

The Medical Defence Union Limited

(Registered number 21708)

Consolidated Financial Statements

for the year ended 31 December 2010

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The Medical Defence Union Limited

for the year ended 31 December 2010

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Report of the chairman

2010 was a year of considerable achievement for the MDU. As the year closed, our membership numbers reached 202,000 – a record. In my report this year I should like to reflect on why I believe so many of the UK's doctors and dentists choose to put their trust in the MDU, and why they are right to do so.

Regulation

In recent years, we have witnessed unprecedented changes in the medical and dental professions. Our members now work within a more heavily regulated environment than ever before. While professional standards remain as high as ever, there has been a huge increase in the number of complaints and claims notified to us, and in GMC referrals and hearings.

The GMC 's published statistics for the last three years are revealing:

- Complaints received up by 35%
- Referrals from those acting in a public capacity (employers, police etc) up by 117%
- Interim orders up 42%
- Number of hearing days up by 66%. The GMC now runs 17 concurrent hearings every day, whereas in 2000 there were only two concurrent hearings each day.

Whatever happens in the medical environment, the MDU remains resolute in its ethos of 'doctors for doctors' and 'dentists for dentists'. This underpins everything we do, and we never lose sight of our fundamental purpose – to defend and protect our members' reputation and interests, individually and collectively.

Service to members

In 2010, we maintained our very high levels of service, providing a record number of our members with medico-legal advice or assistance with a claim for clinical negligence. Many call our 24-hour, 365-day advisory helpline which is staffed by medico-legally trained doctors and dentists who offer clinical and legal as well as emotional support. In addition, we provide educational services, including complaint handling and risk management which, in the light of the GMC statistics, are very popular.

It is 11 years since we introduced insured indemnity for medical and dental members. In that time our membership numbers have increased by more than 40%. The specially-designed MDU corporate package provides, uniquely, both insured indemnity for companies and individual members and, importantly, expert advice.

We regularly survey member satisfaction levels. I am pleased to say that the levels for 2010 are the best we have ever recorded. Our defence of members remains robust and as a result around 70% of medical claims are discontinued at an early stage. Furthermore, we have successfully assisted the majority of members attending GMC or GDC hearings and fitness to practise panels, who have emerged without any restrictions being placed on their practice or registration

External influence

In addition to our increased activity in 2010, our governmental and external relations department, led by Mary-Lou Nesbitt working closely with advisory, legal and claims colleagues, worked tirelessly to ensure members' interests were considered at governmental and regulatory level. This year, I am delighted to report that we have been particularly effective in making our members' voice heard on matters such as revalidation, responsible officers, the Welsh redress scheme and GMC interim order panels decisions and warnings – to name just a few.

In May, the MDU responded to the GMC's consultation on the proposed revalidation regulations. In its response, the GMC included three areas of concern that the MDU had raised on members' behalf – namely, responsible officers, the specialty frameworks and the detail of the results from questionnaires that doctors will have to provide as part of their revalidation folders. We are following these issues up with the GMC, as well as other aspects of the revalidation proposals that we feel need further development.

Revalidation cannot succeed unless responsible officers (ROs) are in place and working as intended. We have been active on working groups concerning them and commented on numerous drafts of the regulations. Almost all the concerns we expressed have been addressed. However, we remain cautious about how ROs will operate in practice, for example regarding the overlap with existing disciplinary and contractual processes and resolution of conflicts of interest. We will continue to monitor ROs as their role emerges during 2011.

The Welsh redress scheme, conceived in 2007 as the Welsh equivalent of the NHS redress scheme, is a combined complaints and compensation scheme for small value clinical negligence claims. While we supported the complaints proposals, we did not believe that primary medical and dental care and independent providers of NHS care should be included in the requirement to pay compensation. It would have caused chaos to include these practitioners, our members, in an NHS compensation scheme for low value claims when they are not indemnified by the NHS.

After three years of discussion with officials and submissions to the government, including giving evidence before a committee of the Welsh Assembly, it was agreed that primary care and independent providers of NHS care would be excluded.

Disciplinary issues

Two years ago, we were contacted by several members who had been subject to conditions or suspension by the GMC's Interim Orders Panel (IOP). The doctors found that although they were completely exonerated at a fitness to practise hearing, the IOP decision remained on the GMC's electronic record for everyone to see, including employers and patients.

At the same time, the GMC intimated it was considering leaving notice of warnings on the electronic record for longer than the five years originally planned. We firmly believe warnings, where there are no findings of fact, should not be public after five years. On both points we made strong representations and are pleased that the GMC has clarified its policy in a way that is fair to doctors. It was important to pursue this, not just for our members concerned but for all members who may be investigated by the GMC in future.

