

The Medical Defence Union Limited
(Registered number : 21708)

Annual Report and Accounts
for the year ended 31 December 2002



REPORT OF THE CHAIRMAN

I start with a tribute to the MDU's staff on whom we rely to provide a consistently high standard of service to members. I am impressed with my colleagues' dedication in ensuring your interests are protected. Lack of space prevents me from describing in great detail all the work done last year, but I hope to give you some insight into their dedication.

Members may not be fully aware of the work the MDU does on their behalf, in representing your medico-legal interests to governmental bodies, policy makers and a wide range of clinical and other organisations. We believe it is our role to lead the debate in areas that are of particular importance to members, for clinical, legal, ethical and financial reasons. We also need to ensure we are aware of plans for change or developments in our field and that policy makers are fully acquainted with the potential medico-legal impact on our members of such changes. A few key examples of the work we do illustrate its value as a benefit of membership in the changing medico-legal climate in which all healthcare professionals currently work.

The MDU has led the debate in promoting repeal of section 2(4) of the Law Reform (Personal Injuries) Act 1948. This requires that when a patient is compensated for negligence, the damages paid must provide for that patient to receive all future medical care privately. This was a necessary safeguard in 1948, but it is a concern now that under this provision billions of pounds will go from the NHS budget to the independent sector to compensate seriously injured patients. While some patients can only get the care they need privately and should continue to receive it in this way, we have long argued that in many cases where patients sustain severe injury, such as brain damage, NHS money would be far better spent on improving NHS rehabilitation and long-term care facilities. That way all brain-damaged patients would receive a higher standard of care, not just the very few who can prove negligence. This would be a more cost-effective and equitable way of addressing the problem, in the interests of our members and their patients alike.

The need to change the method of compensating severely damaged patients featured prominently in our detailed response to the Chief Medical Officer's 2001 call for ideas on reforming the clinical negligence and complaints procedures. The Department of Health is concerned at the spiralling cost of clinical negligence claims and the CMO chaired a Working Party, on which Dr Christine Tomkins represented the MDU, to look at suggestions to make the system faster and fairer for everyone. At the time of writing, the CMO's recommendations are not published, but are imminent.

Plans for reform of the complaints procedure were published on 28 March 2003. Many of the changes proposed also featured in the MDU's various submissions during the lengthy consultation process. Thus local resolution, which works so well that 98% of complaints go no further, will be strengthened but not amended. Complaints procedures will be linked more closely to systems for ensuring safe and high quality care, which the MDU has long advocated. There will be radical changes to

the independent review stage, a cause of concern on behalf of a number of MDU members, and the new Commission for Healthcare Audit and Inspection (currently CHI) will become responsible for it in April 2004.

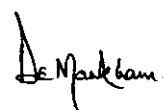
The suggestion from patients' organisations and others that there should be an element of compensation built into the complaints procedure is still under consideration. Such a change would be detrimental to the effectiveness of the complaints procedure and could be extremely expensive for whoever is expected to pay these extra costs. We shall continue to resist it strongly.

There are other changes afoot that will increase the cost of compensation awards. Clause 98 2B of the Courts Bill, as currently drafted, allows for reviewable periodical payment of damages so that a court could increase a compensation award many years after it has been made and agreed, bringing with it lack of finality, great uncertainty and potentially endless anxiety for those involved. Other changes outlined in the Health and Social Care (Community Health and Standards) Bill would allow the NHS to recover from defendants the cost of NHS care provided to patients who receive compensation for medical negligence. There are strong public interest arguments for and against both proposed changes. The MDU is working to achieve the optimal outcome for members in the light of these arguments, and to mitigate the effect the proposed changes may have on claims' costs and on members' subscriptions.

In Ireland far-reaching changes are suggested with the introduction of enterprise liability. Elsewhere the Chief Executive writes about our active involvement in this process. For many years the MDU has promoted substantial tort reform, including the setting up of a national complaints procedure. We are pleased to see that the Health Strategy *Quality and Fairness* will now require each health board to have in place a system for handling complaints and suggestions.

We strongly believe that complaints procedures that deliver swift, comprehensive and sympathetic responses have great benefits. They resolve patients' complaints and can prevent adversarial situations. They can also prevent litigation, with all its repercussions.

Finally, Sir Patrick Holmes Sellors, Prof Mary Cooke and Mr Ron Hiles retire from the Council at the AGM after many years' invaluable service. Prof Cooke and Mr Hiles have also played an important role as members of the Board. I know that all my colleagues will join me in thanking all three of them for all they have done for the MDU and in wishing them well.



David Markham
Chairman of the Board of Management
President of the MDU

OPERATING AND FINANCIAL REVIEW

Since July 2000 paying members of the MDU have been progressively protected by an insurance policy. The policy picks up claims notified in the year from incidents whilst a member. This gives certainty of assistance, subject only to the terms of the policy, so that you know you will be helped if you have a clinical negligence claim. The other medical defence organisations, which are solely discretionary organisations, cannot give this assurance. Currently, up to £10 million (€12.6 million in Ireland) is available to MDU members for each claim and in total per member for the year. Our insurance contracts are issued by licensed insurance companies which are regulated.

I hear it said that this contractual right to assistance serves only to cost some members more and to provide profits for shareholders. Your board believes that the additional cost is a fair exchange for the certainty that only regulated insurance brings. Only with the MDU do members get all the traditional discretionary benefits of membership and the contractual security of an insurance policy. Simply put: it may cost more, but you get more.

Many of you will know that recent years have seen something of an upheaval in the provision of professional indemnity by discretionary medical defence organisations, MDOs.

In April 2002 United Medical Protection, Australia's largest MDO, appointed a provisional liquidator. This sparked off a period of major uncertainty and anxiety for its members culminating in Federal Government-led changes to the way indemnity will be provided. Broadly the new requirements are:

- indemnity must be provided by an insurance contract from a licensed and regulated insurer. In Australia, there is to be no more discretion which might be confused with insurance.
- it will be mandatory to offer retroactive cover for any prior periods of practice. This means that IBNR cases must be included in the policy.
- it will be mandatory to offer death, disability and retirement (DDR) cover, which means an insurance policy that will respond to incidents notified when doctors give up clinical practice for any of these reasons.
- it will be mandatory to offer extended reporting benefits for doctors who change to a new provider. This means a period of time when incidents can still be reported to the previous insurer.

