



The Medical Defence Union Ltd

Company Number 21708

*There when
you need us*

Your future is our priority



1999 Report & Accounts



A48
COMPANIES HOUSE

0858
19/09/00

ar ended 31 December 1999

Board of Management

CHAIRMAN

J C Smith *OBE* MS FRCS

VICE-CHAIRMAN

D E Markham MB ChB FRCS

Hedley E Berry MB BS FRCS

Sir John Caines *KCB* MA

E M Cooke *OBE* BSc MD FRCPath FRCP Hon Dip HIC

R D Corley *CBE* FIA FRSA

C C Evans MD FRCP FRCP

M M Gallivan BA(Hons) FCMA MBA

M J Gifford DipM MCIM

R W Hiles MB ChB FRCS FRCSed

Baroness Hooper BA

R D C Hubbard *OBE* FCA

J G Kennedy BSc MDS MPhil PhD FDS FFD

W S L La Frenais MB ChB DOBSTRCOG

M R Rendle MA

M T Saunders MB BS MRCS LRCP DOBSTRCOG

C M Tomkins MB ChB(Hons) FRCS MBA

P R Williams MA MB BChirCamb MRCP

Council

PRESIDENT

J C Smith *OBE* MS FRCS

VICE-PRESIDENT

D E Markham MB ChB FRCS

Prof A A J Adgey MD MB BCh BAO FRCP

Prof A R Aitkenhead BSc MD FRCA

Prof P Armstrong FRCP

Prof J E Banatvala MA MD FRCP FRCPath DCH DPH

Prof P R F Bell MD FRCS FRCSed

Hedley E Berry MB BS FRCS

Prof M M Brown MD FRCP

E M Cooke *OBE* BSc MD FRCPath FRCP Hon Dip HIC

J Cunningham MDS FDSRCS (Ed)

C C Evans MD FRCP FRCP

A Fitzgerald O'Connor MB ChB FRCS

J C Frankland BSc(Hons) MB ChB FRCPG DRCOG

J S Garfield MChir FRCP FRCS

R L Hargrove MB BS FRCA

R W Hiles MB ChB FRCS FRCSed

Prof Sir David Hull MB ChB FRCP

J G Kennedy BSc MDS MPhil PhD FDS FFD

W S L La Frenais MB ChB DOBSTRCOG

I Z MacKenzie MA MD FRCOG DSc

Prof H G Morgan MD FRCP FRCPsych DPM

P J Mulligan MB ChB FRCS FRCSGlas

Prof C O'Herlihy MD FRCP FRCOG FRACOG

R K Prasad MB MS FRCSGlas MRCP

P D Robinson PhD MB BS BDS FDSRCS (Eng)

R C G Russell MS FRCS

Sir Patrick Holmes Sellors KCVO MA BM BCh FRCS

Prof J P Shepherd BDS MSc PhD FDSRCS

G Strube MB BS MRCS LRCP DCH

Prof E M Symonds MD FRCOG FFPHM FACOG (Hon) FRANZCOG (Hon)

R E Turner LDS MGDS

L Turner-Stokes MA MB BS DM FRCP ARCM

R H Vickers MA BM BCh FRCS

Prof T J Walley MD FRCP FRCP

Prof R M Watson MDS FDSRCS

P R Williams MA MB BChirCamb MRCP

Prof J S Wyatt FRCP FRCPCh

Irish affairs committee

J C Smith *OBE* MS FRCS

P F Corkery MB MRCP

K P Cotter MB BCh BAO MD FRCP FRCP FRCPath

Prof N M Duignan MD MAO FRCOG

K McGarry MB BCh BAO DCH FRCP

Prof T O' Dowd MA MB FRCP

Consultants

J W Brooke Barnett MB BS

J A Wall MB BS DOBSTRCOG

THE DENTAL DEFENCE UNION

The specialist dental division of the MDU

Dental advisory committee

J Cunningham MDS FDSRCS(Ed)

J G Kennedy BSc MDS MPhil PhD FDS FFD

P D Robinson PhD MB BS BDS FDSRCS(Eng)

Prof J P Shepherd BDS MSc PhD FDSRCS

R E Turner LDS MGDS

Prof R M Watson MDS FDSRCS

Honorary clinical advisers

Prof A H Brook MDS FDSRCS

R J K Caddick BDS MGDSRCS (Edin)

J Cunningham MDS FDSRCS (Ed)

J M Heath BDS FDSRCS DGDP (UK)

J C G Jones BDS LDS FDSRCS PhD

J G Kennedy BSc MDS MPhil PhD FDS FFD

D R Kramer BDS LDSRCS

Prof R J McConnell BDS PhD FFD

C Parnell BDS DGDPRCS (Eng)

J R Radford PhD BDS FDSRCS (Eng) FDSRCS (Edin)

P D Robinson PhD MB BS BDS FDSRCS (Eng)

Prof J P Shepherd BDS MSc PhD FDSRCS

M Slater Med EDH FETC DipDHE

Prof C D Stephens MDS FDS MOrth RCS

R E Turner LDS MGDS

A G Vaughan FDSRCS FDSRCS MRDRCS

Prof R M Watson MDS FDSRCS

Prof P S Wright BDS PhD FRSRCS (Eng)

Report of the Chairman

This has been a year of tremendous change for the MDU. In introducing my third report as your Chairman, I would like to take some time to say how delighted I am to have played a part in this change.

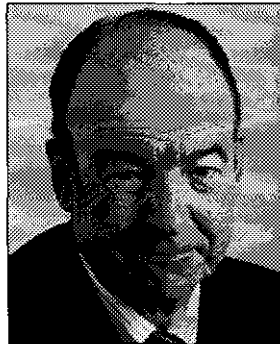
As a young doctor I joined the MDU because of its reputation for being a leader in its field. Over the years I have watched as your company has consistently anticipated members' needs and been the first to develop new services and benefits of membership. We were the first medical defence organisation (1885) and the first UK organisation to introduce in-house risk management and legal departments, a specialist press office and worldwide Good Samaritan indemnity. I am particularly proud of our world first in introducing a 24-hour advisory telephone service in 1983 as a result of a Christmas Eve telephone call to me. It was from a former registrar, treating a man with a life-threatening condition who refused life-saving treatment. This clearly showed the need for a service which has been of great benefit to our members. I could go on, but it is enough to say that where the MDU has led, others have usually followed.

Now the MDU is first again, with another change to meet members' needs: our joint venture with Zurich Insurance Company means we are offering members all the traditional discretionary benefits of a doctors for doctors mutual, with the added security of a professional indemnity policy. You have received details of this from Dr Michael Saunders, but I mention this landmark development here because it is the MDU's way, in an extremely unstable and unpredictable medico-legal climate, to ensure maximum stability and security for you.