Looking ahead, the Health and Social Care Bill, first proposed by the new government in July 2010 will, we believe, continue to demand our close attention during 2011, not least in relation to indemnity for services commissioned by GP consortia (now clinical commissioning groups). We will, once again, be voluble and proactive in speaking up for our members.

Multiple jeopardy

Perhaps another reason that doctors and dentists choose the MDU is the constant support we provide when they are faced with a claim. A distressing experience for any member, an incident that provokes a claim can, depending on its nature, escalate and its repercussions are considered in a number of discrete ways by various parties – the trust or employer, police, GMC or CHRE, coroner and even an employment tribunal.

This is known as 'multiple jeopardy', to which I have drawn members' attention previously. At such a time, it can seem to the member concerned as though he or she is under fire from all sides - the patient, the legal system and even the press.

The MDU represents the member throughout the investigations and beyond, providing expert advisory, legal and claims handling assistance, as well as practical support in dealing with the media. Happily cases of this kind are rare, but the MDU's assistance is no less thorough in every type of case, however large or small.

Self-reflection

As an organisation, the MDU continually seeks ways to improve our service and management. In 2010, the Board engaged management consultants Archpool Associates Limited to review its performance, with reassuring results and promising suggestions.

As a modern company, we have sought to engage with you and inform you about contemporary medico-legal issues through our annual report, journals, website, email communications and by meeting you at professionally-approved MDU regional roadshows. The latter give us an opportunity to learn from you first-hand about your current concerns and provide a good example of our 'doctors for doctors' ethos. They will continue on a regional basis and I encourage you to attend.

Thanks

On your Board's behalf I wish to thank all our staff for their contributions to the continuing success of the MDU. Their hard work and efforts are clearly demonstrated in the excellent results described in the financial statements and the operating and financial review.

I also wish to thank Council members. The Council is an integral part of the MDU and its members routinely provide a level of technical expertise on medico-legal matters which is invaluable in the defence of your interests.

As is my habit, I will close with news of Council members. We said farewell and heartfelt thanks to Mr Paddy Mulligan, Mr Christopher Russell and Professor Peter Armstrong, all of whom retired during 2010. We welcomed to the Council Dr Christine Heron, consultant radiologist. We were also delighted to hear in the summer that Roger Vickers had been honoured in the Queen's birthday list with a knighthood (KCVO).

We also said farewell to three long-serving stalwarts of the MDU and DDU advisory teams – Dr Peter Schutte, Dr David Morgan and Mr Peter Swiss. We thank them for their many years of service to members.

Finally, it is my sad duty to record the sudden death of Sir Patrick Holmes-Sellors who served on Council for 26 years until his retirement in 2003.

A handwritten signature in black ink, appearing to read 'CCEV' followed by a horizontal line.

C C Evans

Chairman of the board of management
President of the MDU

Operating and financial review 2010

I am pleased to say that 2010 was a good year for your company operationally and financially. Our membership continues to grow and we enter 2011 on a sound footing.

Our members are at the heart of everything we do and a highlight of 2010 was meeting members and finding out what matters to you at MDU regional roadshows in Coventry and Crewe. These were well attended and, while our medico-legal presentations provided useful medico-legal CPD points, feedback suggested that members found it equally helpful to meet MDU advisers, to put faces to our names and to be able to ask us questions in person. Two more roadshows are planned for 2011 and I look forward to spending time with many more members over the coming months. As a not-for-profit mutual the MDU is your company and it is important you feel part of it.

2010 was the MDU's busiest year ever for our claims, advisory and legal departments. My colleagues who head the relevant departments explain what this means in their reports but here are the headline figures. The number of new medical claims files opened by our claims handling team increased by 14.8%, year on year, reflecting a significant increase in claims notified by GP members. Dental claims followed a similar pattern with a 12.3% increase in the number of new dental claims files opened. These increases led to the number of active claims files currently being managed by the team increasing by just over 10%. On the advisory side, we opened 10.8% more medical files and 22% more dental files providing assistance and advice to our members.

All this increased activity in assisting and defending members was reflected in an 8.2 % increase in legal costs. The increase in claims activity is partly responsible for additional legal costs, but equally important is the fact that the GMC's 2004 changes to its fitness to practise procedures are now showing through, coupled with the dramatic 35% rise it has seen in complaints against doctors in the last three years. This has resulted in an increase in members' requests for assistance with GMC cases. In addition, many cases are lasting longer, there are more interim order panel hearings, more complex investigations, longer fitness to practise hearings and multiple repeat hearings to monitor conditions or review suspensions.