Closer to home, in France, new laws introduced retrospective changes to medical liability, and hence retrospective changes in the cost of indemnifying claims arising out of years gone by for which subscriptions had already been taken. This led to one MDO having to cease independent trading.

What are the lessons to be learnt from all this and what of the future for traditional discretionary MDOs?

First, indemnity for claims arising from clinical negligence is far too important, and financially risky, to be provided on a discretionary basis. It is laughable to suggest that we would protect our homes or cars in this way such that only after the fire or crash would we know if we could recover our loss. No informed person would do it and no government would allow it. Yet this is exactly what is allowed to happen with indemnity for medical negligence.

It is true that for over a hundred years the discretionary system has worked and others may say, "Our record speaks for itself". But the cost of claims and claim numbers continue to rise to record levels in most jurisdictions. Courts, and legislators, regularly seek to change the rules retrospectively with severe financial consequences. The change in the discount rate, which increased claims costs by millions at a stroke, is but one recent example. The uncertainty of financial markets further increases unpredictability.

For the future, the MDU is committed to providing a fully insurance-based indemnity product for its members. The relationship with Converium (formerly Zurich Re), a major reinsurance company, continues to develop beneficially. As they renew their membership, UK members will receive Converium insurance policies. Discussions have begun to design "run-off policies" which would provide insured cover for retiring members, the DDR. For the meantime this assistance is available on the traditional discretionary basis.

UK membership numbers are stronger than ever and our market share continues to rise. Regular market research shows that members are consistently pleased with the quality of our services. Our medico-legal advice and risk management advice are particularly well received. We welcome feedback from members so that we can continue to improve on the service we offer.

OPERATING AND FINANCIAL REVIEW

In Ireland, paying members continue to have the benefits of an Eagle Star policy. The cost of obstetric claims has risen a staggering 26.5% a year, which has meant a doubling in cost every three years. Going forward the MDU is no longer exposed to new obstetric incidents as the Department of Health & Children (DOHC) made an agreement with another indemnifier in 2001, which was kept a secret even from the obstetricians themselves until 2002. This deal is effectively state indemnity for Irish obstetricians but, at the time of writing, the clinical indemnity situation for other Irish consultants remains unclear. In February 2003, the Taoiseach (Prime Minister) signed an Order allowing the clinical indemnity scheme to pick up consultants' claims, while at the same time the Minister of Health promised consultants that this is not enterprise liability and that the DOHC will continue to honour their contract and reimburse MDO subscriptions. The MDU is considering the effect of this 'dual indemnity' on our membership as a whole.

Financial Review

During the year the MDU has benefited from improved subscription income, lower indemnity payments, and a reduction in indemnity provision, legal and administration costs.

The MDU sold all of its investments in equities in the first half of 2002 and now only holds funds in either a cash fund or index linked gilts. This reappraisal of the MDU's investment policy prevented deterioration in the value of the fund following the sharp fall suffered in the stock market in the latter part of 2002 that continued into the early part of 2003.

Income

Subscription income for the year ended 31 December 2002 was £121m (2001 - £103m). This income is solely from our members in the UK and Ireland following the MDU's decision to exit other territories in the late 1990's. The new members who joined the MDU during the year significantly increased the overall income for 2002.

Investment income was £3.6m in the year (2001 - £5.2m). This reduction was due to a fall in interest rates and a reduction in the size of the fund following settlement of discretionary claims in the year. The losses from disposal of investments were £7.7m (2001- £10.0m).

Expenditure

During the year the MDU paid out on behalf of its members £57m in indemnity claims and legal costs (2001 - £64m). This reduction, which is in line with expectations, results from a planned transfer of risk to individual insurance policies for the MDU's UK and Irish members.

Insurance and reinsurance premiums were £96m in 2002 (2001 - £85m). The premium provides each paying member of the MDU with the security of a £10m individual insurance policy in his or her name (€12.6m in Ireland). The insurance policy covers all claims first notified in the policy period, associated claims handling and legal costs.

The MDU's reinsurance programme also provides some protection for the discretionary claims obligations for retired and former members.

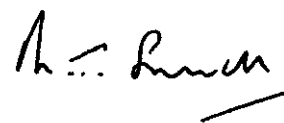
Assets/Indemnity Provision

The balance sheet for the MDU group now shows total assets of £160m compared to £211m in 2001. As explained in last year's Report this anticipated reduction in the fund is due to settlement of claims in the year and will continue over the next few years as the MDU continues to settle the claims notified prior to the issue of individual insurance policies to its members. When these claims have been paid, the fund will again accumulate but at a slower rate than in previous years because the MDU will assume fewer potential liabilities.

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. The level of indemnity provision (note 10a) has been calculated taking all of the above factors into consideration and is shown in the accounts up to the value of the total net book assets.

In overall terms the MDU's gross obligations in respect of outstanding indemnity claims have reduced by £37m in 2002 (2001 - £33m).

The medical and dental professions continue to face a time of great change and uncertainty. Your board believes that these challenges are best met by the financial strength and certainty of insurance combined with the traditional flexibility of discretionary benefits. Above all this is your company: the MDU is a mutual, dedicated to providing you with the highest levels of service and commitment.



Dr Michael Saunders
Chief Executive

REPORT OF THE BOARD OF MANAGEMENT

The Directors present their report and the financial statements for the year ended 31 December 2002.

Activities

The group's activities encompass the joint venture interest in MDU Services Ltd. The joint venture partner is Converium AG. Through MDU Services Ltd, the group provides paying members with insurance policies for claims of clinical negligence. These are underwritten by Zurich Insurance Company in the UK and by Eagle Star Insurance Company (Ireland) Limited in Ireland.