My colleagues have written in our Journal of the impact of a number of recent legal changes which dramatically increase the size of damages awards we are expected to pay now and in the future on behalf of members. The MDU always makes its members' views known when legal and policy changes are mooted and we do our very best to ensure that any decisions taken are not capricious. However, it is certain that society is increasingly demanding in terms of compensation. It is inconceivable that the trend in damages payments will be anything other than upwards.

Our society also demands greater accountability from all healthcare professionals. To name but a few areas, in the UK we now have clinical governance, monitored through the Commission for Health Improvement; we

have proposals for radical changes in self-regulation, hospital and primary care disciplinary procedures coupled with increased local regulation and revalidation. I write this at a time when many newspaper headlines show these changes as the government getting tough on doctors. Whether or not that is true, it is important for you to know that the MDU is committed to ensuring that any changes made do not damage your professional reputation. The changes should assist you to fulfill your professional roles in caring for patients. It is our role to make certain that your medico-legal interests are not compromised. As we say in our literature, your future is our priority.



There is still a litigation crisis in Ireland, particularly over obstetric claims and related neonatal brain damage. Last year my colleagues met the Attorney General and the Minister of Health to express our concerns and offer suggestions on tort reform. The Minister is now reported to be actively looking at changes including possible no-fault compensation for brain damaged neonates. We have made further detailed proposals to the Attorney General and we meet officials from the Department of Health and other interested parties on a regular basis. We are hopeful that we will find a solution to this crisis which will allow our members to practise, safe in the knowledge that the care they give to their patients is governed by clinical needs and not by fear of litigation.

If all this is not enough, we are moving our two offices in London and Manchester to an excellent new site at 230 Blackfriars Road - a short walk from the newly opened Tate Modern. As always, I would like to thank all MDU staff for their devotion to duty and for continuing to provide such a high standard of service to our members, particularly during the move, and in a year which has been even busier than usual.

The MDU enters the new millennium with a long record of traditional service and innovation, a fitting combination to meet the challenges ahead.

Mr J C Smith
Chairman of the Board of Management
President of the MDU



Dame Josephine Barnes

It is sad to record the death of Dame Josephine Barnes who served on the Council of the MDU for 26 years, from 1961- 1987.

Dame Josephine made an outstanding contribution to the MDU's work, serving

unstintingly. She brought a wealth of experience to her task as council member during which time she held many other important posts. Her knowledge and wisdom were of inestimable benefit to the council and our members.

Operating and financial review

In the last few years the MDU has taken advantage of the opportunities for extensive insurance and reinsurance, made possible by our captive insurance company based in Guernsey. Many of the known claims and incurred but not reported (IBNR) incidents are protected in this way. Insurance of members' risks is not new to the MDU which first took out policies in 1917. It is a sensible and prudent way to share the risks and gives our members added security - always an MDU priority. During the year we held discussions with UK government regulatory authorities. These, and the MDU's view on the changes to the structure of the NHS, in hospitals and in primary care, confirmed your Board's decision that we had to give UK members an insurance policy to cover the major part of possible indemnity needs. This brings our members into line with most doctors practising in mainland Europe and the USA, the overwhelming majority of whom are covered by insurance.

As we announced in May this year, discussions with Zurich Insurance, a major supplier of MDU reinsurance, led to our establishing a joint venture company, MDU Services Ltd. This company is majority-owned by the MDU, employs existing staff and provides claims handling and members' services on behalf of the mutual using the MDU's standards and protocols.

The MDU remains a member-owned, not for profit mutual. All the traditional, discretionary benefits of membership are unchanged. Through the new company, at no additional subscription, we are offering all UK paying members, as they renew membership, an insurance policy underwritten by Zurich Insurance for claims of negligence. Full details are in the June Journal and in the renewal literature. The MDU and MDU Services Ltd are focused on meeting the medico-legal needs of members: doctors for doctors, dentists for dentists.

Your Board is confident that this unique development, the combination of all traditional, discretionary benefits of membership and a policy of insurance underwritten by one of the world's largest insurers, not only gives your company more financial strength but also the flexibility to meet the uncertainties of the future.

Until the Irish government corrects the country's crisis in medical negligence litigation, as discussed in the Chairman's report, we cannot consider offering members in Ireland the additional benefit of the insurance policy. We are still forced to charge Irish obstetricians very high subscriptions.

Giving the highest standards of service to all members is one of the Board's priorities. The board considered the interests of members and in particular the core members in the UK and Ireland were not best served by continuing to provide services in South Africa and elsewhere overseas. We negotiated an arrangement with another defence organisation, the Medical Protection Society, which agreed to give membership services to former MDU members in South Africa, Singapore, Malaysia and New



Zealand. While those former members may approach us for assistance with claims that were known while they were members, we are not exposed to any future liabilities. As mentioned in last year's annual report, in Australia our operations and members were joined with United Medical Protection in 1999.

We have wanted to have all our staff on one site for a long time, with the advantages in communication and member service that this would bring.

Recently there has been a significant increase in professional staff (doctors, dentists and lawyers) and we have been bursting out of existing office space. The Board decided to move the company to one site at Blackfriars. We are taking this chance to make the best use of the very latest information technology. In common with other forward thinking companies, we have introduced home working for some professional staff, which makes better use of their time and expertise while keeping a regional presence.

Members continue to like our web site **www.the-mdu.com**. We are increasingly using email for everyday business including contact with members and a working party is ensuring that the MDU makes the most of the future possibilities of e-commerce.

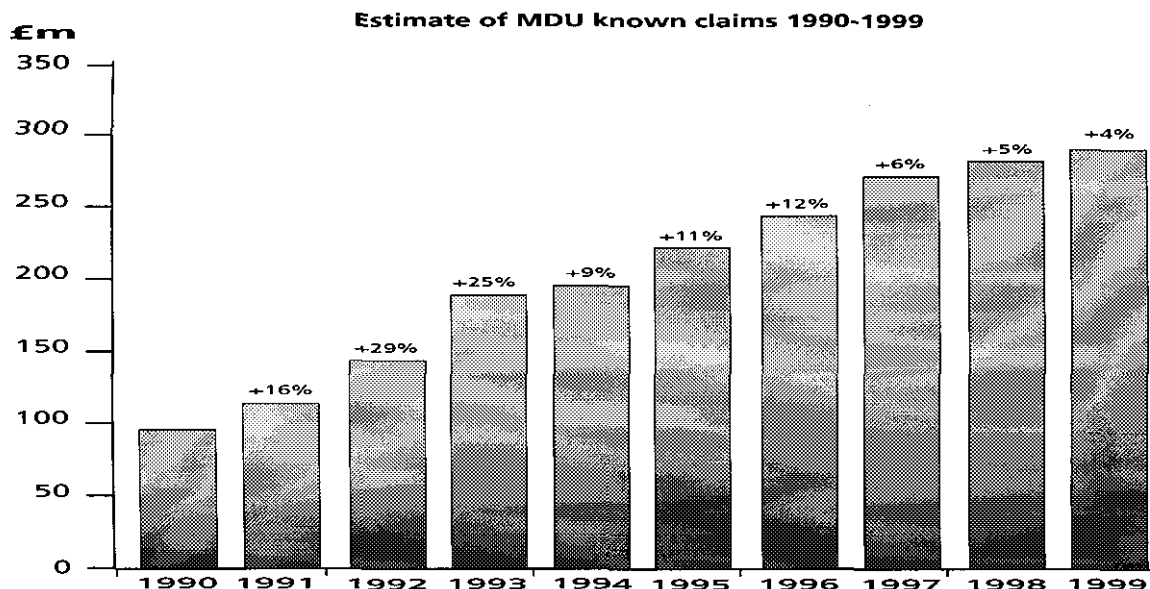
The DDU continues to thrive, and dental membership has increased in the last year. We appointed another senior claims handler and the combination of a dentist adviser working with a specialist claim handler and an in-house lawyer makes a formidable defence team. We continue to monitor developments with dental bodies corporate and offer services if needed. Importantly a dentist has joined our risk management team to give members more risk management material and to reduce the dento-legal risks they face.

