

The Medical Defence Union Limited
(Registered number 21708)

Consolidated Financial Statements

for the year ended 31 December 2011



The Medical Defence Union Limited

for the year ended 31 December 2011

Contents

	Page
Report of the Chairman	2 - 5
Operating and Financial Review	6 - 12
Directors' Report	13 - 18
Independent Auditor's Report	19 - 20
Consolidated Income and Expenditure Account	21
Consolidated Statement of Total Recognised Gains and Losses	21
Consolidated and Company Balance Sheets	22
Consolidated Cash Flow Statement	23
Reconciliation of Net Cash Flow to Movement in Net Funds	23
Notes to the Financial Statements	24 - 41

REPORT OF THE CHAIRMAN

In 2011, the MDU focused on those activities we have always done best – defence of members, dedicated service, professionalism and influence. As a result, we were able to enhance our position as the leading UK medical defence organisation.

Excellence doesn't happen by accident. It takes effort, determination and continual reflection on what can be done better. In 2011, the MDU and our members together faced unprecedented challenges – in the claims environment and in professional regulation. We remained steadfast to our ethos of 'doctors for doctors' and 'dentists for dentists' and in our commitment to the best interests of our members

As a result, I am pleased to report that we ended 2011 in a healthy financial position and our members rated us highly in our regular satisfaction surveys

Defending members

The current rate of increase in the number of claims for compensation for clinical negligence and referrals to the regulatory bodies is unmatched in the company's 126-year history. Claims in general practice alone have risen significantly in number for each of the last two years, and in 2011 we paid our highest ever damages (£6.5 million) for a plastic surgery claim. It is chastening to note that of this sum, just £80,000 was awarded for physical damages; the remainder represented loss of earnings potential. The figure does not take account of the legal fees paid. Although an extreme example, this case represents a worrying trend in the cost of settling claims.

In her review of the year Jill Harding, head of claims, explains more about how her department has managed these developments during 2011 and how our defence of members against claims for clinical negligence has never been more robust. Even though more claims are being notified, the MDU has maintained its excellent rebuttal rate, with some 70% of medical claims successfully defended.

A referral to the GMC or GDC remains one of the most distressing events a doctor or dentist may encounter in their career. Sadly, greater numbers of our members find their fitness to practise under investigation, even though their professional standards remain as high as ever. Members who have been through a GMC or GDC investigation will empathise with the member who remarked recently: 'It is so very important to have support if the worst happens'.

Any members who have found themselves facing 'the worst' will know that the MDU's legal and advisory teams provide dedicated and unwavering support, assistance and advice. Our success in defending members at GMC and GDC fitness to practise hearings and, more importantly, in preventing

their cases progressing to beyond the investigation stage, remains as high as ever, as Charles Dewhurst, head of the MDU legal department, explains in his department review.

Service

Our commitment to service has never been stronger. In 2011, we consolidated our membership services and achieved our best ever response to calls from members. I am pleased to report that our 72-strong membership team receives many unsolicited compliments from members on the speed and quality of their service, and I am sure this will continue into the future.

The IT systems that underpin our service were also developed to leading-edge standards during 2011. The addition of MyMDU to our website allowed members to update their details quickly and easily online, while internally we streamlined our electronic file management system.

Advisory services, a team of 42 medico-legal and 11 dento-legal advisers – all doctors and dentists with many years' experience – received over 30,000 calls from members in 2011. But advisory services are not just about the numbers, as any member who has called the advisory helpline will attest. Our advisers devote time and expertise to assisting individual members with their ethical dilemmas, providing both clinical and legal advice and emotional support when our members most need it. Head of advisory services Dr Michael Devlin and head of the DDU Rupert Hoppenbrouwers give more detail in their departmental reports

Professionalism

As a professional services organisation, one of our functions is to help our members avoid the errors or behaviours that can lead to complaints and claims. To that end, our wide-ranging education programme continued to expand in 2011 so that we could accommodate the growing numbers of members who wished to attend. Feedback strongly suggests that members find the structure of the courses and depth of information provided extremely helpful in developing insight into such fundamental skills as communication with patients and colleagues, medical ethics and law, and professionalism in medical practice.

At the same time, our sales and advisory teams delivered over 1,600 risk management seminars to members in their own practices or hospitals. Topics covered a broad spectrum of medico-legal issues such as dealing with difficult patients, health and safety and confidentiality

The MDU roadshows continue to be both popular and successful. These regional events offer opportunities to examine in even greater detail the issues that continue to challenge members through structured workshops and discussions. They also allow us to talk to members about the changing claims environment and escalating GMC fitness to practise hearings (a 23% increase in

2011) and to give them some insight into the work the MDU does on their behalf to contain costs in clinical negligence cases. Not just the financial cost, of course, but the personal and professional cost to members of being held accountable in this way.

