thank Professor Jennifer Adgey, Mr Ian MacKenzie and Dr Reuben Prasad for their assistance over many years, for their authoritative opinions and for the balanced advice they have given the MDU. I will personally miss their contributions at the cases committee

We are joined by two new members - Professor Kevin Channer, cardiologist and honorary professor of cardio-vascular surgery at Sheffield Hallam University and Professor David Sowden, director of Medical Education for England and an experienced general practitioner.

The board of management also welcomed two new members. Dr Christine Heron, consultant radiologist at St George's Hospital, in 2012 and Mr Ian Hutchinson, former director of corporate finance at Royal Sun Alliance, who took up his position in 2013 Both bring very valuable experience to our Board

Finally, I would like to pay a warm tribute to my predecessor, Dr Christopher Evans. During his tenure, Chris oversaw many changes in the company and left it on a very sound footing for members His skill in chairing the Board and ensuring that the Board functioned well in the interests of members has given me an excellent legacy to build on. We are all indebted to him and wish him well in his retirement

Peter Williams

Dr Peter Williams

Chairman of the board of management and President of the MDU

OPERATING AND FINANCIAL REVIEW 2012

Many members will already know that the MDU has brought claims funding back in-house and returned to our traditional MDU-funded method of providing indemnity for clinical negligence claims For members renewing from 1st April 2013 we no longer provide an insurance policy because recent changes in the insurance market are going to make it a far less attractive option Insurance represented the best value and security for members for many years, but a number of external factors such as the economic downturn and additional regulation within the insurance industry are likely to be translated into increasing insurance premiums which we don't think members should be asked to bear By providing indemnity in the traditional way now, we are able to take advantage of the MDU's secure financial position and to protect members from a deteriorating insurance market

In practice, members are unlikely to notice any difference because, whether you seek our assistance with a claim or an advisory matter, you will still receive the same high level of support and expertise from our professional services staff Members increasingly need the MDU's services because claims and complaints continue to rise steadily, as they have done over the last few years Using General Medical Council (GMC) fitness to practise findings as a marker, there is no evidence that clinical standards are slipping, and it is difficult to identify what lies behind the increase in complaints other than that the reasons are often economic and societal and largely beyond our members' control For our part, we have employed additional staff across our professional services division so we can be sure that whenever members need us, night or day, we are here and ready to help

2012 was busier than ever Our advisory team received 32,000 calls from members to our 24-hour advice line Our claims handling team opened over 15% more new medical claims files than in 2011 and dental claims rose by 32% The steep rise in all claims is attributable in a large part to increased notifications by claimants' lawyers ahead of the introduction of the legal changes recommended by Lord Justice Jackson These came into effect on 1 April 2013 and may result in a reduction in the fees claimants' lawyers can charge

Overall, 2012 saw an increase of 14 5% in the number of active medical claims files our claims team manages This figure reflects the department's increased workload of new files opened during the year as well as ongoing files from previous years On the advisory side, we opened 6 5% more medical files This was partly driven by a substantial rise in requests for MDU assistance with GMC investigations which is a reflection of the GMC's 18% rise in complaints over the same period (from 8,779 to 10,357) The GMC closes many complaints at the initial investigation stage (triage) because they do not raise a question about a doctor's fitness to practise There were 6,240 complaints closed at triage in 2012 and the GMC does not usually notify doctors of such complaints There were 4,117 GMC complaints which proceeded to an investigation and that is when many members sought our help We also saw a 15 5% rise in requests for advice about medical complaints being handled within the NHS complaints procedure The dental advisory team opened 12 5% more files which is explained by a dramatic rise in complaints to the General Dental Council (GDC), of 42 5% in 2012 (from 1,599 to 2,278), as well as additional requests for assistance with NHS and private complaints, and continuing requests for advice now that dental practices are regulated by the Care Quality Commission (CQC)

Despite the increasing number of new claims and regulatory cases we were able to keep our legal costs well under control Our total legal spend, for both discretionary and insurance claims, reduced from £26 4m in 2011 to £25 1m in 2012 This reduction was achieved in two ways First, we expanded our highly-experienced in-house legal team significantly in order to increase its capacity to represent our members with their cases Second, we renegotiated our relationship with a number of specialist external law firms to ensure that any case referred to them is managed as effectively and efficiently as possible