Financial review

The balance sheet for the MDU Group now shows total assets of £338m (1998 - £306m) compared with provisions for all reported indemnity incidents and other provisions amounting to £320m (1998 - £301m). The net effect of this is that the group reserves have increased to £18m in 1999 (1998 - £5m).

The results for the year show a deficit after tax of £28.1m which is mainly due to the continued purchase of reinsurance programmes and the increase in the incurred indemnity claims following adoption of financial reporting standard (FRS12). Reducing this are the gains from the increase in the revaluation of the MDU investments & properties as at 31 December 1999. This shows total recognised gains for the MDU of £12.7m in 1999 compared to the total recognised losses in 1998 of £10.4m.

The reported results for the MDU Group in 1999 have been drawn up differently from previous years to take account of a financial reporting standard (FRS12) relating



to provisions and contingent liabilities. The effect of this is that we now include a provision for indemnity payments and reinsurance recoveries in the balance sheet. Previously the net effect of these two items was shown as a note to the accounts (note 13) and not included in the balance sheet. This is explained more fully in notes 1b & 10 to the accounts.

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 and we expect to make a payment in the future. We believe that being prudent in assessing the value of all reported incidents, no matter at what stage of development, together with our extensive insurance and reinsurance programmes provides the security and protection that our members expect from the MDU.

Income

Subscription income for the year ended 31 December 1999 was £95.3m (1998 - £90.8m). As indicated earlier, the subscription income for 1999 is calculated after taking into account the transfer of members and subsequent subscription income to the Medical Protection Society for South Africa, Singapore, Malaysia & New Zealand, and to the United Medical Protection for Australia.

Investment income of £7.1m and gains from disposal of investments of £2.5m have resulted in a total income for the MDU of £105m for 1999 (1998 - £103m).

Expenditure

There continues to be a growth in costs associated with indemnity claims brought against members. In 1999 some £77m (1998 - £67m) was incurred on behalf of our members (note 3). However the overall increase in the estimated level of known claims has slowed down since the start of the decade as the graph above shows. At the end of 1999 the MDU estimated the value of its

known claims (net of reinsurance recoveries) to be £287m compared to £97m at the end of 1990. Although this is almost a three-fold increase over nine years, the MDU's level of increase year on year in known claims has reduced to approximately 4% in the year 1999 compared to 29% in 1992. This reduction is due to a withdrawal from overseas territories - particularly Israel and Australia - a strong reinsurance programme to protect the balance sheet and an investment in claims management, which includes an in-house legal team working with the medical and dental teams.

Savings have also been made in the cost of providing medical, dental and advisory services, which were £10m in 1999 compared to £12m the previous year. In addition administration costs in 1999 were £6.8m compared to £10.5m in the previous year. This reduction in running costs amounting to £5.7m - a 25% saving - is due to the withdrawal from overseas territories and continued efficiency gains.

There are exceptional costs of £1.2m in 1999 which mainly relate to the movement of our staff from two offices on to one site as mentioned earlier. We expect savings from this move in the future which will outweigh the cost of the move.

The overall priority of the MDU is to ensure financial stability coupled with outstanding service to members. I believe that the steps we have taken this year, as in previous years, continue to serve your interests.

I am pleased that 1999 proved to be another very satisfactory year in our history.

Dr Michael Saunders
Chief executive of The MDU

Report of the Board of Management

The Directors present their report and the financial statements for the year ended 31 December 1999.

Activities

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 17, 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 overheads and foreseeable discretionary indemnity payments and legal costs.

Events since the balance sheet date

The office at 3 Devonshire Place, London closes and transfers to 230 Blackfriars Road, London in July. The office at 192 Altrincham Road Manchester will close on 31 October 2000.

In May 2000 The Medical Defence Union Limited formed an alliance with Zurich Insurance Company. Further details are given in Note 15.

Disabled employees

The MDU 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 1999:

J C Smith*†

(Chairman)

Hedley E Berry

Sir John Caines*†

E M Cooke

R D Corley*†

C C Evans*

M M Gallivan

M J Gifford

R W Hiles

Baroness Hooper*†

R D C Hubbard*†

J G Kennedy

W S L La Frenais

D E Markham*†

M R Rendle*†

M T Saunders*

C M Tomkins

P R Williams

* members of the Remuneration Committee

† members of the Audit Committee

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:

Dr C C Evans (having been recommended by the Board of Management under Article 53(a))

Mr M M Gallivan (having been recommended by the Board of Management under Article 53(b)(i))

E M Cooke, P R Williams, C M Tomkins

Dr W S L La Frenais retires by rotation and does not offer himself for re-election.

Corporate governance

The Board of the MDU supports the principles expressed in the Combined Code. The Board complies with the bulk of the provisions of 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 and all the non-executive members of the Board who are

not also members of The MDU. The committee meets not less than twice a year. The Board also has nomination and remuneration committees.

The policy of the MDU's remuneration committee is to provide the remuneration needed to attract, retain and motivate Board members of the quality required.

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.

We have taken note of the Turnbull report and the Board considers regular reports on the risks inherent in the business.