Influence

One of the areas in which the MDU excels is in influencing government and the regulators. This is an important part of our work for members. A multi-disciplinary team with a huge breadth of expertise (legal, governmental, advisory, claims) examines and responds in detail to proposals that will affect members' working lives. Our activities have effected positive changes for members, or headed off change that we do not believe to be for members' overall benefit

In 2011, we noted several successes in this respect. For example, we saw vital changes to conditional fee agreements proposed in the Legal Aid, Sentencing and Punishment of Offenders Bill. The changes, which we support, were recommended by Lord Justice Jackson and will, we believe, restore proportionality to legal costs in clinical negligence cases.

We also opposed the Ministry of Justice's proposal to introduce a scheme to fast-track low value clinical negligence claims similar to the scheme that applies to road traffic accident cases. We argued that it would not be fair to extend the scheme to claims made against individual doctors because of the wider professional impact on them of such claims. In particular, we asserted that our members could not be bound by expert reports with which we and they did not agree. Also, in clinical negligence claims, it is not always appropriate to admit liability, even if we agree to settle a case on behalf of a member, because of the potential repercussions for that doctor or dentist.

Throughout the year we were in active discussion with the GMC and GDC, responding to consultations on new guidance and the radical changes to the fitness to practise procedures, which we broadly support.

New faces

During 2011, we welcomed Mr Peter Webster to the board of management. Peter's business experience is already making a very valuable contribution to the direction of the company. Towards the end of the year, we also appointed Mr Clive Edginton who takes up his position in 2012.

Several new Council members joined us in 2011. They are Dr Christopher Winearls, nephrologist; Dr Simon Watkin, general physician; and Dr Oliver Foster, neurologist. We welcome them all. We also said farewell to Dr Simon La Frenais and Professor Mike Pringle. Both served the interests of members with enthusiasm, dedication and aplomb during their tenure and I thank them.

Finally, on behalf of your Board I should like to thank all the staff of the MDU for their hard work throughout the year. They demonstrate excellence every day in their dealings with members or behind the scenes, and the results of their contributions can be seen in the pages of this, my last, annual report.

It has been an honour, a privilege and very enjoyable to serve the MDU and to watch it move from strength to strength as I am sure it will do in the future under the guidance of my successor, Dr Peter Williams.

A handwritten signature in black ink, appearing to read 'CCEV' followed by a stylized flourish or arrow pointing to the right.

C C Evans

Chairman of the board of management and President of the MDU

OPERATING AND FINANCIAL REVIEW

2011 has been a year of operational and financial success for the MDU. We have reason to be pleased with this at a time when the company faces the challenges posed by the prevailing economic climate and the many other factors that affect the environment in which we and our members work. For example, members will be acutely aware of the proposed structural reforms to English healthcare which are planned at the same time as there is a long-term programme aimed at health and social care savings throughout the UK. These pressures will affect members professionally in their ability to treat and care for patients and personally through cuts or freezes in salaries and remuneration and savings or pensions. We expect, however, that the public's expectations of what doctors, dentists and other healthcare professionals can deliver will not diminish and that expressions of dissatisfaction are likely to increase. Almost certainly this will lead to more members looking to the MDU for advice and assistance. We are committed to ensuring they continue to receive the high-quality service they are entitled to expect and on which they increasingly rely.

2011 was busier than ever. Advisory colleagues received 30,000 calls from members to our 24-hour advice line. Our claims handling team opened 17% more medical claims files than in 2010, reflecting significant increases in claims notified by GP members and consultants in independent practice. By contrast the number of dental claims rose only 2.5%. We believe this is attributable to a slowing down in notifications as some claimants' lawyers adjust their practice in anticipation of the introduction of the legal changes recommended by Lord Justice Jackson.

Overall 2011 saw an increase of around 10% in the number of active claims files currently being managed by the claims team and we expect this trend to continue. On the advisory side, we opened 8.5% more medical files. This reflected an 18% rise in requests for MDU assistance with GMC investigations and a 56% rise in disciplinary cases against members in the hospital and primary care sectors. The dental advisory team opened 7% more files which is explained by additional requests for assistance with dental complaints and new requests for advice following the introduction of regulation of dental practices by the Care Quality Commission in April.

I am particularly pleased, therefore, that all this increased activity on behalf of members was matched by a marked reduction of 19% in the MDU's total legal costs which were £14.1m in 2011 (2010: £17.5m). This is principally the result of hard work on the part of all our professional services teams, though it also demonstrates that the GMC's change in its approach to fitness to practise cases, which we support, is beginning to take effect.

Controlling costs is central to the MDU's management of our members' fund and our approach is two-pronged: first we examine the MDU's own expenditure critically in order to identify effective ways to contain costs; and second we try to ensure that any changes we suggest to legal and regulatory procedures will be cost-effective and not increase the financial burden on members.

During 2011 we were again working hard on members' behalf to influence forthcoming changes. Key among them are the proposed amendments to conditional fee agreements that we supported from the outset and that are now included in the Legal Aid, Sentencing and Punishment of Offenders Bill 2010. The legal changes are planned for implementation in April 2013, more than five years since they were first mooted, and they are vital in order to restore fairness and proportionality to claims costs. Our next campaign on behalf of members is to persuade the government to address the costs of damages awards themselves. These are currently rising at a rate that exceeds wage and general inflation and we believe this should not be allowed to continue.