During 2012 we continued to represent members' interests with the government, regulators and other bodies. We need to make sure we are in a position to recommend and advise on the medico-legal impact of any proposed changes Sometimes we need to work on a campaign for several years, as we did, for example, with the legal costs changes implemented in April 2013, in order to ensure that fairness and proportionality are restored to claims costs It always takes time to raise awareness of a problem, and sometimes much longer to persuade those in a position of influence to address it appropriately We are now asking the government to address the unsustainable costs of damages awards themselves which are among the highest in the world Patients who are negligently damaged must be compensated, but the cost of compensation must be affordable and fair for all parties It is not unusual to see an award for £5m or more and, if claims awards inflate while society's ability to pay for them does not keep pace, this will be damaging to doctors, patients and the public interest On your behalf we are calling for a package of reforms, including caps on future care costs and loss of earnings awards, and will pursue this ourselves and with allies

2012 saw us equally hard at work with the GMC and the GDC principally contributing to changes to their fitness to practise (FTP) procedures and revisions to their core guidance. The Medical Practitioners Tribunal Service now undertakes adjudication for the GMC and we have been discussing proposed changes to their rules, just as we have been liaising with the GMC on its pilot meetings with doctors While the regulators' duties are primarily to protect patients, they also need fair and efficient procedures that reach the right decision as swiftly as possible in the interests of registrants, as well as patients

We have a multi-disciplinary team who work with the regulators and the results speak for themselves Both regulators published figures that demonstrate welcome changes to the FTP procedures, in terms of decreasing numbers of cases that go forward and in the increased speed and efficiency with which investigations are undertaken and decisions reached We make an important contribution to these changes, by assisting individual members to get the right outcome in their cases and, on behalf of all members, by alerting regulators to concerns and making suggestions for improvements to the procedures that are then taken into account when changes are made We have also been part of the professional group advising CQC on the introduction of regulation for primary medical care to help to make the process as smooth as possible for our medical members, and are able to feed in our experience of assisting dental members with dental practice registration

We have been liaising with the GMC for a number of years in anticipation of the introduction of revalidation, which is now upon us We have developed a revalidation section on our website to answer members' questions and help you to prepare We have an additional interest in revalidation as the MDU has a responsible officer and our medical members of staff expect to revalidate in their chosen field of medico-legal medicine

Business review

Strategy

In last year's report, I explained the unique combination of factors that create the backdrop against which we need to plan the MDU's long-term strategy

Members are facing a harsh medico-legal climate in which they are increasingly held to account There are still no indications that the current position, economically or medico-legally, will change or improve in the medium term Against this backdrop the challenge for the MDU is to continue 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 do this by listening to our members and making sure we understand the economic and wider environment in which you are working and its effect on you We also make sure we adapt quickly to the changing environment, for example, by taking the steps I described above in order to better control the funding and cost of indemnity going forward It is vital we are in the best position to continue 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

Over 85 7% membership calls answered within 20 seconds

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 a staff development and retention policy It also has a conflict of interest policy and a strategy to ensure that members are treated fairly These are regularly reviewed by the Board to ensure that the necessary procedures and strategies are in place to manage risks appropriately

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 2012

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 I am delighted that our membership numbers continued to grow in both the medical and dental sectors of the market

Quality of service

We understand how important it is to members that your calls are answered as quickly as possible Our investment in our membership department to improve the speed and efficiency of the service continued to show pleasing results as membership staff answered 99% of the 147,000 calls received In addition, we answered 97% of members' correspondence within five days, despite a 25% increase in volume.

In recognition of the high standard of service we provide to our members, during 2012 our membership department was awarded 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 its members' experience of service

We also reached the finals of the Customer Experience Awards in the not-for-profit organisations category

Increasingly our members want to manage elements of their membership with us through electronic media and during 2012 we introduced enhancements to our "My membership" on-line service Members can now request confirmation of membership details and information on subscription payments for tax purposes on-line and receive an immediate response They can also give permission and nominate others to view their records through their secure login We responded to over 11,000 enquiries using the new online service in the first nine months and 97% of users surveyed said they would use the service again

We have also updated our website Using a panel of members to advise us and test the site, we revised the look and navigation to make it easy to find particular elements of our wide range of services The site is now optimised for PC, tablet and mobile usage Feedback has been very positive since launch and usage figures continue to rise

During 2012 we enhanced our GP group scheme by providing our GROUPCARE practices with an on-line guide to help them meet their CQC compliance requirements Practice managers told us they greatly appreciate the usability and comprehensiveness of the software

We continue to see growth in our consultant membership numbers, despite competition For several years commercial insurers have sought to recruit consultants with substantial private practice to claims-made insurance arrangements The attraction of these arrangements is that they offer the prospect of a low premium in the first couple of years before claims come in However, they have a sting in the tail in the form of a large run-off payment being required if the doctor wants to leave as prices start to climb Our team of consultant liaison managers regularly meets members to discuss the different types of indemnity available and explain the advantages of the occurrence benefits the MDU provides The fact that our consultant membership is rising demonstrates that this service has been well received and has helped our members' understanding of the benefits of MDU membership