The directors acknowledge that they are responsible for the group's system of internal financial 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, through the audit committee, has reviewed the effectiveness of the internal financial 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;
- 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 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, Pannell Kerr Forster, chartered accountants, 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

Company secretary
3 July 2000

Consolidated Income and Expenditure Account

for the year ended 31 December 1999

		1999	Re-stated 1998
	Notes	£'000	£'000
Members' subscriptions		95,282	90,827
Investment income	2(a)	7,096	8,905
Realised gains and losses from disposal of investments		2,453	3,748
Total mutual income		104,831	103,480
Less:			
Medical and dental advisory services		10,127	12,059
Indemnity, reinsurance and legal costs	3	100,934	94,931
Administrative costs		6,818	10,477
Exceptional item - Reorganisation Costs	10(c)	1,249	-
Finance cost	1(f)	11,925	11,149
Total mutual expenditure		131,053	128,616
(Deficit) from mutual activities		(26,222)	(25,136)
Discontinued operations:			
Net result of insurance business	2(b)	-	196
Exceptional items before taxation	4(a)	-	1,425
(Deficit) before taxation	4(b)	(26,222)	(26,365)
Taxation	5(a)	1,871	2,025
(Deficit) after taxation transferred to accumulated fund	11	(28,093)	(28,390)

Except as identified above all activities relate to continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 1999

	1999	Re-stated 1998
	£'000	£'000
(Deficit) after taxation	(28,093)	(28,390)
Unrealised surplus on revaluation of investments	40,085	21,071
Unrealised surplus on revaluation of properties	2,808	-
Taxation charge on investment gains	(1,730)	(3,078)
Deferred taxation on revaluation of properties	(382)	-
Total recognised gains and losses for the year	12,688	(10,397)
Prior year adjustment (see note 1(b) and 11)	(276,195)	-
Total recognised gains and losses since the last annual report	(263,507)	-

Note of Historical Cost Gains and Losses

for the year ended 31 December 1999

	1999	Re-stated 1998
	£'000	£'000
Reported (deficit) before taxation	(26,222)	(26,365)
Realisation of investment gains of previous years	12,945	17,021
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	37	37
Historical cost (deficit) before taxation	(13,240)	(9,307)
Historical cost (deficit) after taxation	(15,111)	(11,332)

Consolidated and Company Balance Sheets at 31 December 1999

	Notes	1999		Re-stated 1998	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	6	10,423	10,423	8,092	7,887
Investments	7	289,793	162,139	267,855	124,348
		300,216	172,562	275,947	132,235
Current assets					
Debtors	8	34,432	139,520	25,721	145,681
Deposits at banks		8,217	8,116	11,955	6,491
		42,649	147,636	37,676	152,172
Creditors - amounts falling due within one year	9	4,637	3,346	7,277	4,151
Net current assets		38,012	144,290	30,399	148,021
Total - fixed assets and net current assets		338,228	316,852	306,346	280,256
Provisions					
Indemnity	10(a)	318,992	315,320	297,471	280,256
Insurance technical provisions	10(b)	-	-	3,407	-
Other provisions	10(c)	1,532	1,532	452	-
Total provisions		320,524	316,852	301,330	280,256
Reserves					
Property revaluation reserve		4,933	4,933	2,507	2,507
Investment revaluation reserve		56,713	45,469	29,573	15,056
Accumulated fund		(43,942)	(50,402)	(27,064)	(17,563)
Total reserves	11	17,704	-	5,016	-
Total - provisions and reserves		338,228	316,852	306,346	280,256

Approved by the Board of Management on 27 June 2000


MT Saunders CHIEF EXECUTIVE


J C Smith CHAIRMAN

Consolidated Cash Flow Statement for the year ended 31 December 1999

	Notes	1999		1998	
		£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	13(a)				
- Continuing			(18,692)		(30,884)
- Discontinued			-		1,578
Returns on investments					
Interest received		588		1,219	
Investment income					
- Continuing		6,093		6,754	
- Discontinued		-		107	
Net cash inflow from returns on investments			6,681		8,080
Corporation tax paid			(5,549)		(3,100)
Capital expenditure and financial investment					
Purchases of fixed assets		(1,058)		(1,282)	
Sales of fixed assets		87		730	
Purchases of investments		(159,081)		(283,876)	
Sales of investments		173,851		308,000	
Net cash inflow from capital expenditure and financial investment			13,799		23,572
Acquisitions and disposals					
Sale of subsidiary undertaking	7	921		-	
Deposits at bank disposed of with subsidiary undertaking	7	(5,411)		-	
			(4,490)		-
(Decrease) in cash	13(b)		(8,251)		(754)

Notes to the Financial Statements for the year ended 31 December 1999

1. Accounting Policies

(a) Basis of accounting and format of accounts

The Group accounts 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 accounts formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the Group.

Where appropriate, information relating to insurance activities has been prepared in a manner consistent with the provisions of the Companies Act 1985 and guidance on accounting for insurance business issued by the Association of British Insurers.

(b) Change of accounting policy

The Group has changed its accounting policy relating to accounting for costs of indemnity claims in the year to 31 December 1999 in line with Financial Reporting Standard 12. Comparative figures for the year ended 31 December 1998 in the accounts have been restated to take account of this accounting policy.

Provision is now made at discounted future settlement values for estimated future costs of settlement and related claimants costs for indemnity cases from all reported incidents notified at the balance sheet date up to the amount of net book assets. Previously such costs were not accounted for until they were incurred.

The Group has also changed its accounting policy relating to accounting for taxation and dividend income in line with Financial Reporting Standard 16. Taxation attributable to gains previously reported in the statement of total recognised gains and losses is now also recognised in that statement. Previously all the taxation charge was reported in the income and expenditure account. Dividend income is now recorded net of any attributable tax credit, previously dividend income was recorded gross. Accordingly comparative figures for the year ended 31 December 1998 have been restated.

The effect of these changes in the year is to decrease the net contribution available to meet future liabilities and charges by £11.2m (1998: £13.9m).

(c) 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. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 230 of the Companies Act 1985.

(d) Members' subscriptions

Subscription income comprises subscriptions due and received before the balance sheet date without apportionment. No geographical analysis of subscriptions is provided as in the opinion of the Board it is not in the interests of the Group to disclose this information.

(e) Indemnity, reinsurance and legal 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. These costs include plaintiffs' costs including the movement on the indemnity provision between the beginning and end of the year incurred under indemnity, 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.

(f) Indemnity provision

Provision is made on the advice of the consulting actuaries for the outstanding cost of settlement and related claimants costs for indemnity cases from all reported incidents notified as at the balance sheet date. The provision has been discounted to allow for future investment returns in accordance with Financial Reporting Standard 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.

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.

Notes to the Financial Statements for the year ended 31 December 1999

(g) Insurance business - general insurance business technical account

Underwriting results are determined on an annual basis whereby the incurred cost of claims and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Gross written premiums

Gross written premiums relate to premiums received during the year and exclude taxes and duties levied on premiums.

Claims paid

Claims paid represent all payments made during the year whether arising from events during that or earlier years.

(h) Insurance business - technical provisions

Provision for unearned premiums

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated on a time apportionment basis.

Outstanding claims

The provision for reported claims outstanding comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of reinsurance and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation trends and after recognition of the potential time elapse in the notification, development and settlement of claims.

Differences between the estimated cost and subsequent settlement are dealt with in the appropriate technical account for the year in which claims are settled or re-estimated.

Provision for unexpired risks

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks after taking into account future investment income on relevant technical provisions.

(i) 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:

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

• Office equipment:

20–100 per cent per annum on cost.

• Motor vehicles:

25 per cent per annum on cost.

(j) 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.