Other long term projects include our continued work with the General Medical Council and the General Dental Council on revisions to their fitness to practise procedures with the aim of making the procedures quicker, fairer and more effective. Protection of patients is of course paramount and we have been heavily involved in ensuring that proposed innovations will also improve the procedures for all members who are investigated by their regulator.

One change during 2011 was entirely unanticipated as the Royal College of Nursing decided to withdraw indemnity from its practice nurse members on the grounds that they should rely on their employing GPs instead. We were quick to make it clear that the indemnity provided to MDU members includes their liability for the acts and omissions of their employed staff, so this sudden and dramatic announcement had little impact on MDU members. It did, however, cause a ripple of anxiety among other GPs who were not sure of their position and among nurses with extended roles without indemnity who had to make their own arrangements quickly in case they, rather than their employer, were sued.

Business review

Strategy

I explained in my introduction to this report the unique combination of factors that create the backdrop against which we need to plan the MDU's long-term strategy. The financial crisis began with a recession in 2008 that continues to spread financial turmoil throughout the Eurozone and internationally. The practical effects of this crisis in the UK are wide-ranging, from lower investment returns for all companies, to severe economic pressure on the banking and insurance sectors, and resultant change to a harsher financial regulatory regime. The downturn in the economy will also affect all members who have savings and pensions, as will long-term freezes in salaries. At the same time the clinical negligence claims climate is deteriorating with dramatic increases in the number and value of claims in 2011 and, on the advisory side, the GMC has announced a further massive rise in complaints, having received 8,781 in 2011, which is 23% up on the previous year.

Against this backdrop the challenge for the MDU is how 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 providing 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. As a not-for-profit mutual organisation, fairness and quality are essential to our reputation and must not be compromised.

Principal risks and uncertainties

Given all the above, the MDU continues to look at the options open to us to ensure the MDU best serves members' needs to the first class standard they expect 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 insurance/reinsurance security, currency risk and 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 reviewed by the Board regularly 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 2011.

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. It was particularly pleasing that the MDU's consultant membership grew to record numbers even though 2011 saw efforts by some competitors to target consultants.

Quality of service

At the end of 2010, we began to seek feedback from members who had used our 24-hour telephone advice line recently or who were being assisted by our advisory, claims or legal departments. Over 1700 members responded and the average satisfaction rate across all departments was 97%. Members scored the MDU highest for being easy to contact, helpful and for our technical expertise. One member summed up the experience: 'Excellent service. I felt understood and supported'. Most pleasing was that over 96% of members who responded said they would recommend the MDU to colleagues on the basis of the advice and assistance they received with their case.

We continue to innovate and to develop more ways for members to use our services and to contact us. For example, we continue to focus on providing value to members through MDU Education and Training. We recently introduced a course for consultants preparing for private practice that was a sell-out. Our existing Ethics and Law, Communication Skills and Professional Challenges in Medical Practice and Dental CPD courses also continue to be fully-subscribed.

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 although membership staff received 142,832 calls, 10% more than in 2010, there was an improvement in our service. For example, 95% of calls were answered within an average of 12 seconds and 94% of correspondence was answered within five days.

The website continues to be popular, allowing members to update their membership record and to download documents online at a time convenient to them. We add new functions regularly, including an increasing range of medico-legal podcasts, hot topics and other features members find helpful.

During 2011 we continued to see a growth in demand for our corporate membership package. The MDU's Corporate Indemnity Solution provides corporate clinical indemnity insurance for a company or limited liability partnership, and for its vicarious liability for the acts of non-clinician employees, which sits alongside the MDU's individual membership benefits for clinicians.

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 below in the financial review, but the key figures are.

The MDU's assets now total £289m (2010: £237m) with the balance sheet showing a surplus of £135m (2010: £101m) over indemnity, pension and other provisions of £154m (2010: £136m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). The majority of these are picked up, as they are notified to us, by the insurance policy held by most paying members.

Ireland

In Ireland the dispute with the Department of Health and Children continues, its basis being the problem of historic obstetric liabilities and the imposition by the Irish government of the clinical indemnity scheme on consultants. The Irish government has chosen 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.

The ambit of the Irish jurisdiction remains disputed, following decisions of the supreme court of Ireland and the European court of justice. Pending further appeal to the supreme court of Ireland, the cases are proceeding and the MDU is opposing the claims.

The Irish government has said that no Irish person who has suffered from a medical mishap would be left without compensation and no consultant would be left without cover in all reasonable circumstances and in accordance with law. The MDU understands this undertaking has been honoured to date.

The MDU continues to assist with some cases in Ireland and, as detailed in the financial review below, made payments of £8.6m (2010: £5.4m) on behalf of members and former members in Ireland.