We explained in last year's report the MDU's support for reforms to claims costs proposed by Lord Justice Jackson, which were taken forward in a consultation document by the Ministry of Justice. In March the Government announced its plans to implement these changes. There will need to be a Bill and we will continue to work to ensure the changes result in a system that is fairer for defendants and we are continuing to do what we can to ensure they are implemented. But, in addition to the financial cost, we do not forget the personal cost to members of their increased exposure to claims and protracted disciplinary investigations. This government's proposals for lighter touch regulation that is also less costly for registrants may be beneficial to members. It is also possible the GMC's plans for consensual disposal of cases could result in fewer and shorter hearings while providing the protection the public seeks. We are exploring these and other opportunities in order to do all we can to mitigate your regulatory burden while at the same time ensuring we continue to produce practical and up-to-date risk management advice, drawn from case experience, to assist you to avoid medico-legal difficulties in your own practice.

Business review

Strategy

The company's objective is to provide the highest quality of medico-legal support to members at the lowest cost compatible with financial security. We do this by providing members with specialist advice from doctors, dentists, lawyers and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise, and through the provision of insurance policies provided by regulated insurers. As a not-for-profit mutual organisation, fairness and quality are essential to our reputation.

It remains your Board's view that insurance offers the best guarantee of compensation for patients and indemnity for practitioners. The MDU is unique as a long-standing medical defence organisation providing members with a policy of insurance for clinical negligence claims, in addition to the traditional discretionary benefits of membership. The Department of Health recently reviewed its policy on indemnity and in December accepted a recommendation that all healthcare professionals should be required to have indemnity as a condition of registration. However, the position remains unsatisfactory because it is not clear precisely how and when such a requirement will be implemented. Nor is it clear what indemnity arrangements will need to be in place if the changes in commissioning in the Health & Social Care Bill are approved. We shall continue to seek clarification about what is adequate and appropriate indemnity as it matters to our members as much as it does to patients who may need to seek compensation.

Principal risks and uncertainties

The key challenge for the MDU is to maintain and improve its position in the competitive market in which it operates, while ensuring it has sufficient financial resources to meet future liabilities. Mindful of the NHS budget freeze and the financial constraints upon members, coupled with the increase in demand for medico-legal services, we are striving to ensure subscriptions are competitive and affordable.

The MDU has an established risk management procedure which includes assessment of insurance/reinsurance security, currency risk and staff development and retention policy. It also has a conflict of interest policy and a strategy to ensure that members are treated fairly. These are reviewed by the Board regularly to ensure that the necessary procedures and strategies are in place to manage risks appropriately.

Key performance indicators

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

The MDU monitors its business activity by means of a number of key performance indicators (KPIs) which the Board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2010.

Membership statistics

The MDU monitors all areas of membership and evaluates any movements in renewals activity; leavers; junior doctor, graduate and student applications; and recruitment overall. I am delighted that, as predicted in last year's report, our membership numbers have continued to grow in all sectors of the market during 2010, and we finished the year with well over 200,000 members.

Quality of service

Through regular membership surveys we monitor members' satisfaction with the service provided by the medical and dental advisory, claims and membership departments. We encourage members to comment on the quality of service they receive and it was pleasing to see that members, who are facing tough economic times, rated the value for money they receive from MDU membership at a higher level in 2010 than in previous years.

Members also tell us they believe the MDU is more supportive than even five years ago. One of the ways in which we demonstrate this is by providing more ways for members to use our services and to contact us. For example, we continue to focus on providing value to members through MDU Education and Training. In 2010 we introduced a course for doctors preparing for new consultant posts, as well as offering a revision course for dental students preparing for their final examinations. Our existing Ethics and Law, Communication Skills and Professional Challenges in Medical Practice and Dental CPD courses continue to be fully-subscribed.

We understand how important it is to members that your calls are answered as quickly as possible. We made further significant investment in our membership department to improve the speed and efficiency of the service and are delighted that this has already taken effect. During 2010 membership staff answered 45% of 129,660 calls received immediately, and 82% were answered within 20 seconds.

The website continues to be popular, for the increasing range of medico-legal podcasts available on it and because it is an easy way for members to keep their details up-to-date with secure on-line access. Since introducing this function in mid-2010, more and more members are updating their details on-line.