Investment income is accounted for on the basis of cash received. In the company financial statements investments in subsidiary undertakings are carried at cost.

(k) Foreign currencies

Transactions in foreign currencies are recorded at the rate 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 ruling at the balance sheet date or the appropriate forward contract rate. All differences are taken to the income and expenditure account.

(l) Deferred taxation

No provision is made for potential tax liabilities on unrealised gains arising from the revaluation of investments and leasehold properties unless the realisation is anticipated and a liability can be foreseen.

(m) Pension costs

The pension costs are charged in the income and expenditure account so as to spread the regular cost of pensions over the working lives of employees who are scheme members. Variations from the regular cost are allocated over the average remaining service lives of employees.

Notes to the Financial Statements for the year ended 31 December 1999

	1999	Re-stated 1998
	£'000	£'000
2. (a) Investment Income		
Franked investment income	2,555	2,569
Unfranked investment income	3,953	5,117
	6,508	7,686
Loan and bank interest	588	1,219
	7,096	8,905
	£'000	£'000
(b) Net Result of Insurance Business		
Gross written premiums	-	8,449
Unearned premium transferred to technical provisions	-	(1,155)
Net written premiums	-	7,294
Outward reinsurance premiums	-	(6,746)
Earned premiums, net of reinsurance	-	548
Gross provision for claims	-	(3,934)
Reinsurers' share	-	3,821
Claims incurred, net of reinsurance	-	(113)
Investment income	-	107
Direct overheads	-	(346)
Net result from insurance business	-	196
The Insurance Business relates to MDU Australia Insurance Company Pty Limited which was sold in January 1999 (see also note 7 and 10(b)).		
	£'000	Re-stated £'000
3. Indemnity, Legal and Reinsurance Costs		
Indemnity	72,715	59,208
Reinsurance recoveries	(14,890)	(8,220)
Legal costs	19,290	16,299
Reinsurance costs	23,819	27,644
	100,934	94,931
	£'000	£'000
4. (a) Exceptional Items Before Taxation		
Loss on disposal of fixed assets		
i) Continuing operations	-	480
ii) Discontinued operations	-	205
Loss on sale of operations		
iii) Discontinued operations	-	247
Reorganisation costs		
iv) Discontinued operations	-	493
	-	1,425

The exceptional items before taxation include:

- i) Loss on disposal of property in Spain.
- ii) Loss on disposal of fixed assets in Australia.
- iii) Provision for loss on disposal of MDU Australia Insurance Co Pty Limited.
- iv) Costs of a fundamental reorganisation on withdrawal from the Australian market.

Notes to the Financial Statements for the year ended 31 December 1999

	1999	1998
	£'000	£'000
4. (b)(Deficit) Before Taxation		
(Deficit) before taxation has been arrived at after charging the following:		
Depreciation (Note 6)	1,299	1,308
Loss on disposal of fixed assets (including exceptional items)	149	652
Auditors' remuneration – as auditors	67	65
– for non-audit work	180	225
	£'000	£'000
(c)Directors' Remuneration:		
Fees	291	211
Other emoluments (including pension contributions)	605	599
	896	810
Emoluments (excluding pension contributions) of the highest paid director	180	178
At 31 December 1999 the accrued pension rights of the highest paid director were £56,023 (1998: £48,333). Retirement benefits are accruing to four directors under a defined benefit scheme.		
(d)Staff costs		
Staff costs charged in arriving at the (deficit) for the year before taxation are:		
	£'000	£'000
Salaries	7,926	8,490
Social security costs	625	589
Other pension and related costs	1,165	1,117
	9,716	10,196
	Number	Number
Average number of employees in the year	237	263
5. Taxation	£'000	Re-stated £'000
(a)Income and Expenditure Account		
Corporation tax for the year at 30.25 per cent (1998: 31 per cent) on income and capital gains from investments	2,677	2,428
Adjustment in respect of previous years	(806)	(403)
	1,871	2,025
(b)Statement of Total Recognised Gains and Losses		
Corporation tax for the year at 30.25 per cent (1998: 31 per cent) on capital gains from investments	1,730	3,078
The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be £14,670,000 (1998: £8,297,000) for the Group and £12,150,000 (1998: £4,506,000) for the Company. The tax charge has been reduced by £25,000 (1998: £92,000) which arises from the taxation treatment of exchange gains/losses on foreign investments.		

Notes to the Financial Statements for the year ended 31 December 1999

6. Fixed Assets – Tangible

Group	Leasehold Properties	Motor Vehicles	Office Equipment	Total
	£'000	£'000	£'000	£'000
Cost/valuation				
At 1 January 1999	9,891	856	7,225	17,972
Additions	139	295	624	1,058
Adjustment on revaluation	(1,363)	-	-	(1,363)
Disposals	(167)	(241)	(309)	(717)
At 31 December 1999	8,500	910	7,540	16,950
Cost	-	910	7,540	8,450
Valuation	8,500	-	-	8,500
	8,500	910	7,540	16,950
Depreciation				
At 1 January 1999	3,856	409	5,615	9,880
Provided in year	389	220	690	1,299
Depreciation written back on revaluation	(4,171)	-	-	(4,171)
Disposals	(74)	(210)	(197)	(481)
At 31 December 1999	-	419	6,108	6,527
Net book amount				
At 31 December 1999	8,500	491	1,432	10,423
At 31 December 1998	6,035	447	1,610	8,092

Company	Leasehold Properties	Motor Vehicles	Office Equipment	Total
	£'000	£'000	£'000	£'000
Cost/valuation				
At 1 January 1999	9,724	856	6,916	17,496
Additions	139	295	624	1,058
Adjustment on revaluation	(1,363)	-	-	(1,363)
Disposals	-	(241)	-	(241)
At 31 December 1999	8,500	910	7,540	16,950
Cost	-	910	7,540	8,450
Valuation	8,500	-	-	8,500
	8,500	910	7,540	16,950
Depreciation				
At 1 January 1999	3,782	409	5,418	9,609
Provided in year	389	220	690	1,299
Depreciation written back on revaluation	(4,171)	-	-	(4,171)
Disposals	-	(210)	-	(210)
At 31 December 1999	-	419	6,108	6,527
Net book amount				
At 31 December 1999	8,500	491	1,432	10,423
At 31 December 1998	5,942	447	1,498	7,887

Notes to the Financial Statements for the year ended 31 December 1999

6. Fixed Assets – Tangible continued

Two leasehold properties were externally valued as at 31 December 1999 by Healey & Baker, Real Estate Consultants on the basis of existing use value as defined in the RICS appraisal and valuation manual. On an historic cost basis, leasehold properties would have been included as follows:

	1999		1998	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Cost	7,397	7,397	2,994	2,994
Depreciation	2,452	2,452	419	419
	4,945	4,945	2,575	2,575
Leasehold properties at net book value comprise:				
Properties with over 50 years to run	8,500	8,500	5,942	5,942
Properties with under 50 years to run	–	–	93	–
	8,500	8,500	6,035	5,942