Financial review

Income

Total subscription income for the year ended 31 December 2011 was £195.2m (2010: £188.8m), of which 97.6% was received from our UK members, the remainder, amounting to £4.6m, being from our members in Ireland.

Added to the subscription income is investment income for the year of £10m (2010: £6m), bringing the total mutual income for the MDU group in 2011 to £205.2m (2010: £194.8m)

Expenditure

In 2011 the MDU paid out on behalf of its members £33.2m (2010: £42.8m) in discretionary indemnity claims and legal costs. Within the £33.2m of indemnity and legal payments for 2011, £8.6m (25.9%) relates to our Irish members' claims.

Insurance and reinsurance premiums in 2011 were £115.2m (2010: £110m).

In 2011 under the insurance arrangements with SCOR, the MDU has been able to benefit from a positive adjustment of premium of £16.5m (2010: £17m) – see note 4 (premium element adjustment). This was due to an improvement in the claims experience of our members.

The MDU also benefits from a reinsurance programme, which includes additional protection for discretionary claims. The reinsurance recoveries in 2011 were £9.4m (2010: £12.2m).

Medical and dental advisory costs amounted to £21.5m in 2011 (2010: £19.7m), the increase of £1.8m reflecting enhancements in the medical and dental advisory services for our members.

Administrative and finance costs in 2011 were £14.6m (2010: £14.1m).

Assets/indemnity provision

The balance sheet for the MDU now shows total assets of £289m compared to £237m in 2010. This improvement is mainly due to good operating and investment performance in the year and the benefit of the premium element adjustment referred to earlier.

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. Nearly all paying members have an insurance policy and, for those who do, such claims are covered in accordance with the terms of the policy.

The level of indemnity provision, see note 13(a), has been estimated on the advice of consulting actuaries taking all the above factors into consideration, and is shown in the accounts at £148.2m (2010: £129.8m).

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 our members, while controlling costs and managing funds prudently for members' financial security.



Dr Christine Tomkins

Chief executive

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2011.

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.

Through MDU Services Limited (MDUSL), the group provides 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 Limited. MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the FSA 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 41, 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 insurance premiums, overheads and foreseeable discretionary indemnity payments and legal costs.

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 16 to 17. 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 2011:

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

- 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 20 September 2011**

In addition to those Board members shown above, Mr C L A Edginton was appointed with effect from 24 April 2012.

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 Sir Alan Craft
Mr N A Dungay
Mr K F Richardson
Mr P D Robinson
Dr P R Williams

Mr P Webster and Mr C L A Edginton 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 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 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 14. 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 MDU's actuarial advisers each year and reviews the results of their work.

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 6 to 12.

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. Firstly by the majority of its assets being in corporate and government bonds, which have a relatively low level of volatility compared to equities. Secondly 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.

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 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 and 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.

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
24 April 2012

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 2011 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, 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 directors' responsibilities statement, 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 2011 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
8 May 2012

Consolidated Income and Expenditure Account

for the year ended 31 December 2011

		2011		2010	
		£'000	£'000	£'000	£'000
Members' subscriptions			195,164		188,828
Investment income	3		<u>10,000</u>		<u>6,015</u>
Total mutual income			205,164		194,843
<u>Less</u>					
Medical and dental advisory services		21,542		19,688	
Indemnity, legal, reinsurance and insurance costs	4	139,095		124,692	
Administrative costs		12,784		11,753	
Finance cost	5	<u>1,814</u>		<u>2,375</u>	
Total mutual expenditure			<u>175,235</u>		<u>158,508</u>
Result from mutual activities before taxation			29,929		36,335
Taxation charge	7(a)		<u>(1,846)</u>		<u>(1,367)</u>
Result after taxation transferred to accumulated fund	15		<u>28,083</u>		<u>34,968</u>

All activities relate to continuing operations

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2011

	Notes	2011	2010
		£'000	£'000
Result after taxation		28,083	34,968
Actuarial loss on pension scheme	15, 17	(800)	(2,000)
Revaluation gain on investments		9,425	4,976
Tax charge on unrealised gains on investments	7(b)	(1,907)	-
Tax charge on realised gains on disposal of investments	7(b)	<u>(851)</u>	<u>(340)</u>
Total recognised gains and losses since the last annual report		<u>33,950</u>	<u>37,604</u>

Consolidated and Company Balance Sheets

as at 31 December 2011

Registered number 21708

	Notes	2011		2010	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	4,480	64	4,147	90
Investments	9	230,390	5,160	188,321	5,160
		234,870	5,224	192,468	5,250
Current assets					
Debtors - amounts falling due within one year	10	27,114	237,445	26,511	213,367
Debtors - amounts falling due after more than one year	11	23,797	23,797	14,446	14,446
Cash at bank and in hand		23,549	13,342	16,338	2,264
		74,460	274,584	57,295	230,077
Creditors - amounts falling due within one year	12	20,188	8,449	13,231	8,857
Net current assets		54,272	266,135	44,064	221,220
Total - fixed assets and net current assets		289,142	271,359	236,532	226,470
Provisions					
Indemnity	13(a)	148,207	148,207	129,847	129,847
Pension	13(b)	6,000	6,000	5,700	5,700
Other provisions	14	-	1	-	1
Total Provisions		154,207	154,208	135,547	135,548
Reserves					
Accumulated fund	15	134,935	117,151	100,985	90,922
Total - provisions and reserves		289,142	271,359	236,532	226,470