Our GP membership also continues to grow as practices have sought support from the MDU to indemnify nurses following the decision of the Royal College of Nursing to remove indemnity benefits from their practice nurse members from the start of 2012 Our GROUPCARE scheme offers a comprehensive package of support for GPs, nurses and practice staff including employment and health and safety advice

The DDU's dental membership has been expanding in terms of both dentists and dental care practitioners We regularly receive compliments from members for the quality and continuity of support provided by our dental team and we are increasingly attracting applications from members of other organisations who have heard about our high level of service

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 assets now total £255m (2011 £289m) with the balance sheet showing a surplus of £131m (2011 £135m) over indemnity, insurance, pension and other provisions of £124m (2011 £154m) 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 cover or by the insurance policy provided to members

Ireland

We were pleased to settle the long running dispute with the Department of Health in Ireland, in December last year The basis of the dispute was the problem of historic obstetric liabilities and the imposition by the Irish government of the clinical indemnity scheme on consultants The Irish government chose to support litigation to challenge the MDU Board's decisions in some Irish cases, in the interest of all members, to decline to exercise its discretion to assist or continue to assist. This litigation has been ended

All obstetric claims, and many other claims, against MDU members and former members in respect of historic liabilities will now be managed by the State Claims Agency, under the clinical indemnity scheme and indemnified by the Irish state The MDU is working with the State Claims Agency to facilitate the implementation of these arrangements

The MDU paid €45m to the Irish state, as part of the settlement In addition the MDU continued to assist with some cases in Ireland prior to settlement being achieved and, as detailed in the financial review below, made payments of £2 5m (2011 £8 6m) on behalf of members and former members in Ireland

Financial review

Income

Total subscription income for the year ended 31 December 2012 was £213 9m (2011 £195 2m), of which 98% was received from our UK members, the remainder, amounting to £4 5m, being from our members in Ireland

Expenditure

In 2012 the MDU paid out £32 2m (2011 £33 2m) in discretionary indemnity claims and legal costs, of which £2.5m relates to our Irish members' claims In addition the MDU paid €45m to the Irish state as part of the settlement described above

Insurance and reinsurance premiums in 2012 were £139 6m (2011 £115 2m)

Medical and dental advisory costs amounted to £22 7m in 2012 (2011 £21 5m), the increase of £1 2m reflecting enhancements in the medical and dental advisory services for our members

Administration and finance costs in 2012 were £15 2m (2011 £14 6m)

Assets/indemnity provision

The balance sheet for the MDU now shows total assets of £255m compared to £289m in 2011 The reduction is primarily due to the payment to the Irish state

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 cover or by the insurance policy provided to members

The level of indemnity and insurance provision, see note 13, has been estimated on the advice of the company actuary, taking all the above factors into consideration, and is shown in the accounts at £124 2m (2011· £148 2m)

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

C. Tomkins

Dr Christine Tomkins
Chief executive

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2012.

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

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

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.

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

Review of business

Members' attention is drawn to the report of the chairman and the operating and financial review, in which the salient features of the business of the year are highlighted. The financial statements on pages 21 to 43, set out the financial results of the year's activities.

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. Risk management procedures include an assessment of reinsurance security.

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 Board of MDUIL is responsible for reviewing the investment performance of the third party fund managers and takes into account market, credit, currency and liquidity risk in setting investment objectives.

The principal risks associated with investments, financial instruments and their management are discussed on pages 18 to 19. Other principal risks and their management are set out in the operating and financial review.

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.

Directors

The following served as directors in 2012:

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

1 Members of the remuneration committee
2 Members of the audit committee
3 Directors of MDU Services Limited
4 Members of the investment committee of MDU Investments Limited
5 Appointed 24 April 2012
6 Retired 18 September 2012
7 Appointed 18 September 2012

In addition to those Board members shown above, Mr I D Hutchinson was appointed with effect from 11 February 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:

Prof K A V Cartwright
Mr M M Gallivan
Dr M T Lee
Mr P Riordan-Eva

Mr R J C Pearson retires by rotation under article 49 but will not put himself forward for re-election

Dr C W Heron and Mr I D Hutchinson were appointed by the Board and will stand for election at the next annual general meeting in accordance with article 54

Corporate governance

Although the MDU is not a listed company, the Board is committed to the highest standards of corporate governance and seeks to apply the principles set out in the UK corporate governance code, to the extent appropriate for the MDU. 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 six 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 seven 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 16. 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 R J C Pearson, a non-executive director without MDU membership. Mr Pearson is a chartered accountant and has extensive audit experience. 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 varies according to the nature of the vacancy. 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 operating and financial review at pages 7 to 14.