7. Fixed Assets – Investments

Group	Listed Investments	Unlisted Investments	Cash held for Investment	Total
	£'000	£'000	£'000	£'000
At 1 January 1999:				
At valuation	256,854	115	–	256,969
At cost	–	–	10,886	10,886
	256,854	115	10,886	267,855
Additions at cost	158,874	–	–	158,874
Disposals	(172,508)	–	(4,513)	(177,021)
Revaluation movement (Note 11)	40,068	17	–	40,085
At 31 December 1999	283,288	132	6,373	289,793

Company	Shares in Subsidiary Undertakings	Listed Investments	Unlisted Investments	Cash held for Investment	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 1999:					
At valuation	–	116,291	115	–	116,406
At cost	5,921	–	–	2,021	7,942
	5,921	116,291	115	2,021	124,348
Additions at cost	–	43,481	–	–	43,481
Disposals	(921)	(38,267)	–	(219)	(39,407)
Revaluation movement (Note 11)	–	33,700	17	–	33,717
At 31 December 1999	5,000	155,205	132	1,802	162,139

Notes to the Financial Statements for the year ended 31 December 1999

7. Fixed Assets – Investments continued

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, investments would have been included as follows:

	1999		1998	
	Group £'000	Company £'000	Group £'000	Company £'000
Listed investments	226,788	109,841	227,365	101,313
Unlisted investments	78	78	78	78
	226,866	109,919	227,443	101,391

The company holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the company's accounts: MDU Insurance Limited, an insurance company, incorporated in Guernsey; and MDU Investments Limited, an investment company, incorporated in England. MDU Australia Insurance Company Pty Limited, an insurance company, incorporated in Australia was sold on 4 January 1999 as detailed below. 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.

On 4 January 1999, the group completed the sale of MDU Australia Insurance Co Pty Limited. The disposal is analysed as follows:

	£'000
Net assets disposed of:	
Investments	1,390
Debtors	293
Deposits at bank	5,411
Creditors	(5,926)
	1,168
Loss on disposal	(247)
	921
Satisfied by:	
Cash	921

8. Debtors	Group £'000	Company £'000	Group £'000	Company £'000
Subscriptions in transit	576	576	2,794	2,794
Amounts owed by subsidiary undertakings	–	29,647	–	66,453
Other debtors	542	542	377	377
Prepayments and accrued income	1,741	1,733	1,274	1,078
Reinsurance recoveries	31,573	107,022	21,276	74,979
	34,432	139,520	25,721	145,681
Amounts falling due after more than one year included above are:				
Reinsurance recoveries	25,723	95,096	16,683	64,217

9. Creditors	Group £'000	Company £'000	Group £'000	Company £'000
Falling due within one year:				
Administrative creditors	2,187	2,011	2,540	1,856
Taxation and social security	2,450	1,335	4,737	2,295
	4,637	3,346	7,277	4,151

Notes to the Financial Statements for the year ended 31 December 1999

	Group	Company
	£'000	£'000
10.(a) Indemnity		
At 1 January 1999	297,471	280,256
Payments in the year	(63,119)	(63,119)
Finance cost	11,925	8,637
Income and Expenditure Account (note 3)	72,715	89,546
At 31 December 1999	318,992	315,320

10.(b) Insurance Technical Provisions		£'000
All insurance technical provisions relate to the group		
At 1 January 1999		3,407
Disposal of subsidiary undertaking (see note 7)		(3,407)
At 31 December 1999		–

10.(c) Other Provisions					
	Deferred Taxation	Reorganisation Costs	Loss on Disposal of Fixed Assets	Loss on Sale of Investments	Total
	£'000	£'000	£'000	£'000	£'000
Group					
At 1 January 1999	–	–	205	247	452
Utilised in the year	–	–	(205)	(247)	(452)
Income & Expenditure Account	382	1,150	–	–	1,532
At 31 December 1999	382	1,150	–	–	1,532
Company					£'000
At 1 January 1999					–
Income & Expenditure Account:					
Deferred taxation					382
Redundancies					1,150
At 31 December 1999					1,532

Reorganisation costs charged in the income and expenditure account of £1,249,000 incorporate the above provision of £1,150,000 together with amounts expensed during the year.

11. Reserves				
Group	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1999 - as previously reported	2,507	29,573	249,131	281,211
Prior year adjustment	–	–	(276,195)	(276,195)
At 1 January 1999 re-stated	2,507	29,573	(27,064)	5,016
Movement on revaluation of investments (Note 7)	–	40,085	–	40,085
Surplus on revaluation of leasehold properties	2,808	–	–	2,808
Taxation charge on investment gains	–	–	(1,730)	(1,730)
Deferred taxation on revaluation of leasehold properties	(382)	–	–	(382)
Transfer of realised gains	–	(12,945)	12,945	–
Excess of expenditure over income for the year	–	–	(28,093)	(28,093)
At 31 December 1999	4,933	56,713	(43,942)	17,704

Notes to the Financial Statements for the year ended 31 December 1999

11. Reserves continued

Company	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1999 - as previously reported	2,507	15,056	187,714	205,277
Prior year adjustment	-	-	(205,277)	(205,277)
At 1 January 1999 re-stated	2,507	15,056	(17,563)	-
Movement on revaluation of investments (Note 7)	-	33,717	-	33,717
Surplus on revaluation of leasehold properties	2,808	-	-	2,808
Taxation charge on investment gains	-	-	(815)	(815)
Deferred taxation on revaluation of leasehold properties	(382)	-	-	(382)
Transfer of realised gains	-	(3,304)	3,304	-
Excess of expenditure over income for the year	-	-	(35,328)	(35,328)
At 31 December 1999	4,933	45,469	(50,402)	-

Reserves have been restated following the adoption of Financial Reporting Standard 12.

12. Pension Costs

The MDU provides a defined benefit pension scheme for its employees, the assets of which are held under trust separately from those of The MDU. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method. The assumptions which have the most significant effect on the pension cost are that the rate of return on investments will average 8.5 per cent per annum, that salary increases will average 6 per cent per annum, that present and future pensions will increase at 4.5 per cent per annum, and that future dividend growth will average 4.0 per cent per annum. The funding of the scheme is based on regular triennial actuarial valuations. The most recent actuarial valuation was as at 1 April 1997 when the market value of the scheme's assets was £25.2m. This showed that the actuarial value of the assets represented 114 per cent of the value of the benefits which had accrued to members, after allowing for future increases in salaries. The pension cost for 1999 was £1,165,000 (1998 £1,053,000).