Approved and authorised for issue by the Board of Management on 24 April 2012

and signed on its behalf by

C C Evans - Director

CCEv

C M Tomkins - Director

C. Tomkins

Consolidated Cash Flow Statement

for the year ended 31 December 2011

		2011		2010	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16(a)		33,207		21,890
Returns on investments					
Investment income received		6,628		7,640	
Net cash inflow from returns on investments			6,628		7,640
Corporation tax paid			(2,006)		(1,381)
Acquisitions and disposals					
Purchase of tangible fixed assets		(1,605)		(2,439)	
Purchase of investments		(127,875)		(150,558)	
Sale of tangible fixed assets		262		19	
Sale of investments		107,412		104,184	
Net cash outflow from acquisitions and disposals			(21,806)		(48,794)
Increase /(decrease) in cash	16(b)		16,023		(20,645)

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2010

		2011	2010
		£'000	£'000
Increase /(decrease) in cash	16(b)	16,023	(20,645)
Movement in net funds		16,023	(20,645)
Net funds at 1 January 2011		23,378	44,023
Net funds at 31 December 2011	16(b)	39,401	23,378

Notes to the Financial Statements

for the year ended 31 December 2011

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 2011. 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 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.

Notes to the Financial Statements

for the year ended 31 December 2011

1 Accounting Policies (continued)

(f) Indemnity provision

Provision is made for the estimated outstanding cost of settlement and related claimants' costs for discretionary indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of group and company net book assets as the group and company indemnity provision cannot exceed their assets. The gross provision, is calculated on the advice of the consulting actuaries and 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. Nearly all paying members have an insurance policy and, for those who do, such IBNR claims are covered in accordance with the terms of the policy.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the consulting actuaries. 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 1.500% (2010 2.125%) per annum.

The principal financial assumptions used in the actuaries' calculation of the gross indemnity provision for the company and the group are that claims inflation will be 8.0% per annum (2010 8.0% per annum) over the period of settlement and that a net discount rate of 1.1% per annum (2010 1.8% 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 and computer equipment | 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.

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

Notes to the Financial Statements

for the year ended 31 December 2011

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) 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 following adoption of FRS19. 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.

(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 of the defined benefit pension scheme for which MDU Services Limited is the principal employer.

Notes to the Financial Statements

for the year ended 31 December 2011

1 Accounting Policies (continued)

(m) Pension costs (continued)

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 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 2011

2 Employee information

	2011	2010
	£'000	£'000
Salaries	17,931	16,049
Social security costs	1,981	1,669
Pension costs - defined benefit scheme	1,400	1,700
- defined contribution scheme	600	498
Other staff costs	1,236	1,061
	<u>23,148</u>	<u>20,977</u>
	2011	2010
Average number of employees in the year	<u>343</u>	<u>325</u>

3 Investment Income

	2011	2010
	£'000	£'000
(Loss) on investments re exchange rate movements	(858)	(1,061)
Bond and gilt interest	8,284	5,814
Bank interest and similar income	284	298
Other investment income	699	187
Gain on disposal of investments	1,591	777
Investment Income	<u>10,000</u>	<u>6,015</u>

4 Indemnity, Legal, Reinsurance and Insurance Costs

	£'000	£'000
Insurance and reinsurance premiums	115,210	109,965
Premium element adjustment (see note 1d)	(16,518)	(17,013)
Increase in indemnity provision (note 13a)	35,692	26,428
Legal costs	14,093	17,463
Reinsurance recoveries	(9,382)	(12,151)
	<u>139,095</u>	<u>124,692</u>

Notes to the Financial Statements
for the year ended 31 December 2011

5 Finance cost	2011	2010
	£'000	£'000
Finance cost relating to indemnity provision (note 13a)	1,814	2,475
Finance (credit)/cost relating to pension provision (note 17)	<u>-</u>	<u>(100)</u>
	<u>1,814</u>	<u>2,375</u>

6 (a) Result Before Taxation	2011	2010
	£'000	£'000
Result before taxation has been arrived at after charging/(crediting) the following		
Depreciation (note 8)	1,268	1,197
Profit on disposal of fixed assets	(258)	(10)
Operating lease rentals	986	965
- land and buildings		
- office equipment	17	56
- motor vehicles	162	117
Fees payable to the company's auditors and its associates		
- for the audit of the company's accounts	55	53
- for the audit of accounts of subsidiaries	84	73
- for tax services	134	169

(b) Directors' Remuneration	2011	2010
	£'000	£'000
Fees	387	372
Directors' emoluments	918	880
Amounts due and receivable under long term incentive plans	362	147
	<u>1,667</u>	<u>1,399</u>

The highest paid director in the Medical Defence Union Ltd earned	2011	2010
	£'000	£'000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP)	447	361
Accrued annual pension (excluding indexation)	134	127

Retirement benefits are accruing to four directors (2010: 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 six (2010: seven) of the non-executive directors received fees totalling £55,000 (2010: £100,000) for acting as expert witnesses on behalf of members.