The MDU's activities include the discretionary provision, in accordance with the Memorandum and Articles of Association, of indemnity and advisory services for its members.

The MDU provides advice and assistance to governments and other bodies relating to risk management and the handling of indemnity claims.

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 year are highlighted. The financial statements on pages 6 to 19, set out the financial results of the year's activities.

The MDU continues to set subscriptions which the directors, on the advice of the consulting actuaries, consider sufficient to meet insurance premiums, overheads and foreseeable discretionary indemnity payments and legal costs.

Disabled employees

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

Where existing employees become disabled it is the MDU's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion where possible.

Directors

The following served as directors in 2002:

D E Markham *#^
Hedley E Berry *^
Sir John Caines *#^
E M Cooke
R D Corley *#
C C Evans *#^
M M Gallivan ^
The Lord Glenarthur *# (Appointed 26 February 2002)
R W Hiles
J G Kennedy
M T Saunders *^
C M Tomkins ^
J P de Blocq van Kuffeler *#^
P R Williams ^

* Members of the Remuneration Committee

Members of the Audit Committee

^ Directors or alternate directors of MDU Services Ltd

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:

C M Tomkins
P R Williams
C C Evans

Mr R D Corley retires by rotation and offers himself for re-election. Mr Corley is recommended by the Board for re-election under Article 53(b)(i). He attained the age of 70 years on 13 April 2003, and special notice has been given in compliance with Article 62(a) and Sections 293 and 379 of the Companies Act 1985.

Dr E M Cooke retires by rotation and does not offer herself for re-election.

Sir John Caines attained the age of 70 on 13 January 2003. Sir John is recommended by the Board for re-election under Article 53(b)(i). Special notice has been given in compliance with Article 62(a) and Sections 293 and 379 of the Companies Act 1985.

Mr R W Hiles, having attained the age of 70, retires in accordance with Article 61(f) of the Company's Articles of Association.

REPORT OF THE BOARD OF MANAGEMENT

Corporate Governance

The Board of the MDU supports the principles expressed in the Combined Code. The Board complies with the bulk of the provisions in the code where they are appropriate to the MDU's structure as a company limited by guarantee, there being no shareholders and no payment of dividends.

The Board has a schedule of matters reserved to itself and has a procedure for directors to obtain independent advice.

The Board has an audit committee (chaired by Mr R D Corley, a non-executive director) which consists of the Chairman of the Board, the Vice-Chairman of the Board, all the non-executive members of the Board who are not also members of the MDU and two members of the Board of MDU Services Ltd. The committee meets not less than twice a year. The Board also has nomination and remuneration committees.

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 and the steps taken for future funding.

The directors acknowledge that they are responsible for the group's 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 Board, through the audit committee, has reviewed the effectiveness of the internal control environment of the group. The internal and external auditors attend meetings of the audit committee.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the surplus or deficit of the group for that period.

In preparing those 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 will continue in business.

The directors are required to ensure that their report and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They must also maintain and ensure the integrity of the company's website, in particular those pages displaying audited financial statements.

The directors are responsible for keeping proper accounting records which 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 1985. 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.

Auditors

The auditors, PKF, have signified their willingness to continue in office. A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board of Management.

N J Bowman

N J Bowman
Company Secretary
26 June 2003

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 December 2002

		2002	2001
	Notes	£'000	£'000
Members' subscriptions		120,594	102,810
Investment income	2	3,640	5,205
Realised losses from disposal of investments		(7,709)	(10,011)
Total mutual income		116,525	98,004
Less:			
Medical and dental advisory services		11,840	13,725
Indemnity, legal, reinsurance and insurance costs	3	94,640	52,258
Administrative costs		7,459	8,469
Finance cost		5,258	8,327
Total mutual expenditure		119,197	82,779
Result from mutual activities		(2,672)	15,225
Income from non-mutual activities		10,243	11,395
Less: share of joint venture's turnover		(10,243)	(11,395)
Share of operating profit in joint venture		155	118
Result before taxation	4(a)	(2,517)	15,343
Taxation credit/(charge)	5(a)	336	(652)
Result after taxation transferred to accumulated fund	11	(2,181)	14,691

All activities relate to continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2002

	Notes	2002	2001
		£'000	£'000
Result after taxation excluding share of profits of joint venture		(2,336)	14,573
Share of joint venture's profit for the year		155	118
Unrealised surplus/(deficit) on revaluation of investments		2,855	(13,109)
Impairment of leasehold property		-	(425)
Taxation charge on investment gains	5(b)	(674)	(1,157)
Total recognised gains and losses since the last annual report		-	-

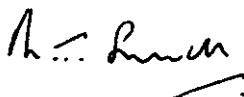
NOTE OF HISTORICAL COST GAINS AND LOSSES
for the year ended 31 December 2002

	2002	2001
	£'000	£'000
Reported result before taxation	(2,517)	15,343
Realisation of investment gains of previous years	2,506	17,504
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	-	29
Historical cost result before taxation	(11)	32,876
Historical cost result after taxation	(347)	33,528

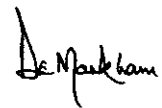
CONSOLIDATED AND COMPANY BALANCE SHEETS
at 31 December 2002

		2002		2001	
	Notes	Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	6	1,444	1,444	4,371	4,371
Investments	7	108,476	2,367	149,187	7,357
Investment in joint venture					
Share of gross assets		7,579	-	6,290	-
Share of gross liabilities		(6,124)	-	(4,944)	-
	7	1,455	-	1,346	-
		111,375	3,811	154,904	11,728
Current assets					
Debtors	8	53,125	132,877	59,255	181,977
Cash at bank and in hand		6,647	6,528	8,820	6,042
		59,772	139,405	68,075	188,019
Creditors - amounts falling due within one year	9	11,347	9,308	12,005	11,604
Net current assets		48,425	130,097	56,070	176,415
Total - fixed assets and net current assets		159,800	133,908	210,974	188,143
Provisions					
Indemnity	10(a)	159,696	133,804	210,919	188,088
Other provisions	10(b)	104	104	55	55
Total Provisions		159,800	133,908	210,974	188,143
Reserves					
Property revaluation reserve		-	-	671	671
Investment revaluation reserve		2,914	-	2,565	-
Accumulated fund		(2,914)	-	(3,236)	(671)
Total reserves	11	-	-	-	-
Total - provisions and reserves		159,800	133,908	210,974	188,143