	1999 £'000	1998 £'000
13. Notes to the Cash Flow Statement		
(a) Reconciliation of (deficit) before taxation to net cash (outflow) from continuing operating activities		
(Deficit) before taxation	(26,222)	(26,561)
Investment income	(7,096)	(8,905)
Realised (gains) from disposal of investments	(2,453)	(3,748)
Loss on disposal of fixed assets	149	447
Depreciation	1,299	1,308
(Increase) in debtors	(9,004)	(1,506)
Increase/(Decrease) in creditors	5,576	(6,275)
Increase in provisions	19,059	14,356
Net cash (outflow) from continuing operating activities	(18,692)	(30,884)
	£'000	£'000
Reconciliation of surplus before taxation to net cash inflow from discontinued operating activities		
Surplus before taxation	-	196
Investment income	-	(107)
(Increase) in debtors	-	(151)
Increase in creditors	-	528
Increase in technical provisions	-	1,112
Net cash inflow from discontinued operating activities	-	1,578

Notes to the Financial Statements for the year ended 31 December 1999

13. Notes to the Cash Flow Statement continued

(b) Analysis of net funds	At 1 January 1999 £'000	Cash Flows £'000	At 31 December 1999 £'000
Cash held for investment	10,886	(4,513)	6,373
Deposits at bank	11,955	(3,738)	8,217
	22,841	(8,251)	14,590

(c) Exceptional Items

Cash flows relating to non-operational exceptional items

Capital expenditure cash flows include £Nil from the sale of tangible fixed assets (1998: £620,000) and £Nil for reorganisation costs in respect of discontinued operations (1998: £227,000).

	1999 £'000	1998 £'000
14. Capital Commitments		
Capital expenditure contracted for but not provided for in these accounts for Group and Company	18	36

15. Post Balance Sheet Events

In May 2000 The Medical Defence Union Ltd formed an alliance with Zurich Insurance Company, part of Zurich Financial Services. The alliance takes the form of a joint venture company, MDU Services Ltd, in which The Medical Defence Union Ltd owns a majority of the ordinary shares and of the voting shares. Certain tangible fixed assets, and other assets, with net book value of £2.4m, have been transferred to MDU Services Ltd in exchange for shares and the sum of £10,000. Furthermore Zurich Insurance Company has provided additional reinsurance to The MDU group. Certain aspects of the discretionary cover provided by The Medical Defence Union Ltd are being operated by MDU Services Ltd, on an agency basis. The employees of The Medical Defence Union Ltd have been transferred to MDU Services Ltd.

16. Members' Liability

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

17. Related Party Transactions

The Group has taken advantage of the exemptions available in respect of the disclosure of related party transactions within the group and balances eliminated on consolidation.

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 **Thursday 14 September 2000 at 2pm**
for the following purposes:

Resolution No.	
1	To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 1999.
2	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 2000 Annual General Meeting.
3	To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:
4	C C Evans (having been recommended by the Board of Management under Article 53(a)).
4	M M Gallivan (having been recommended by the Board of Management under Article 53(b)(i)).
5	E M Cooke
6	P R Williams
7	C M Tomkins
8	W S L La Frenais retires by rotation and does not offer himself for re-election.
8	To invite the Board of Management to appoint as members of the Council of the MDU for 2000-2001 the following:
	A A J Adgey MD MB BCh BAO FRCP A R Aitkenhead BSc MD FRCA P Armstrong FRCP J E Banatvala MA MD FRCP FRCPATH DCH DPH P R F Bell MD FRCS FRCS(Ed) Hedley E Berry MB BS FRCS M M Brown MD FRCP E M Cooke OBE BSc MD FRCPATH FRCP Hon Dip HIC J Cunningham MDS FDSRCS(Ed) C C Evans MD FRCP FRCP A Fitzgerald O'Connor MB ChB FRCS J C Frankland BSc(Hons) MB ChB FRCP DRCOG R L Hargrove MB BS FRCA R W Hiles MB ChB FRCS FRCS(Ed) Sir David Hull MB ChB FRCP
	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 P J Mulligan MB ChB FRCS FRCSGLAS C O'Herlihy MD FRCP FRCOG FRACOG R K Prasad MB MS FRCSGLAS MRCP P D Robinson PhD MB BS BDS FDSRCS(Eng) R C G Russell MS FRCS Sir Patrick Holmes Sellors KCVO MA BM BCh FRCS J P Shepherd BDS MSc PhD FDSRCS J C Smith OBE MS FRCS G Strube MB BS MRCS LRCP DCH E M Symonds MD FRCOG FFPHM FACOG(Hon) FRANZCOG(Hon) R E Turner LDS MGDS L Turner-Stokes MA MB BS DM FRCP ARCM R H Vickers MA BM BCh FRCS T J Walley MD FRCP FRCP R M Watson MDS FDSRCS P R Williams MA MB BChirCamb MRCP J S Wyatt FRCP FRCPCH
9	To re-appoint Messrs Pannell Kerr Forster as auditors and to authorise the Board of Management to determine the remuneration of the auditors.
10	To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution, relating to the company's <i>Articles of Association</i> .
	That the <i>Articles of Association</i> of the MDU be amended as follows:
	Articles of Association Article 1: Insert the words "or a limited liability partnership" after the words "Corporate member means a member which is a body corporate".
	Article 13: Delete "21 days' clear notice" and insert "90 clear days' notice".
	Article 68: Delete in its entirety and insert: "The quorum necessary for the transaction of business of the Board may be fixed from time to time by the Board and unless so fixed at any other number shall be eight. For the purposes of these Articles any director who is able (directly or by telephonic or video conference communication) to speak and be heard by each of the other directors

present or deemed to be present at any meeting of the Board, shall be deemed to be present in person at such meeting and shall be entitled to vote or be counted in the quorum accordingly. Such meeting shall be deemed to take place at the place in England where the largest group of those participating is assembled, or, if there is no such group, where the Chairman of the meeting then is, and the word 'meeting' shall be construed accordingly."

By Order of the Board of Management

N J Bowman

N J Bowman
Company secretary
3 July 2000

REGISTERED OFFICE:
230 Blackfriars Road London SE1 8PJ

Notes

- (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 (230 Blackfriars Road London SE1 8PJ) not later than 2 pm on 12 September 2000.
- (2) 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 has been Chairman of the Cases Committee since 1997. Dr Evans is the co-author of *Chamberlains Symptoms and Signs in Clinical Medicine* and is a Senior Examiner and past Censor of the Royal College of Physicians.
- (3) Mr M M Gallivan BA(Hons) FCMA MBA, is the finance director. He joined the MDU in January 1993 as General Manager of the Finance Division. He was appointed to the Board in 1993. Mr Gallivan is an accountant and was formerly employed for seven years by NIG Skandia, the UK general insurance subsidiary of Skandia Insurance.
- (4) Dr E M Cooke, OBE BSc MD FRCPATH FRCP HonDipHIC, was appointed to the Board in 1995 and has served on the Council since 1980. Dr Cooke retired as deputy director of the Public Health Laboratory Service in 1995.
- (5) 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.
- (6) Dr P R Williams, MA MB BChir Camb 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.
- (7) The proposed changes to the Memorandum and Articles of Association are for the following purposes:
 - (i) To allow a limited liability partnership to be a member of the MDU;
 - (ii) To increase the notice period required of members resigning from the MDU;
 - (iii) To allow directors to participate in Board meetings by telephone or video-conference facility.
- (8) References to clause numbers in the special resolution are taken from the printed form of the *Memorandum and Articles of Association* of the MDU prepared following the 1998 AGM. Copies may be obtained upon application to the Company Secretary. A version of the *Memorandum and Articles of Association* showing the changes proposed is available by arrangement with the Company Secretary and a copy will be available at the meeting.