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

Financial instruments

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to currency or interest 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. The matter is kept under review and if deemed appropriate forward contracts are entered into.

During the year the investment 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 recognised gains and losses of these contracts are included in note 3 to the financial statements.

Risk characteristics of financial instruments

Market risk

MDUIL 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, 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 by MDUIL's investment committee.

Credit risk

Credit risk encompasses all forms of counterparty 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. Credit risk is further managed by all such derivative contracts being of a short term nature.

Interest rate risk

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 of derivatives that need to be held.

Liquidity risk

The 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.

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.

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 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 company and the group 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 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 a going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

PKF (UK) LLP has merged its business into BDO LLP and a resolution to appoint BDO LLP as auditor of the company will be put to the annual general meeting.

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.

NJBowman

N J Bowman
Company secretary
23 April 2013

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 2012 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 auditor

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 Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the 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 (continued)

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

PKF (UK) LLP

Timothy Drew (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor

London, UK
25/4/2013

Consolidated Income and Expenditure Account

for the year ended 31 December 2012

	Note	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Members' subscriptions			**213,931**		195,164
Net investment (expense)/income	3		**(1,345)**		10,000
Total mutual income			**212,586**		205,164
Less					
Medical and dental advisory services		**22,745**		21,542	
Indemnity, legal, reinsurance and insurance costs	4	**183,098**		139,095	
Administrative costs		**13,852**		12,784	
Finance cost	5	**1,351**		1,814	
Total mutual expenditure			**221,046**		175,235
Result from mutual activities before taxation			**(8,460)**		29,929
Taxation	7(a)		**757**		(1,846)
Result after taxation transferred (from)/to accumulated fund	15		**(7,703)**		28,083

All activities relate to continuing operations

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2012

	Notes	2012	2011
		£'000	£'000
Result after taxation		**(7,703)**	28,083
Actuarial loss on pension scheme	15, 17	**(500)**	(800)
Revaluation gain on investments		**6,400**	9,425
Tax charge on unrealised gains on investments	7(b)	**(2,353)**	(1,907)
Tax charge on realised gains on disposal of investments	7(b)	**-**	(851)
Total recognised gains and losses since the last annual report		**(4,156)**	33,950

Note of Historical Cost Profit and Loss
for the year ended 31 December 2012

	Notes	2012	2011
		£'000	£'000
Reported (loss)/profit on mutual activities before taxation		**(8,460)**	29,929
Realisation of revaluation (losses)/gains of previous years	15	**(1,422)**	3,199
Historical cost (loss)/profit on ordinary activities before taxation		**(9,882)**	33,128
Historical cost (loss)/profit on ordinary activities after taxation		**(9,125)**	30,431

Consolidated and Company Balance Sheets

Registered number 21708

as at 31 December 2012

		2012		2011	
		Group	Company	Group	Company
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	4,523	48	4,480	64
Investments	9	215,977	5,160	230,390	5,160
		220,500	5,208	234,870	5,224
Current assets					
Debtors - amounts falling due within one year	10	12,366	213,144	27,114	237,445
Debtors - amounts falling due after more than one year	11	12,693	12,693	23,797	23,797
Cash at bank and in hand		31,283	11,668	23,549	13,342
		56,342	237,505	74,460	274,584
Creditors - amounts falling due within one year	12	23,658	10,461	20,188	8,449
Net current assets		32,684	227,044	54,272	266,135
Pension asset	17	1,800	1,800	-	-
Total assets		254,984	234,052	289,142	271,359
Provisions					
Indemnity and insurance	13	124,205	124,205	148,207	148,207
Other provisions	14	-	-	-	1
Total Provisions		124,205	124,205	148,207	148,208
Pension liability	17	-	-	6,000	6,000
Reserves					
Accumulated fund	15	130,779	109,847	134,935	117,151
Total - provisions and reserves		254,984	234,052	289,142	271,359

The financial statements were approved and authorised for issue by the Board on the 23rd April 2013 and signed on its behalf by