During 2010 we saw continued growth in demand for our corporate membership package. Our research shows that between a quarter and a half of GPs and consultants are either already involved with, or are considering establishing, a company or limited liability partnership to allow them to bid for provider contracts as the NHS develops in future. The MDU's Corporate Indemnity Solution provides corporate clinical indemnity insurance for a company or limited liability partnership, and for its vicarious liability for the acts of non-clinician employees, which sits alongside the MDU's individual membership benefits for clinicians. This mix of insured indemnity for the company and insured indemnity for the clinician is unique in the market. It meets corporate members' needs and gives the MDU a strong competitive position.

Financial performance

Every quarter the Board reviews the MDU's overall financial performance including subscription levels, insurance premiums, claims payments, legal costs and claims reserves.

Details are given below in the financial review, but the key figures are:

The MDU's assets now total £237m (2009: £194m) with the balance sheet showing a surplus of £101m (2009: £63m) over indemnity, pension and other provisions of £136m (2009: £131m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). The majority of these are picked up, as they are notified to us, by the insurance policy held by most paying members. The MDU remains the only UK medical defence organisation which gives its members the added security of insurance coupled with the advantages of discretion for claims outside the insurance policy and for all other medico-legal matters.

Ireland

In Ireland the dispute with the Department of Health and Children continues, its basis being the problem of historic obstetric liabilities and the imposition by the Irish government of the clinical indemnity scheme on consultants. The Irish government has chosen to support litigation to challenge the MDU Board's decisions in some Irish cases, in the interest of all members, to decline to exercise its discretion to assist or continue to assist.

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

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

The MDU continues to assist with some cases in Ireland and, as detailed in the financial review below, made payments of £5.4m (2009: £7.5m) on behalf of members and former members in Ireland.

Financial review

Income

Total subscription income for the year ended 31 December 2010 was £188.8m (2009: £185.9m), of which 97% was received from our UK members, the remainder, amounting to £5.5m, being from our members in Ireland.

Added to the subscription income is investment income for the year of £6m (2009: £3.6m), bringing the total mutual income for the MDU group in 2010 to £194.8m (2009: £189.5m).

Expenditure

In 2010 the MDU paid out on behalf of its members £42.8m (2009: £35.6m) in discretionary indemnity claims and legal costs. Within the £42.8m of indemnity and legal payments for 2010, £5.4m (12.6%) relates to our Irish members' claims.

Insurance and reinsurance premiums in 2010 were £110m (2009: £116m).

In 2010 under the insurance arrangements with SCOR, the MDU has been able to benefit from a positive adjustment of premium of £17m (2009: £12m) – see note 4 (premium element adjustment). This was due to an improvement in the claims experience of our members.

The insurance arrangements provide each paying member of the MDU in the UK with the security of an individual insurance policy in his/her name. The insurance policy provides cover up to £10m for claims first made in the policy period, including indemnity and legal costs, arising from an incident whilst a member.

The MDU also benefits from a reinsurance programme, which includes additional protection for discretionary claims. The reinsurance recoveries in 2010 were £12.2m (2009: £0.8m).

Medical and dental advisory costs along with administrative costs amounted to £31.4m in 2010 (2009: £29.5m), the increase of £1.9m reflecting enhancements in the medical and dental advisory services for our members.

Assets/indemnity provision

The balance sheet for the MDU now shows total assets of £237m compared to £194m in 2009. This improvement is mainly due to good operating and investment performance in the year and the benefit of the premium element adjustment referred to earlier.

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

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

The level of indemnity provision, see note 13(a), has been estimated on the advice of consulting actuaries taking all the above factors into consideration, and is shown in the accounts at £129.8m (2009: £126.3m). This reflects a small increase of 2.8% in the overall net claims reserves for 2010.

In summary the MDU is a not-for-profit mutual owned by its members. We concentrate on providing the best advisory, risk management and claims handling service to members, with the financial security of insured claims and associated legal costs being provided through regulated insurance.



Dr Christine Tomkins
Chief executive

Directors' report

The directors present their report and the financial statements for the year ended 31 December 2010.

Activities

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

Through MDU Services Limited (MDUSL), the group provides paying members in the UK with insurance policies against claims of clinical negligence. These are underwritten by SCOR UK Company Limited and International Insurance Company of Hannover Limited. MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the FSA as an insurance intermediary

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

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

Review of business

Members' attention is drawn to the report of the chairman and the operating and financial review, in which the salient features of the business of the year are highlighted. The financial statements on pages 17 to 39, 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 for insurance premiums, overheads and foreseeable discretionary indemnity payments and legal costs

MDU Investments Limited (MDUIL), a wholly-owned subsidiary of the MDU, manages investments on behalf of the MDU. Funds are invested with third party investment managers and MDUIL does not undertake any direct investment activity. The Board of MDUIL is responsible for reviewing the investment performance of the third party fund managers and takes into account market, credit, currency and liquidity risk in setting investment objectives.