Notes to the Financial Statements

for the year ended 31 December 2011

(b) Directors' Remuneration (continued)

	Fees Salary £'000	Benefits (note 1) £'000	STIP (note 2) £'000	LTIP (note 3) £'000	Other (note 4) £'000	Total 2011 £'000	2010 £'000
Executive Directors							
C M Tomkins (Chief Executive)	231	16	77	123	-	447	361
M M Gallivan (Finance Director)	161	15	38	92	-	306	250
N A Dungay (Marketing & Sales Director)	111	14	26	63	-	214	174
M T Lee (Professional Services Director)	172	13	44	84	-	313	242
Non Executive Directors							
C C Evans (Chairman)	69	-	-	-	13	82	79
P R Williams (Vice-Chairman)	32	-	-	-	10	42	42
R J C Pearson (Chairman of Audit Committee)	38	-	-	-	5	43	42
K A V Cartwright	21	-	-	-	25	46	43
H E Clarke	32	-	-	-	5	37	37
A W Craft	9	-	-	-	12	21	20
K F Richardson	32	-	-	-	4	36	35
M S Richmond	9	-	-	-	8	17	17
P Riordan-Eva	15	-	-	-	19	34	38
P D Robinson	9	-	-	-	10	19	19
P D Webster (appointed 20th September 2011)	8	-	-	-	2	10	-
	949	58	185	362	113	1,667	1,399

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 2011 and amounts accrued in respect of the year to 31 December 2011. 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 2011 and amounts accrued in respect of the year to 31 December 2011. 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 Medical Defence Union Limited Board and its related committees.

Notes to the Financial Statements

for the year ended 31 December 2011

7 Taxation	2011	2010
	£'000	£'000
(a) Income and Expenditure Account		
Corporation tax for the year at 26.5% (2010: 28%)	1,615	1,332
Adjustment in respect of previous years	255	(51)
	<u>1,870</u>	<u>1,281</u>
Deferred taxation (note 14)	(24)	79
Overseas taxation	-	7
Taxation charge	<u>1,846</u>	<u>1,367</u>
(b) Statement of Total Recognised Gains and Losses	2011	2010
	£'000	£'000
Corporation tax for the year on unrealised gains on investments	1,907	-
Corporation tax for the year on disposal of investments	851	340
(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 26.5% (2010: 28%). Reconciling items are explained below.		
	2011	2010
	£'000	£'000
Result from mutual activities before taxation	<u>29,929</u>	<u>36,335</u>
Result before taxation multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	7,931	10,174
Effects of		
Net mutual income not subject to corporation tax	(5,565)	(8,768)
Other income not subject to corporation tax	(922)	(48)
Losses not allowable	176	-
Capital allowances less than depreciation	(7)	(31)
Expenses not allowable	2	5
Adjustment in respect of previous years	255	(51)
	<u>1,870</u>	<u>1,281</u>

Notes to the Financial Statements

for the year ended 31 December 2011

8 Fixed Assets - Tangible Group

	Motor vehicles £'000	Furniture, office and computer equipment £'000	Leasehold Properties and Improvements under 50 years £'000	Total £'000
Cost				
At 1 January 2011	105	6,820	1,933	8,858
Additions in year	-	1,605	-	1,605
Disposals	(80)	(263)	-	(343)
At 31 December 2011	<u>25</u>	<u>8,162</u>	<u>1,933</u>	<u>10,120</u>
Depreciation				
At 1 January 2011	85	2,783	1,843	4,711
Charge for the year	14	1,228	26	1,268
Disposals	(76)	(263)	-	(339)
At 31 December 2011	<u>23</u>	<u>3,748</u>	<u>1,869</u>	<u>5,640</u>
Net Book Amount				
At 31 December 2011	<u>2</u>	<u>4,414</u>	<u>64</u>	<u>4,480</u>
At 31 December 2010	<u>20</u>	<u>4,037</u>	<u>90</u>	<u>4,147</u>

Included in furniture, office and computer equipment is £181,000 in respect of assets in the course of construction (2010 £488,000) No depreciation will be charged until the assets have been completed and brought into use

Company	Leasehold Properties and Improvements under 50 years £'000
Cost	
At 1 January 2011	1,933
Additions in year	-
At 31 December 2011	<u>1,933</u>
Depreciation	
At 1 January 2011	1,843
Charge for the year	26
At 31 December 2011	<u>1,869</u>
Net Book Amount	
At 31 December 2011	<u>64</u>
At 31 December 2010	<u>90</u>