Approved by the Board of Management on 26 June 2003



MT Saunders - Chief Executive



DE Markham - Chairman

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2002

		2002		2001
	Notes	£'000	£'000	£'000
Net cash (outflow) from operating activities	12(a)		(44,781)	(65,662)
Returns on investments				
Interest received		2,939		726
Investment income		783		3,646
Net cash inflow from returns on investments			3,722	4,372
Corporation tax paid			(368)	(3,829)
Capital expenditure and financial investment				
Purchases of fixed assets		(95)		(73)
Sales of fixed assets		2,840		-
Purchases of investments		(74,535)		(107,952)
Sales of investments		110,808		170,159
Net cash inflow from capital expenditure and financial investment			39,018	62,134
(Decrease) in cash	12(b)		(2,409)	(2,985)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
for the year ended 31 December 2002

		2002	2001
		£'000	£'000
(Decrease) in cash	12(b)	(2,409)	(2,985)
Movement in net funds		(2,409)	(2,985)
Net funds as at 1 January 2002		9,456	12,441
Net funds at 31 December 2002		7,047	9,456

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002

1. Accounting Policies

(a) Basis of preparation of financial statements

The Group financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments and leasehold properties, and in accordance with the Companies Act 1985 and applicable accounting standards. As permitted by the Companies Act 1985, 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 consolidated income and expenditure account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2002. No income and expenditure account is presented for the Medical Defence Union Limited as permitted by section 230 of the Companies Act 1985.

MDU Services Limited, in which the Group holds an interest on a long term basis and is jointly controlled by the Group and Converium AG under a contractual agreement, is treated as a joint venture. In the Group financial statements the joint venture is accounted for using the gross equity method.

(c) Members' subscriptions

Members' subscriptions consists of subscriptions for members' services and insurance premiums received on behalf of members for payment to Zurich Insurance Company in the UK and Eagle Star Insurance Company (Ireland) Ltd in Ireland. These are accounted for on the basis of amounts due and received by the Group before the balance sheet date, without apportionment. No segmental or geographical analysis of members' subscriptions is provided as, in the opinion of the Board, it is not in the interest of the Group to disclose this information.

(d) 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 legal charges covers the aggregate of all indemnity settlements, and legal services provided for members, together with insurance premiums, including those paid over to Zurich Insurance Company and Eagle Star Insurance Company (Ireland) Ltd in Ireland as and when received from members. These costs include plaintiffs' 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.

(e) Indemnity provision

Provision is made for the outstanding cost of settlement and related claimants' costs for indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of net book assets, on the advice of the consulting actuaries. The provision has been discounted to allow for future investment returns in accordance with FRS 12.

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. 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 financial cost is that the rate used to unwind the discount is 3.3% per annum.

No provision is made for claims that may arise from incidents incurred before the balance sheet date but not reported to the Group at that date or for defendant legal costs. Nearly all paying members now have an insurance policy and, for those who do, such claims are covered under the terms of the policy.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002

The principal financial assumptions used in the actuaries' calculation of the indemnity provision for the Group are that claims inflation will be 7.6% per annum (2001: 7.6% per annum) over the period of settlement and that a net discount rate of 3.2% per annum (2001: 3.8% per annum) is used to discount the claims payments to the balance sheet date.

(f) Non-mutual activities

Income from non-mutual activities and share of joint venture turnover represents the Group's share of the turnover of MDU Services Limited comprising expenses recharged to the Medical Defence Union Limited for the year ended 31 December 2002.

Share of operating profit in joint venture represents the Group's share of the profit before tax of MDU Services Limited for the year ended 31 December 2002.

(g) Tangible fixed assets and depreciation

The cost/revalued amounts of tangible fixed assets are 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.

● Long leasehold properties:

Long leasehold properties were valued on an existing use basis in 1999. On adoption of FRS 15, the Group followed the transitional provisions to retain the book value of long leasehold properties, but not to adopt a policy of revaluation in the future.

The cost/revalued amounts of long leasehold properties are written off over 50 years. Refurbishment costs on leasehold properties are written off over the shorter of the length of the lease and 10 years.

- Office equipment:
20-33% per annum on cost.
- Motor vehicles:
25% per annum on cost.

(h) Investments

Listed and unlisted investments held at the balance sheet date are stated at closing valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve.

On disposal the proceeds are compared with the carrying value and the resulting profit or loss credited or charged to the income and expenditure account.

In the company financial statements investments in subsidiary undertakings are carried at cost.

(i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of 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) Deferred taxation

The group has adopted FRS 19 "Deferred Taxation" during the year. The new FRS requires full provision is made at current rates for taxation deferred in respect of all timing differences. Deferred tax assets are only recognised where they arise from timing differences where their recoverability in the short term is regarded as more likely than not.

The adoption of FRS 19 does not give rise to any prior year adjustments.