Auditors' Report to the Members

We have audited the financial statements on pages 6 - 17 which have been prepared under the accounting policies set out on pages 8 - 9.

Respective Responsibilities of Directors and Auditors

As described on page 5 the directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion based on our audit, on those statements and to report our opinion to you.

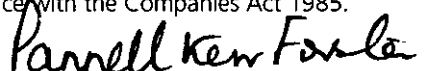
Basis of Opinion

We conducted our audit in accordance with Auditing Standards. 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 Company and Group'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 affairs of the Company and the Group at 31 December 1999 and the Group deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PANNELL KERR FORSTER

CHARTERED ACCOUNTANTS, REGISTERED AUDITORS

3 July 2000

Chief executive

Michael Saunders MB BS MRCS LRCP DOBstRCOG

Directors

FINANCE

Maurice Gallivan BA(Hons) FCMA MBA

PROFESSIONAL SERVICES

Christine Tomkins MB ChB(Hons) FRCS MBA

COMMERCIAL

Michael Gifford DipM MCIM

Company secretary

Nicholas Bowman BSc(Econ)(Hons) ACIS

Susan de Hallé - Facilities Manager

Professional services

MEDICAL ADVISORY

Patrick Dando MB BS MRCP DA DOBstRCOG

Peter Schütte MB ChB MRCP DMJ DA DRCOG

James Brown BSc MB BS DA

Janine Collins MB BS

Angela Farquhar MB ChB DRCOG MRCP

John Gilberthorpe MA MB BChir MRCP DCH DOBstRCOG

Anahita Kirkpatrick MBBS BSc

David Morgan MB ChB DRCOG

Nicholas Norwell MB BS MRCP DA DCH

Susan O'Driscoll MB ChB(Hons) FRCP

Emma Sedgewick MBBS BSc DCH MRCPsych

Gillian Strawford MB BS DA DRCOG MRCP

John Williamson MB BS MRCS LRCP MRCP Dip. Comm Em Med

Claire Wilson BSc RGN RHV FAETC PG Dip in healthcare ethics

NURSING

Susan Parker RGN RM RHB FWT DipN(Lond)

Gillian Birt RGN ObCert FPCert RCGO AsthDipFAETC PN

CLAIMS HANDLING

Julia Neild MB BS(Hons) FRCP

Jill Harding

Glynis Parker MB ChB FRCGS DRCOG

Andrew Cook

Alison Cooper MBBS FRCA

Peter le Cren BA LLB

Karen Dalby MBBS MRCP

Yvonne Dempsey MB BCh BAO MCGP

Robert Grimmett BA

Hilary Halfpenny BA

Martin Hurst BSc MBBS MRCP (UK)

Pamela Hutchinson LLB ACII PG Dip in healthcare ethics

Thomas Leigh MA MB BS MRCPsych

Lynne McNamara

Taiye Omo-Ikerodah ACII

David Franklin

Helen Pringle MD(Rome) MRCS LRCP FRCA DCH DTM H

Donal Quinn ACII

Elizabeth Skeen BSc MBBS MRCP

Frances Szekely MBBS MRCP

Patricia Towey MA MB BS MRCP DCH

Claire Turk

RISK MANAGEMENT

Stephen Green BSc(Hons) MB BS MRCS LRCP MRCP MRCP

Patrick Hoyte MA MRCS LRCP MRCP DCH DOBstRCOG

Helen Goodwin BA(Nursing) RGN ONC

Rupert Lee MB BS MRCP

Joan Moss SRN

Julie Price BA RGN Dip HE(Prac Nurs)

Hemalini Sims MB BS DFFP DRCOG MRCP

THE DDU

Rupert Hoppenbrouwers BDS LDS RCS

Bryan Harvey BDS(Lond) DGD

Iain Cuthbertson BDS LDS RCS

Mark Phillips BDS LDS RCS

Peter Swiss BDS LDS RCS DGD(UK)

Joanna Mitchell BDS FDS RCS

Michael Byles

Andrew Cook

LEGAL

Charles Dewhurst LLB

Christine Freedman

Tamsin Thomas MA

John Kingston MSc

Dallas Ross LLB

Helen Pezier MA(Cantab)

Alison Troake BA(Hons)

CASES DECISIONS

Catherine James MB ChB FRCOG

MEDIA & EXTERNAL RELATIONS

Mary-Lou Nesbitt

Finance

Gerard Cooper BSc(Econ)

Stephen Ramsden BSc MSc

Robin Saunders FCMA MBA

Joanne Snow BSc(Hons) ACA

Luke Thomson

Commercial

Susan Beadle DipM MCIM

Matthew Beard MA DipM DipMRS

Nick Dungay BA(Hons) ACII MIDM

Christine Hambleton

Christopher Horrell BA FCII

Carole Mulligan

Debra Wiginton BA(Hons) MCIM

Auditors

Pannell Kerr Forster

Freephone numbers

UK medical advisory : 0800 716646

UK dental advisory: 0800 374626

UK membership: 0800 716376

Ireland medical advisory: 1800 535935

Ireland dental advisory: 1800 535935

Ireland membership: 1800 535935



Your future is our priority

The only defence cover for complete peace of mind

The MDU was established in 1885 as a 'doctors for doctors' mutual organisation. Today the MDU is still a mutual, not for profit organisation owned by our members, and the needs of healthcare professionals are still very much at the heart of everything we do.

Dependable cover - first-class services

The MDU has always made the future of our members a priority.

The first medical defence organisation and first to introduce:

medico-legal advisers

24-hour advisory helpline

in-house legal specialists

specialist risk management services

specialist press liaison to assist members

And now we've made a further change for the better through our joint venture company, MDU Services Ltd: first to retain the benefits of discretionary membership while adding the protection of an insurance policy, backed by one of the world's largest insurers.

London

The Medical Defence Union Ltd
230 Blackfriars Road
London SE1 8PJ
Telephone 020 7202 1500
Fax 020 7202 1666

Membership Helpline

0800 716 376

Email

mdu@the-mdu.com

Website

www.the-mdu.com

Traditional benefits of membership of The Medical Defence Union Ltd are discretionary and are all subject to the Memorandum and Articles of Association. The Medical Defence Union Ltd by guarantee Registered in England 21708
Registered Office: 230 Blackfriars Road London SE1 8PJ



*There when
you need us*