Notes to the Financial Statements

for the year ended 31 December 2011

9 Fixed Assets - Investments

Group	Cash & Investment in Cash Fund	Funds held by Investment Managers	2011 Total	2010
	£'000	£'000	£'000	£'000
Value at 1 January 2011	600	187,721	188,321	153,861
Additional cash invested	-	23,000	23,000	24,000
Additions	-	127,875	127,875	150,558
Disposals at carrying value	-	(105,532)	(105,532)	(103,412)
Foreign exchange (losses)	-	(579)	(579)	(1,091)
Amortisation	-	(1,694)	(1,694)	(2,076)
Movement in cash and accrued income	32	(10,458)	(10,426)	(38,495)
Revaluation of investments	-	9,425	9,425	4,976
Value at 31 December 2011	632	229,758	230,390	188,321
Analysis of funds held by investment managers		2011		2010
	%	£'000	%	£'000
Index linked UK Government and sterling corporate bonds	50.7	116,386	39.5	74,031
UK Government Fixed interest bonds	6.6	15,141	-	-
Other sterling corporate bonds	10.0	22,979	31.3	58,680
Non sterling bonds	14.4	33,126	18.5	34,768
UK equities	5.8	13,241	3.4	6,456
Overseas equities	5.9	13,572	3.1	5,826
Forward and future contracts	-	93	0.8	1,520
Cash and liquidity balances	6.6	15,220	3.4	6,440
	100.0	229,758	100.0	187,721

A £1.4m (2010: £1.8m) 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 2011

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 Guernsey Limited (dormant in 2011) and MDU Reinsurance Limited, an insurance company, both 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

Notes to the Financial Statements
for the year ended 31 December 2011

10 Debtors - amounts falling due within one year

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	218,153	-	192,203
Premium element adjustment (see note 1d)	16,660	16,660	15,607	15,607
Reinsurance and insurance recoveries	1,940	1,940	4,730	4,730
Other debtors	6,392	57	3,967	251
Prepayments and accrued income	2,047	343	2,156	315
Corporation tax	-	292	-	261
Deferred tax (note 14)	75	-	51	-
	27,114	237,445	26,511	213,367

11 Debtors - amounts falling due after more than one year

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	19,538	19,538	10,045	10,045
Premium element adjustment (see note 1d)	4,259	4,259	4,401	4,401
	23,797	23,797	14,446	14,446

12 Creditors - falling due within one year

	2011		2010	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Taxation and social security	615	42	498	25
Corporation Tax	3,357	-	738	-
Other creditors and accruals	16,216	8,407	11,995	8,832
	20,188	8,449	13,231	8,857

Notes to the Financial Statements

for the year ended 31 December 2011

13 Provisions

(a) Indemnity Provisions

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Gross indemnity provision				
At 1 January	129,847	129,847	126,259	126,259
Finance costs	1,814	1,814	2,475	2,475
Indemnity paid	(19,146)	(19,146)	(25,315)	(25,315)
Increase in indemnity provision (note 4)	35,692	35,692	26,428	26,428
At 31 December	148,207	148,207	129,847	129,847

(b) Other provisions - pensions

Group and Company	2011 £'000	2010 £'000
At 1 January	5,700	4,400
Movement in year	300	1,300
At 31 December (note 17)	6,000	5,700

14 Deferred tax

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January	(51)	1	(130)	15
Charged/(credited) to Income & expenditure Account	(24)	-	79	(14)
At 31 December	(75)	1	(51)	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

The deferred tax liability for the company represents the potential tax owing, on the excess of capital allowances on tangible fixed assets held by the company compared to the depreciation that has been charged in the financial statements

Notes to the Financial Statements

for the year ended 31 December 2011

15 Reserves Group

	Income and Expenditure	Revaluation Reserve	Accumulated Fund
	£'000	£'000	£'000
At 1 January 2011	94,487	6,498	100,985
Result for year	28,083		28,083
Revaluation of fixed asset investments	-	9,425	9,425
Realised on disposal of investments	3,199	(3,199)	-
Tax charge on unrealised gains on investments	(1,907)	-	(1,907)
Tax charge on realised gains on disposal of investments	(851)	-	(851)
Actuarial loss on pension scheme	(800)	-	(800)
At 31 December 2011	122,211	12,724	134,935

Company

	Accumulated Fund
	£'000
At 1 January 2011	90,922
Result for year	27,029
Actuarial loss on pension scheme	(800)
At 31 December 2011	117,151

16 Notes to the Consolidated Cash Flow Statement

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

	2011 £'000	2010 £'000
Result before taxation	29,929	36,335
(Profit) on disposal of fixed assets	(258)	(10)
(Profit) on disposal of investments	(1,591)	(777)
Investment income	(8,409)	(5,238)
Depreciation	1,268	1,197
(Increase) in debtors (excluding deferred tax)	(579)	(7,319)
(Increase) in debtors due in more than one year	(9,351)	(4,418)
Increase/(decrease) in creditors (excluding corporation tax)	4,338	(768)
Increase in indemnity provision	18,360	3,588
Cash contributions (more) than current service cost and past service gain/loss	(500)	(700)
Net cash inflow from operating activities	33,207	21,890