(k) Investment income

Investment income is accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

	2002	2001
	£'000	£'000
2 Investment income		
Investment income	3,040	4,479
Loan and bank interest	600	726
	3,640	5,205

3 Indemnity, Legal, Reinsurance and Insurance Costs		
Indemnity paid	44,406	47,114
Reduction in indemnity provision (note 10a)	(56,481)	(96,030)
Reinsurance recoveries	(1,905)	(67)
Legal costs	12,786	16,604
Reinsurance and insurance costs	95,834	84,637
	94,640	52,258

4 (a) Result Before Taxation

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

Depreciation (note 6)	212	286
(Profit) on disposal of fixed assets	(30)	-
Auditors' remuneration - as auditors	69	57
- for non-audit work	176	91

(b) Directors' Remuneration

Fees	243	279
Other emoluments (including pension contributions)	264	245
	507	524

Emoluments (excluding pension contributions) of the highest paid director

110 91

At 31 December 2002 the accrued pension rights of the highest paid director was £44,287 (2001: £36,882)

	Number	Number
Average number of employees in the year (including directors)	3	3

(c) Pensions

Under the terms of the arrangements between the Company and MDU Services Limited (see note 16) the Company is responsible for any deficit of the pension scheme for which MDU Services Limited is the principal employer. Full disclosure of the financial position of this scheme is made in the accounts of MDU Services Limited. As at 31 December 2002 the scheme had an excess of liabilities over assets, under FRS 17, of £7.8m which has not been reflected in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

	2002	2001
	£'000	£'000
5 Taxation		
(a) Income and Expenditure Account		
Corporation tax for the year at 30% (2001: 30%) on income and capital gains from investments	475	245
Adjustment in respect of previous years	(948)	390
	(473)	635
Deferred taxation	91	-
Share of joint venture's taxation charge	46	17
Taxation (credit)/charge	(336)	652
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 (30%). Reconciling items are explained below:		
Result from mutual activities before taxation	(2,672)	15,225
Result before taxation multiplied by standard rate of corporation tax in the UK of 30% (2001 : 30%)	(801)	4,568
Effects of:		
Results exempt from taxation	1,345	(4,337)
Capital allowances in excess of depreciation	(55)	-
Dividend income not taxable	(77)	(749)
Timing of recognition of expenditure on gilts and bonds	63	15
Indexation allowance on investment disposals	-	947
Group capital loss relief	-	(199)
Adjustments to tax charge in previous periods	(948)	390
	(473)	635
(b) Statement of Total Recognised Gains and Losses		
Corporation tax for the year at 30% (2001: 30%) on capital gains from investments	674	1,157
The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be £62,000 (2001: £490,000) for the Group and £ nil (2001: £ nil) for the Company.		

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

**6 Fixed Assets - Tangible
Group and Company**

Leasehold Properties
and Improvements

	£'000
Cost/valuation	
At 1 January 2002	4,859
Additions	95
Disposals	(3,077)
At 31 December 2002	1,877
Cost	1,877
Valuation	-
	1,877
Depreciation	
At 1 January 2002	488
Provided in year	212
Disposals	(267)
At 31 December 2002	433
Net book amount	
At 31 December 2002	1,444
At 31 December 2001	4,371
Leasehold properties at net book values comprise:	
	2002
	2001
	£'000
	£'000
Leases in excess of 50 years	-
Leases under 50 years	1,444
	1,444
	4,371

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

7 Fixed Assets - Investments

Group

	Listed Investments	Unlisted Investments	Investment in Cash Fund	Cash held for Investment	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2002:					
At valuation	148,510	41	-	-	148,551
At cost	-	-	-	636	636
	148,510	41	-	636	149,187
Additions at cost	14,394	-	60,794	-	75,188
Disposals	(118,518)	-	-	(236)	(118,754)
Revaluation movement (note 11)	2,862	(7)	-	-	2,855
At 31 December 2002	47,248	34	60,794	400	108,476

Joint Venture - Group

	Group
	£'000
At 1 January 2002	1,346
Share of operating profit in joint venture	155
Share of taxation on operating profit in joint venture	(46)
At 31 December 2002	1,455

Company

	Subsidiary Undertakings	Joint Venture	Total
	£'000	£'000	£'000
At 1 January 2002:			
At cost	5,000	2,357	7,357
	5,000	2,357	7,357
Additions at cost	510	-	510
Disposals	(5,500)	-	(5,500)
At 31 December 2002	10	2,357	2,367

Listed and unlisted investments are stated at valuation. Cash held for investment and investments in subsidiary undertakings are stated at cost. The listed investments are all listed on recognised stock exchanges. On an historic cost basis, listed investments would have been included as follows:

	2002		2001	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Listed investments	44,314	-	145,892	-
Unlisted investments	54	-	54	-
	44,368	-	145,946	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2002

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 accounts: directly MDU Investments Limited, an investment company, incorporated in England and indirectly MDU Insurance Limited, an insurance company, incorporated in Guernsey.

On 26 November 2002 the Company's holding in MDU Insurance Limited was transferred to MDU Investments Limited. 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 1985, dispensed with the requirement.

The investment in the joint venture represents the Company's interest in 75% of the ordinary shares and 51% of the voting shares of MDU Services Limited. This company was incorporated as a limited liability company in England and as from 2 May 2000 certain aspects of the discretionary cover provided by the Medical Defence Union Limited are being operated by MDU Services Limited on an agency basis. The other party to the joint venture is Converium AG which acquired the shareholding in MDU Services Limited previously held by Zurich Insurance Company on 3 October 2001. The Company's interest comprises 100% of the A and B ordinary shares and F participating preference shares of MDU Services Limited.

8	Debtors	2002		2001	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
	Amounts owed by subsidiary undertakings	-	38,090	-	64,948
	Amounts owed by joint venture	11,109	11,109	8,618	8,618
	Other debtors	981	948	1,497	961
	Prepayments and accrued income	3,562	2,974	1,601	1,059
	Reinsurance and insurance recoveries	37,473	79,756	47,539	106,391
		53,125	132,877	59,255	181,977

Amounts falling due after more than one year included above are:

	Amounts owed by subsidiary undertakings	-	7,589	-	19,948
	Prepayments and accrued income	-	-	142	142
	Reinsurance and insurance recoveries	13,343	47,602	37,108	82,164
		13,343	55,191	37,250	102,254

9	Creditors	2002		2001	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
	Falling due within one year:				
	Taxation and social security	657	91	1,845	1,698
	Other creditors and accruals	10,690	9,217	10,160	9,906
		11,347	9,308	12,005	11,604

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

	Group	Company
	£'000	£'000
10 (a) Indemnity Provisions		
At 1 January 2002	210,919	188,088
Finance costs	5,258	2,178
Reduction in indemnity provision	(56,481)	(56,462)
At 31 December 2002	159,696	133,804

In accordance with the Group's accounting policy for indemnity provisions explained in note 1(e), the charge to the income and expenditure account has been restricted by £13.8m (2001: £54.9m) to maintain the indemnity provision at no more than the net assets of the Group. This sum is covered by the Group's reinsurance programme and capital funding if required. In aggregate the restriction on the indemnity provision is £95.5m (2001: £81.7m).