Peter Williams

P R Williams - Director

C. Tomkins

C M Tomkins - Director

Consolidated Cash Flow Statement

for the year ended 31 December 2012

	Notes	2012 £'000	2012 £'000	2011 £'000	2011 £'000
Net cash (outflow)/inflow from operating activities	16(a)		**(6,438)**		33,207
Returns on investments			**6,135**		6,628
Corporation tax paid			**(3,716)**		(2,006)
Acquisitions and disposals					
Purchase of tangible fixed assets		**(1,582)**		(1,605)	
Purchase of investments		**(138,649)**		(127,875)	
Sale of tangible fixed assets		**4**		262	
Sale of investments		**151,220**		107,412	
Net cash inflow/(outflow) from acquisitions and disposals			**10,993**		(21,806)
Increase in cash	16(b)		**6,974**		16,023

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2012

		2012 £'000	2011 £'000
Increase in cash	16(b)	**6,974**	16,023
Movement in net funds		**6,974**	16,023
Net funds at 1 January 2012		**39,401**	23,378
Net funds at 31 December 2012	16(b)	**46,375**	39,401

Notes to the Financial Statements
for the year ended 31 December 2012

1 Accounting Policies

(a) 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

(b) 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 2012. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006

(c) 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 Limited (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 (d) 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

(d) Insurance premiums

As explained in note (c) 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

(e) 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 Accounting Policies (continued)

(f) 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 1 195% (2011 1 500%) 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 (2011 8 0% per annum) over the period of settlement and that a net discount rate of 0 92% per annum (2011 1 1% per annum) is used to discount the claims payments to the balance sheet date

(g) 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
Motor vehicles	4 years

(h) Investments

Listed and unlisted investments held at the balance sheet date are stated at their closing valuation on that date Movements on revaluation are accounted for through the investment revaluation reserve On disposal the proceeds are compared to the carrying value and the resulting gain or loss credited or charged to the income and expenditure 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

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

Notes to the Financial Statements
for the year ended 31 December 2012

1 Accounting Policies (continued)

(i) 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

(j) Tax

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.

(k) Investment income

Investment income is accounted for on an accruals basis

(l) Operating leases

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

1 Accounting Policies (continued)

(m) 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

2 Employee information

		2012	2011
		£'000	£'000
Salaries		19,743	17,931
Social security costs		2,218	1,981
Pension costs	- defined benefit scheme	1,224	1,400
	- defined contribution scheme	776	600
Other staff costs		1,352	1,236
		25,313	23,148

	2012	2011
Average number of employees in the year	369	343

3 Net investment (expense)/income

	2012	2011
	£'000	£'000
Loss on investments re exchange rate movements	(1,224)	(858)
Bond and gilt interest	4,618	8,284
Bank interest and similar income	279	284
Other investment income	1,166	699
(Loss)/gain on disposal of investments	(6,184)	1,591
	(1,345)	10,000

4 Indemnity, Legal, Reinsurance and Insurance Costs

	2012	2011
	£'000	£'000
Insurance and reinsurance premiums	139,598	115,210
Premium element adjustment (see note 1d)	-	(16,518)
Increase in indemnity and insurance provision (note 13)	30,207	35,692
Legal costs	13,050	14,093
Reinsurance recoveries	243	(9,382)
	183,098	139,095

5 Finance cost

	2012 £'000	2011 £'000
Finance cost relating to indemnity and insurance provision (note 13)	**1,051**	1,814
Finance cost relating to pension provision (note 17)	**300**	-
	1,351	1,814

6 (a) Result Before Taxation

Result before taxation has been arrived at after charging/(crediting) the following

		2012 £'000	2011 £'000
Depreciation (note 8)		**1,483**	1,268
Loss/(profit) on disposal of fixed assets		**52**	(258)
Operating lease rentals	- land and buildings	**1,024**	986
	- office equipment	**4**	17
	- motor vehicles	**191**	162
Fees payable to the company's auditors and its associates			
- for the audit of the company's accounts		**53**	55
- for the audit of accounts of subsidiaries		**89**	84
- for tax services		**139**	134

(b) Directors' Remuneration

	2012 £'000	2011 £'000
Fees	**458**	387
Directors' emoluments	**1,010**	918
Amounts due and receivable under long term incentive plans	**416**	362
	1,884	1,667

The highest paid director in the Medical Defence Union Ltd earned	£'000	£'000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP)	**475**	447
Accrued annual pension (excluding indexation)	**143**	134

Retirement benefits are accruing to three directors (2011 four) 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 seven (2011 six) of the non-executive directors received fees totalling £45,000 (2011 £55,000) for acting as expert witnesses on behalf of members

(b) Directors' Remuneration (continued)