Notes to the Financial Statements

for the year ended 31 December 2011

16 Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of net Funds

	At 1 January 2011 £'000	Cash Flows £'000	At 31 December 2011 £'000
Cash held for investment and investment in cash funds	600	32	632
Cash with investment managers	6,440	8,780	15,220
Deposits at bank	16,338	7,211	23,549
	<u>23,378</u>	<u>16,023</u>	<u>39,401</u>

17 Pension costs

As explained in accounting policy note 1(m) the group 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 group also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pension schemes are held under trust. 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 2009 and has been updated to 31 December 2011 by qualified independent actuaries for the purpose of reporting pension costs.

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

	2011	2010	2009
Rate of increase in salaries	3.8%	4.2%	4.0%
Rate of increase in pensions pre 16 February 2009 retirees	2.3%	2.7%	3.3%
Rate of increase in pensions post 16 February 2009 retirees	3.2%	3.5%	3.3%
Discount rate	4.7%	5.3%	5.7%
RPI Inflation assumption	3.3%	3.7%	3.5%
CPI Inflation assumption	2.3%	2.8%	N/A

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 2031 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.

Notes to the Financial Statements
for the year ended 31 December 2011

17 Pension costs (continued)

	2011	2010	2009
Long term rate of return expected:			
Equities	7.2%	7.8%	8.3%
Property	6.2%	7.3%	N/A
Government bonds	2.9%	4.3%	4.5%
Corporate bonds	4.3%	5.2%	5.5%
Other	1.8%	1.4%	0.9%

	2011	2010	2009
Fair value:	£'000	£'000	£'000
Equities	12,200	12,200	19,000
Property	11,200	10,500	N/A
Government bonds	12,500	10,100	9,200
Corporate bonds	47,300	42,300	38,600
Other	300	300	600

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

	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Total market value of assets	83,500	75,400	67,400	53,600	60,900
Present value of scheme liabilities	89,500	81,100	71,800	60,000	64,100
Net pension liability before deferred taxation	(6,000)	(5,700)	(4,400)	(6,400)	(3,200)
Assets as a percentage of liabilities	93.3%	93.0%	93.9%	89.3%	95.0%

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

	2011	2010
	£'000	£'000
Opening defined benefit obligations	81,100	71,800
Current service cost	2,000	1,700
Interest cost	4,100	3,900
Contributions by scheme participants	700	600
Actuarial losses on the scheme liabilities	3,900	5,700
Net benefits paid out	(2,300)	(2,600)
Closing defined benefit obligations	89,500	81,100

Notes to the Financial Statements

for the year ended 31 December 2011

17 Pension costs (continued)

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

	2011	2010
	£'000	£'000
Opening fair value of scheme assets	75,400	67,400
Expected return on scheme assets	4,100	4,000
Actuarial gains on scheme assets	3,100	3,700
Contributions by employer	2,500	2,300
Contributions by scheme participants	700	600
Net benefits paid out	(2,300)	(2,600)
Closing fair value of scheme assets	83,500	75,400

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 2011.

Analysis of the amount charged to Income & Expenditure

	2011	2010
	£'000	£'000
Current service cost	2,000	1,700
Total operating charge	2,000	1,700

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

	2011	2010
	£'000	£'000
Expected return on scheme assets	(4,100)	(4,000)
Interest on the scheme liabilities	4,100	3,900
Net return	-	(100)

Notes to the Financial Statements

for the year ended 31 December 2011

17 Pension costs (continued)

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

	2011	2010
	£'000	£'000
Actuarial gains on scheme assets	3,100	3,700
Actuarial losses on scheme liabilities	(3,900)	(5,700)
Actuarial loss recognised in the STRGL	(800)	(2,000)

History of experience gains and losses:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Actual return less expected return on scheme assets	3,100	3,700	3,700	(12,600)	200
As a percentage of the scheme assets	3.7%	4.9%	5.5%	23.5%	0.3%
Experience gains/(losses) arising on the scheme liabilities	200	(400)	600	0	100
As a percentage of the present value of the scheme liabilities	0.2%	0.5%	0.8%	0.0%	0.2%
Actuarial (loss)/gain recognised in the STRGL	(800)	(2,000)	(5,400)	(4,200)	4,200
As a percentage of the present value of the scheme liabilities	0.9%	2.5%	7.5%	7.0%	6.6%

18 Financial Commitments

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

Group

	Other		Land & buildings	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	26	126	9	9
Between one and five years	142	38	977	977

Company

	Land & buildings	
	2011	2010
	£'000	£'000
Operating leases which expire.		
Between one and five years	977	977

Notes to the Financial Statements

for the year ended 31 December 2011

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.