10 (b) Other Provisions	Reorganisation Costs	Deferred Tax	Total
Group and Company	£'000	£'000	£'000
At 1 January 2002	55	-	55
Utilised in the year	(42)	-	(42)
Income and Expenditure Account	-	91	91
At 31 December 2002	13	91	104

11 Reserves	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
Group	£'000	£'000	£'000	£'000
At 1 January 2002	671	2,565	(3,236)	-
Movement on revaluation of investments (note 7)	-	2,855	-	2,855
Taxation charge on investment gains	-	-	(674)	(674)
Transfer of realised gains	(671)	(2,506)	3,177	-
Result for year	-	-	(2,181)	(2,181)
At 31 December 2002	-	2,914	(2,914)	-
Company				
At 1 January 2002	671	-	(671)	-
Transfer of realised gains	(671)	-	671	-
At 31 December 2002	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

12 Notes to the Cash Flow Statement	2002	2001
	£'000	£'000
(a) Reconciliation of surplus/(deficit) before taxation to net cash (outflow) from operating activities		
Result before taxation	(2,517)	15,343
Share of operating profit in joint venture	(155)	(118)
Investment income	(3,640)	(5,205)
Realised losses from disposal of investments	7,709	10,011
(Profit) on disposal of fixed assets	(30)	-
Depreciation	212	286
Decrease in debtors	4,382	1,371
Increase in creditors	432	667
(Decrease) in provisions	(51,174)	(88,017)
Net cash (outflow) from operating activities	(44,781)	(65,662)

	At 1 January 2002	Cash Flows	At 31 December 2002
	£'000	£'000	£'000
(b) Analysis of net funds			
Cash held for investment	636	(236)	400
Deposits at bank	8,820	(2,173)	6,647
	9,456	(2,409)	7,047

13 Capital Commitments	2002	2001
	£'000	£'000
Capital expenditure contracted for but not paid for		
Group and Company	-	-

14 Financial Commitments		
Group and Company		
Annual commitments in respect of non-cancellable operating leases are as follows:		
	Land and Buildings	
	2002	2001
	£'000	£'000
Operating leases which expire:		
After five years	965	965

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002

15 Members' Liability

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

16 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.

During the year the Group entered into transactions, in the ordinary course of business with MDU Services Limited, a joint venture company in which the Group has an interest in 75% of the ordinary shares and 51% of the voting shares. The trading balance outstanding at 31 December is disclosed in note 8 to these accounts. MDU Services Limited collected subscriptions on behalf of the Group's members of £120,594,000 (2001: £102,810,000) and overheads and other costs totalling £20,150,000 (2001: £22,033,000) were recharged to the Group during the year.

NOTICE OF THE ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LIMITED

Notice is hereby given that the Annual General Meeting of the Medical Defence Union Limited (a company limited by guarantee) will be held at **230 Blackfriars Road, London, SE1 8PJ on Tuesday, 16 September 2003 at 2.00pm** for the following purposes:

To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 2002. **Resolution 1**

To elect members of the Board of Management appointed under Article 56, recommended under Article 53(b)(i) or nominated under Article 53(b)(ii) after the date of the notice for the 2003 Annual General Meeting. **Resolution 2**

To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:

C M Tomkins (having been recommended by the Board of Management under Article 53(b)(i)). **Resolution 3**

P R Williams (having been recommended by the Board of Management under Article 53(a)). **Resolution 4**

C C Evans (having been recommended by the Board of Management under Article 53(a)). **Resolution 5**

To re-elect R D Corley who retires by rotation and is recommended by the Board for re-election under Article 53(b)(i). He attained the age of 70 years on 13 April 2003 and special notice has been given in compliance with Article 62(a) of the company's Articles of Association. **Resolution 6**

To re-elect Sir John Caines who is recommended by the Board for re-election under Article 53(b)(i). He attained the age of 70 years on 13 January 2003 and special notice has been given in compliance with Article 62(a) of the company's Articles of Association. **Resolution 7**

E M Cooke retires by rotation and does not offer herself for re-election.

R W Hiles, having attained the age of 70, retires in accordance with Article 61(f).

To invite the Board of Management to appoint as members of the Council of the MDU for 2003-2004 the following: **Resolution 8**

A A J Adgey CBE MD MB BCH BAO FRCP
A R Aitkenhead BSc MD FRCA
P Armstrong FRCP FRCR
D F Badenoch DM MCh FEBU FRCS
J E Banatvala CBE MA MD FRCP FRCPATH DCH DPH
Sir Peter Bell MD FRCS FRCS(Ed)
Hedley E Berry MB BS FRCS
S J Bewley MD FRCOG
M M Brown MD FRCP
R J K Caddick BDS MGDS RCS (Ed)
A W Craft FRCP FRCPCH FFFPHM
J Cunningham MDS FDSRCS (Ed)
C C Evans MD FRCP FRCP
A Fitzgerald O'Connor MB ChB FRCS
J Heath BDS FDSRCS DGD(UK)
G J Jarvis MA (Oxon) FRCS FRCOG
J G Kennedy BSc MDS MPhil PhD FDS FFD
W S L La Frenais MB ChB DOBstRCOG
I Z MacKenzie MA MD FRCOG DSc
D E Markham MB ChB FRCS
A Middleton BSc (Ed) MB ChB
P J Mulligan MB ChB FRCS FRCS (Glas)
G Neil-Dwyer MB BS FRCS (Ed) FRCS MS
T O'Dowd MA MD MICPG FRCP
F Oyeboye MB BS MD PhD FRCPsych
R K Prasad MB MS FRCS (Glas) FRCP
M A L Pringle CBE FRCP FRCP
B Riley MBE BSc MB BS LRCP MRCS FRCA
P D Robinson PhD MB BS BDS FDSRCS
R C G Russell MS FRCS
J P Shepherd PhD DDSc MSc BDS FDSRCS FFFPHM FFAEM
G Strube MB BS MRCS LRCP DCH
E M Symonds MD FRCOG FFFPHM FACOG (Hon) FRANZCOG (Hon)
C Thompson MB BS BSc MPhil MD AFBPS FRCPsych FRCP
L Turner-Stokes MA MB BS DM FRCP ARCM
R H Vickers MA BM BCH FRCS
T J Walley MD FRCP FRCP
P R Williams MA MB BChir (Cantab) MRCP
J S Wyatt FRCP FRCPCH