	Fees Salary £'000	Benefits (note 1) £'000	STIP (note 2) £'000	LTIP (note 3) £'000	Other (note 4) £'000	**Total 2012 £'000**	2011 £'000
Executive Directors							
C M Tomkins (Chief Executive)	236	17	63	159	-	**475**	447
M M Gallivan (Finance Director) (note 5)	165	16	35	95	89	**400**	306
N A Dungay (Marketing & Sales Director)	114	14	24	65	-	**217**	214
M T Lee (Professional Services Director)	184	14	39	97	-	**334**	313
Non Executive Directors							
C C Evans (Chairman - retired 18th September 2012)	53	-	-	-	12	**65**	82
P R Williams (Chairman since 18th September 2012)	43	-	-	-	11	**54**	42
R J C Pearson (Chairman of Audit Committee)	39	-	-	-	6	**45**	43
K A V Cartwright	21	-	-	-	25	**46**	46
H E Clarke	33	-	-	-	6	**39**	37
A W Craft	9	-	-	-	16	**25**	21
C L A Edginton (appointed 24th April 2012) (note 6)	22	-	-	-	2	**24**	-
C W Heron (appointed 18th September 2012)	3	-	-	-	6	**9**	-
K F Richardson	33	-	-	-	5	**38**	36
M S Richmond	9	-	-	-	8	**17**	17
P Riordan-Eva	22	-	-	-	12	**34**	34
P D Robinson	9	-	-	-	15	**24**	19
P D Webster (appointed 20th September 2011)	33	-	-	-	5	**38**	10
	1,028	61	161	416	218	**1,884**	1,667

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 2012 and amounts accrued in respect of the year to 31 December 2012 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 2012 and amounts accrued in respect of the year to 31 December 2012 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 - The "Other" amount for Mr Gallivan represents a one-off payment in return for the surrendering of certain pension rights

Note 6 - Mr Edginton's fee is paid to a third party with additional VAT being incurred

Notes to the Financial Statements
for the year ended 31 December 2012

7 Taxation

	2012	2011
	£'000	£'000
(a) Income and Expenditure Account		
Corporation tax for the year at 24 5% (2011 26 5%)	(681)	1,615
Adjustment in respect of previous years	(3)	255
	(684)	1,870
Deferred taxation (note 14)	(73)	(24)
Taxation (credit)/charge	(757)	1,846

(b) Statement of Total Recognised Gains and Losses	2012	2011
	£'000	£'000
Corporation tax for the year on unrealised gains on investments	2,353	1,907
Corporation tax for the year on disposal of investments	-	851

(c) Factors affecting tax charge for the year

The tax assessed for the year is less than the standard rate of corporation tax in the UK of 24 5% (2011 26 5%) Reconciling items are explained below

	2012	2011
	£'000	£'000
Result from mutual activities before taxation	(8,460)	29,929
Result before taxation multiplied by standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	(2,073)	7,931
Effects of		
Net mutual income not subject to corporation tax	1,415	(5,565)
Other income not subject to corporation tax	(286)	(922)
Losses not allowable	176	176
Capital allowances more/(less) than depreciation	86	(7)
Expenses not allowable	1	2
Adjustment in respect of previous years	(3)	255
	(684)	1,870

8 Fixed Assets - Tangible

Group

	Motor vehicles	Furniture, office equipment, computer equipment and software	Leasehold Properties and Improvements under 50 years	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2012	25	8,162	1,933	10,120
Additions in year	-	1,582	-	1,582
Disposals	(25)	(151)	-	(176)
At 31 December 2012	-	**9,593**	**1,933**	**11,526**
Depreciation				
At 1 January 2012	23	3,748	1,869	5,640
Charge for the year	2	1,465	16	1,483
Disposals	(25)	(95)	-	(120)
At 31 December 2012	-	**5,118**	**1,885**	**7,003**
Net Book Amount				
At 31 December 2012	-	**4,475**	**48**	**4,523**
At 31 December 2011	2	4,414	64	4,480

Included in furniture, office equipment, computer equipment and software is £nil in respect of assets in the course of construction (2011 £181,000)

Company

	Leasehold Properties and Improvements under 50 years
	£'000
Cost	
At 1 January 2012	1,933
Additions in year	-
At 31 December 2012	**1,933**
Depreciation	
At 1 January 2012	1,869
Charge for the year	16
At 31 December 2012	**1,885**
Net Book Amount	
At 31 December 2012	**48**
At 31 December 2011	64