NOTICE OF THE ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LIMITED

To re-appoint Messrs PKF as auditors and to authorise the Board of Management to determine the remuneration of the auditors. **Resolution 9**

To consider and, if thought fit, pass the following Resolution, which will be proposed as a Special Resolution, relating to the Company's Articles of Association. **Resolution 10**

THAT the Articles of Association of the Medical Defence Union Ltd be amended as follows:

- Definitions: After definition of "Chairman and Vice-Chairman" insert:

"address"

in relation to electronic communications, any number or address used for the purpose of such communications.

"appointment of proxy"

includes both a proxy in written form and a proxy contained in an electronic communication.

"communication"

has the same meaning as in the Electronic Communications Act 2000.

"electronic communication"

has the same meaning as in the Electronic Communications Act 2000.

- Article 12(b) : Delete in its entirety and insert:
"Any member whose registration in any register or licence to practise the profession previously carried on by him in any place is suspended or restricted or made subject to conditions shall unless the Board of Management otherwise determines ipso facto forthwith cease to be a member of the MDU."
- Article 17 : Delete in its entirety and insert:
"The Board of Management may determine different rates, frequencies and methods of payment of subscriptions for members or for such categories or groups of members, whether for a year or any other period, and according to such criteria as to it may seem fit."
- Article 22 line 1:
Insert (a) before the words "An annual general meeting".

- Article 22 lines 2 and 3:

Delete "at least 42 days' notice" and insert "at least 21 days' notice".

- Article 22 : Insert a new paragraph (b):

"Where the notice of a meeting is published on a website in accordance with Article 84, it shall continue to be published in the same place on that website from the date of notification given under Article 84 until the conclusion of the meeting to which the notice relates. However, where the notice of a meeting published on a website in accordance with Article 84 is published in different places on the website or published for only part of that period from the date of notification given under Article 84 until the conclusion of the meeting to which the notice relates, the proceedings at such meeting are not thereby invalidated."

- Article 38 line 1:

Delete the words "An instrument appointing a proxy shall be in writing," and insert "The appointment of a proxy shall be".

- Article 38 lines 15 and 16:

Substitute "20...." for "19....".

- Article 39 line 2:

Delete "the instrument appointing a proxy" and insert "appointment of a proxy".

- Article 39 lines 15 and 22:

Substitute "20...." for "19....".

- Article 40 line 1:

Delete "The instrument appointing a proxy" and substitute "The appointment of a proxy".

- Article 40(a) line 1 insert:

"(i) in the case of an instrument in writing," before the words "be deposited at the registered office" and insert a new paragraph (ii):

"(ii) in the case of an appointment contained in an electronic communication, where an address has been specified for the purpose of receiving electronic communications:

NOTICE OF THE ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LIMITED

(aa) in the notice convening the meeting, or
(bb) in any instrument of proxy sent out by the MDU in relation to the meeting; or
(cc) in any invitation contained in an electronic communication to appoint a proxy issued by the MDU in relation to the meeting:
be received at such address not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote; or"

- Article 40(b) line 1 :
Insert the words "or received" after the words "be deposited".
- Article 40(c) line 5 :
Delete the words "an instrument of proxy" and substitute "an appointment of proxy", and insert the word ", received" after the words "not deposited".
- Article 40(c) line 6 :
Insert "The Board of Management accept an appointment of proxy received in an electronic communication on such terms and subject to such conditions as they consider fit, and may require the production of any evidence they consider necessary to determine the validity of such appointment" after the words "shall be invalid."
- Article 41 line 5:
Insert the words " or, where the appointment of the proxy was contained in an electronic communication, at the address at which the appointment was duly received" after the words "was duly deposited".
- Article 47 : Insert a new paragraph after paragraph (2) :
"(3) Any such advice or legal assistance or defence may be granted or terminated by resolution of the Board of Management or any authorised committee or decision of any authorised agent and the giving of advice or legal assistance or defence in every case shall be made only upon such terms and conditions as the Board of Management committee or agent shall think proper and it shall rest only in the absolute discretion of the Board of Management committee or agent in every case to limit or restrict the giving of such advice or legal assistance or defence or altogether to decline to give the same or to terminate any advice or legal assistance or defence so given without assigning any reason."
- Article 48(2) line 1 and 48(3) line 7:
Substitute "terminate" for "determine".
- Article 48(3) line 1:
Substitute "terminated" for "determined".
- Article 83 : Delete in its entirety and insert :
"Any notice to be given to or by any person pursuant to the Articles (other than a notice calling a meeting of the Board of Management) shall be in writing or shall be given using electronic communications to an address for the time being notified for that purpose to the person giving the notice."
- Article 84 line 1 :
Insert (a) before the words "The MDU may give any notice".
- Article 84 line 4 :
Insert the words ", or by giving it using electronic communications to an address for the time being notified to the MDU by the member for that purpose or by any other means authorised by the member concerned." before the words "If no such address is registered".
- Article 84 : Insert a new paragraph (b) :
"A notice of general meeting may, instead of being sent to the member in any of the ways specified in Article 84(a), be given to the member by the MDU publishing the notice on a website, provided that the following conditions are met:
(i) the member and the MDU have agreed that notices of general meetings may be accessed by him on a website instead of being sent to the member in one of the ways specified in Article 84(a); and
(ii) the member is given a notification, in the manner agreed for the time being between the member and the MDU, containing the following information:
(aa) the fact that the notice has been published on the website;
(bb) the address of the website;
(cc) the place on the website where the notice may be accessed and how it may be accessed;
(dd) a statement that it concerns a notice of general meeting served in accordance with the Act;
(ee) the place, date and time of the general meeting; and
(ff) whether the meeting is to be an annual or special meeting."

NOTICE OF THE ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LIMITED

A notice given under paragraph (b) of this Article is deemed to have been given at the time of the notification under sub-paragraph (b)(ii) of this Article 84."

- Article 86 line 1 :
Insert "(a) before the words "Proof that an envelope containing a notice".
- Article 86 lines 5 and 6 :
Delete ": (a)" to read "A notice shall be deemed to have been given where it is addressed to an address in the United Kingdom at the expiration of 48 hours after it was posted."
- Article 86(b) : Delete in its entirety and insert:
"(b) Proof that a notice contained in an electronic communication was sent in accordance with guidance issued by the Institute of Chartered Secretaries and Administrators shall be conclusive evidence that the notice was given. A notice contained in an electronic communication sent in accordance with the Articles is deemed to have been given at the expiration of 48 hours after the time it was sent."
- Article 86(c): Insert:
"(c) A notice shall be deemed to have been given in any other case at the expiration of seven days after it was posted."

By Order of the Board of Management

N J Bowman

N J Bowman
Company Secretary
26 June 2003

Registered Office
230 Blackfriars Road, London SE1 8PJ

1. Every member is entitled to attend and vote or may appoint a proxy who must be a member of the MDU. The proxy form is enclosed with this Annual Report. To be effective it must be deposited at the registered office not later than 2:00 pm on 14 September 2003.
2. Dr C M Tomkins, MB ChB (Hons) FRCS MBA, was appointed to the Board as Professional Services Director in 1995. Dr Tomkins joined the MDU as a medico-legal adviser in 1985 and was appointed Head of Claims Handling in 1993. She spent her clinical years training in ophthalmology.
Dr P R Williams, MAMB BChir (Cantab) MRCP, was appointed to the Board in 1997. He is currently a partner in general practice in Oxford and also a course organiser for general practice, John Radcliffe Hospital, Oxford. He has served as Deputy Chairman of the Cases Committee since 2001.
Dr C C Evans MD FRCP FRCPI, is a consultant physician in General and Respiratory Medicine in Liverpool. He joined the Council in 1984 and was appointed to the Board in 1992. Dr Evans was Chairman of the Cases Committee from 1997 to 2001. Dr Evans is the co-author of *Chamberlains Symptoms and Signs in Clinical Medicine* and is the Academic Vice-President and Senior Censor of the Royal College of Physicians, London. He has been Vice-Chairman of the Board and Vice-President of the Council since 2001. He is currently a director of MDU Services Ltd.
Mr R D Corley CBE FIA FRSA, was appointed to the MDU Board of Management on 18 June 1996. Mr Corley joined Clerical Medical in 1956 and was appointed as a Director in 1975, becoming Chief Executive in 1982. He retired from that post in 1995 but remains a Director. He has served as President of the Institute of Actuaries, and Master of the Worshipful Company of Actuaries and is a Vice-President of the International Actuarial Association. He is also a Director of the British Heart Foundation. Mr Corley is the current Chairman of the Audit Committee of the MDU.
Sir John Caines KCB is a former senior civil servant most of whose career was spent at the DTI. He is currently a member of the Financial Services Commission of Gibraltar and is the Independent Reviewer of the Advertising Standards Authority. Since retiring he has held a number of independent directorships and he is a current director of MDU Services Ltd.
3. References to clause numbers in the Special Resolution are taken from the printed form of the Articles of Association of the MDU prepared following the 2000 AGM. Copies may be obtained upon application to the Company Secretary. A version of the Articles of Association showing the changes proposed is available by arrangement with the Company Secretary, and a copy will be available at the meeting.
4. The proposed changes to the Articles of Association are for the following purposes:-
 - (i) to allow members to receive statutory notices and appoint proxies via e-mail/internet;
 - (ii) to bring the notice period for the AGM into line with the standard period of notice required by the Companies Act 1985;
 - (iii) to clarify subscription policy;
 - (iv) to clarify the Board of Management's powers in relation to assistance given to members.

INDEPENDENT AUDITORS' 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 2002 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities contained within the Report of the Board of Management.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman are not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group and Company's affairs as at 31 December 2002 and the Group result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF.

PKF

Registered Auditors
London

26 June 2003

BOARD OF MANAGEMENT, COUNCIL AND COMMITTEES

Chairman of the Board and President of Council

Mr D E Markham MB ChB FRCS

Vice-Chairman of the Board and Vice-President of Council

Dr C C Evans MD FRCP FRCPi

Board of Management

Mr Hedley E Berry MB BS FRCS
Sir John Caines KCB MA
Dr E M Cooke OBE BSc MD FRCP Path FRCP Hon Dip HIC
Mr R D Corley CBE FIA FRSA
Dr C C Evans MD FRCP FRCPi
Mr M M Gallivan BA(Hons) FCMA MBA
The Lord Glenarthur DL
Mr R W Hiles MB ChB FRCS FRCSed
Dr J G Kennedy BSc MDS MPhil PhD FDS FFD
Mr D E Markham MB ChB FRCS
Dr M T Saunders MB BS MRCS LRCP DOBstRCOG
Dr C M Tomkins MB ChB(Hons) FRCS MBA
Mr J P de Blocq van Kuffeler MA FCA
Dr P R Williams MA MB BChirCamb MRCP

Council

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Prof A R Aitkenhead BSc MD FRCA
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