9 Fixed Assets - Investments

Group

	Cash & Investment in Cash Fund	Funds held by Investment Managers	**2012 Total**	2011 Total
	£'000	£'000	**£'000**	£'000
Value at 1 January 2012	632	229,758	**230,390**	188,321
Additions	-	138,649	**138,649**	127,875
Disposals at carrying value	-	(157,404)	**(157,404)**	(105,532)
Foreign exchange (losses)	-	(1,212)	**(1,212)**	(579)
Amortisation	-	-	-	(1,694)
Movement in cash and accrued income	2,087	(2,933)	**(846)**	12,574
Revaluation of investments	-	6,400	**6,400**	9,425
Value at 31 December 2012	2,719	213,258	**215,977**	230,390

Analysis of funds held by investment managers		**2012**		2011
	%	**£'000**	%	£'000
Index linked UK Government and sterling corporate bonds	**67.8**	**144,632**	50 7	116,386
UK Government Fixed interest bonds	**1.1**	**2,218**	6 6	15,141
Other sterling corporate bonds	**8.6**	**18,420**	10 0	22,979
Non sterling bonds	**7.5**	**16,069**	14 4	33,126
UK equities	**3.2**	**6,817**	5 8	13,241
Overseas equities	**5.8**	**12,252**	5 9	13,572
Forward and future contracts	**0.2**	**477**	-	93
Cash and liquidity balances	**5.8**	**12,373**	6 6	15,220
	100.0	**213,258**	100 0	229,758

A £nil (2011 £1 4m) 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

Company

	Subsidiary Undertakings
	£'000
Cost at 1 January & 31 December 2012	**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

10 Debtors - amounts falling due within one year

	2012		2011	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	205,029	-	218,153
Premium element adjustment (see note 1d)	4,259	4,259	16,660	16,660
Reinsurance and insurance recoveries	3,228	3,228	1,940	1,940
Other debtors	2,659	2	6,392	57
Prepayments and accrued income	2,072	537	2,047	343
Corporation tax	-	89	-	292
Deferred tax (note 14)	148	-	75	-
	12,366	213,144	27,114	237,445

11 Debtors - amounts falling due after more than one year

	2012		2011	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	12,693	12,693	19,538	19,538
Premium element adjustment (see note 1d)	-	-	4,259	4,259
	12,693	12,693	23,797	23,797

12 Creditors - falling due within one year

	2012		2011	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Taxation and social security	669	33	615	42
Corporation Tax	1,308	-	3,357	-
Other creditors and accruals	21,681	10,428	16,216	8,407
	23,658	10,461	20,188	8,449

13 Provisions - Indemnity and insurance

Group and company

	2012	2011
	£'000	£'000
At 1 January	**148,207**	129,847
Finance costs	**1,051**	1,814
Indemnity paid (including settlement to the Irish State)	**(55,260)**	(19,146)
Increase in indemnity and insurance provision (note 4)	**30,207**	35,692
At 31 December	**124,205**	148,207

14 Deferred tax

	2012		2011	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
At 1 January	**75**	**(1)**	51	(1)
Charged to Income & Expenditure Account	**73**	**1**	24	-
At 31 December	**148**	-	75	(1)

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

15 Reserves

Group

	Income and Expenditure	**Revaluation Reserve**	**Accumulated Fund**
	£'000	**£'000**	**£'000**
At 1 January 2012	122,211	12,724	134,935
Result for year	(7,703)	-	(7,703)
Revaluation of fixed asset investments	-	6,400	6,400
Realised on disposal of investments	(1,422)	1,422	-
Tax charge on unrealised gains on investments	(2,353)	-	(2,353)
Actuarial loss on pension scheme	(500)	-	(500)
At 31 December 2012	**110,233**	**20,546**	**130,779**

15 Reserves (continued)

Company

	Accumulated Fund £'000
At 1 January 2012	117,151
Result for year	(6,804)
Actuarial loss on pension scheme	(500)
At 31 December 2012	**109,847**

16 Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of surplus before taxation to net cash inflow from operating activities

	2012 £'000	2011 £'000
Result before taxation	**(8,460)**	29,929
Loss/(profit) on disposal of fixed assets	**52**	(258)
Loss/(profit) on disposal of investments	**6,184**	(1,591)
Investment income	**(4,839)**	(8,409)
Depreciation	**1,483**	1,268
Decrease/(increase) in debtors (excluding deferred tax)	**14,821**	(579)
Decrease/(increase) in debtors due in more than one year	**11,104**	(9,351)
Increase in creditors (excluding corporation tax)	**5,519**	4,338
(Decrease)/increase in indemnity and insurance provision	**(24,002)**	18,360
Cash contributions (more) than current service cost and past service gain/loss	**(8,300)**	(500)
Net cash (outflow)/inflow from operating activities	**(6,438)**	33,207

(b) Analysis of net Funds

	At 1 January 2012 £'000	Cash Flows £'000	At 31 December 2012 £'000
Cash held for investment and investment in cash funds	632	2,087	**2,719**
Cash with investment managers	15,220	(2,847)	**12,373**
Deposits at bank	23,549	7,734	**31,283**
	39,401	6,974	**46,375**

17 Pension costs

As explained in accounting policy note 1(m) 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 2012 by qualified independent actuaries for the purpose of reporting pension costs

The major assumptions made by the actuary in the update were:

	2012	2011	2010
Rate of increase in salaries	**3.8%**	3 8%	4 2%
Rate of increase in pensions pre 16 February 2009 retirees	**2.6%**	2 3%	2 7%
Rate of increase in pensions post 16 February 2009 retirees	**3.2%**	3 2%	3 5%
Discount rate	**4.6%**	4 7%	5 3%
RPI Inflation assumption	**3.3%**	3 3%	3 7%
CPI Inflation assumption	**2.6%**	2 3%	2 8%

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 26 years if they are female For a member who retires in 2032 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:	**2012**	2011	2010
Equities	**7.0%**	7 2%	7 8%
Property	**6.0%**	6 2%	7 3%
Government bonds	**2.9%**	2 9%	4 3%
Corporate bonds	**4.0%**	4 3%	5 2%
Other	**1.0%**	1 8%	1 4%

Fair value:	**£'000**	£'000	£'000
Equities	**14,000**	12,200	12,200
Property	**11,300**	11,200	10,500
Government bonds	**12,600**	12,500	10,100
Corporate bonds	**53,200**	47,300	42,300
Other	**8,200**	300	300

17 Pension costs (continued)

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

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Total market value of assets	**99,300**	83,500	75,400	67,400	53,600
Present value of scheme liabilities	**97,500**	89,500	81,100	71,800	60,000
Net pension asset/(liability) before deferred taxation	**1,800**	(6,000)	(5,700)	(4,400)	(6,400)
Assets as a percentage of liabilities	**101.8%**	93 3%	93 0%	93 9%	89 3%

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

	2012	2011
	£'000	£'000
Opening defined benefit obligations	**89,500**	81,100
Current service cost	**2,000**	2,000
Interest cost	**4,000**	4,100
Contributions by scheme participants	**700**	700
Actuarial losses on the scheme liabilities	**4,300**	3,900
Net benefits paid out	**(3,000)**	(2,300)
Closing defined benefit obligations	**97,500**	89,500

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

	2012	2011
	£'000	£'000
Opening fair value of scheme assets	**83,500**	75,400
Expected return on scheme assets	**3,700**	4,100
Actuarial gains on scheme assets	**3,800**	3,100
Contributions by employer	**10,600**	2,500
Contributions by scheme participants	**700**	700
Net benefits paid out	**(3,000)**	(2,300)
Closing fair value of scheme assets	**99,300**	83,500

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 it's subsidiary undertakings

17 **Pension costs (continued)**

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 2012

Analysis of the amount charged to Income & Expenditure

	2012	2011
	£'000	£'000
Current service cost	**2,000**	2,000
Total operating charge	**2,000**	2,000

Analysis of the amount (credited)/charged to other finance income

	2012	2011
	£'000	£'000
Expected return on scheme assets	**(3,700)**	(4,100)
Interest on the scheme liabilities	**4,000**	4,100
Net return	**300**	-

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

	2012	2011
	£'000	£'000
Actuarial gains on scheme assets	**3,800**	3,100
Actuarial losses on scheme liabilities	**(4,300)**	(3,900)
Actuarial loss recognised in the STRGL	**(500)**	(800)

History of experience gains and losses:

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on scheme assets	**3,800**	3,100	3,700	3,700	(12,600)
As a percentage of the scheme assets	**3.8%**	3 7%	4 9%	5 5%	23 5%
Experience gains/(losses) arising on the scheme liabilities	**(600)**	200	(400)	600	0
As a percentage of the present value of the scheme liabilities	**0.6%**	0 2%	0 5%	0 8%	0 0%
Actuarial loss recognised in the STRGL	**(500)**	(800)	(2,000)	(5,400)	(4,200)
As a percentage of the present value of the scheme liabilities	**0.5%**	0 9%	2 5%	7 5%	7 0%

18 Financial Commitments

Annual commitments in respect of non cancellable operating leases are as follows

Group

	Other		Land & buildings	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Operating leases which expire				
Within one year	**16**	26	**9**	9
Between one and five years	**152**	142	**1,204**	977

Company

	Land & buildings	
	2012	2011
	£'000	£'000
Operating leases which expire		
Between one and five years	**977**	977

19 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

20 Members' Liability

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

21 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