The principal risks associated with investments, financial instruments and their management are discussed on page 15. Other principal risks and their management are set out in the operating and financial review.

Disabled employees

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

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

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

Staff involvement

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

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

Directors

The following served as directors in 2010:

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

- 1 Members of the remuneration committee**
- 2 Members of the audit committee**
- 3 Directors of MDU Services Limited**
- 4 Members of the investment committee of MDU Investments Limited**

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.

- Mr H E Clarke
- Dr C C Evans
- Mr M M Gallivan
- Dr M S Richmond
- Dr C M Tomkins.

Corporate governance

Although the MDU is not a listed company, the Board is committed to the highest standards of corporate governance and seeks to apply the principles set out in the UK corporate governance code, to the extent appropriate for the MDU. Set out below is a summary of the MDU's approach to corporate governance. The participation of MDU members on the Board is a particular feature and strength of the governance arrangements.

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

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

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

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

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

The Board met six times in the year. The attendance record of the directors at the Board meetings is set out on page 12. The Board has a schedule of matters reserved to it for decision, including the following.

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

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

Audit committee

The Board has an audit committee, which meets as often as necessary. The committee is chaired by Mr R J C Pearson, a non-executive director without MDU membership. Mr Pearson is a chartered accountant and has extensive audit experience. The committee includes four other non-executive members of the Board. The committee meets, and spends time alone with, the internal and external auditors. The committee reviews risk management and internal control arrangements, and their effectiveness. It guides the activities and reviews the results of internal audit. The committee also reviews the scope and results of the external audit, and reviews the annual financial statements and other information in the annual report before publication. The committee meets the MDU's actuarial advisers each year and reviews the results of their work.

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

Nomination committee

The Board's nomination committee, chaired by the chairman of the Board, makes recommendations on the appointment of directors. Membership of the nomination committee varies according to the nature of the vacancy. The committee prepares a description of the role and capabilities required for a particular appointment. It selects a shortlist of candidates for consideration by the Board, on merit and against objective criteria.

Remuneration committee

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

Internal control

The Board is ultimately responsible for the internal control and risk management of the MDU and for the effectiveness of these systems. The audit committee has authority to advise the Board on these matters. Management is responsible for identifying, assessing, managing and monitoring risk, and for developing, operating and monitoring the system of internal control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The Board considers regular reports on the risks inherent in the business. The principal risks are identified in the operating and financial review at pages 6 to 10.

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

Financial instruments

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to currency or interest rate risks.

The group monitors its likely exposure to non-sterling claims and advisory costs and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. The matter is kept under constant review and if deemed appropriate forward contracts are entered into.

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

Risk characteristics of financial instruments

Market risk

MDUIL has adopted a prudent investment strategy that identifies the levels of risk and return acceptable in its portfolio. External professional advice is regularly sought and investment performance is subject to regular and detailed review. Asset volatility is addressed as follows. Firstly, by the majority of its assets being in corporate and government bonds, which have a relatively low level of volatility compared to equities. Secondly, by the fact that exposure to a single issuer of any corporate bond is limited to 3% of the fund.

Credit risk

Credit risk encompasses all forms of counterparty risk. The MDU manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Credit risk is further managed by all such derivative contracts being of a short term nature.

Interest rate risk

Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative.

Liquidity risk

The group monitors the likely timing of the payment of its claims liabilities and its policy is to finance these through matching subscription and other receipts, and investment assets. As the group's investment assets are mostly in easily traded financial instruments or cash, the group ensures that any liquidity risk is minimal.

Going concern

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

Relations with members

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company and the group will continue in business

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Provision of information to auditor

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

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

By order of the directors.



N J Bowman

Company secretary

19 April 2011

Independent Auditor's Report to the members of The Medical Defence Union Limited

We have audited the financial statements of The Medical Defence Union Limited for the year ended 31 December 2010 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent Auditor's Report to the members of The Medical Defence Union Limited (continued)

Matters on which we are required to report by exception

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

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

PKF (UK) LLP

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

London, UK
3 May 2011

Consolidated Income and Expenditure Account

for the year ended 31 December 2010

		2010		2009	
		£'000	£'000	£'000	£'000
Members' subscriptions			188,828		185,854
Investment income	3		6,015		3,646
Total mutual income			194,843		189,500
<u>Less</u>					
Medical and dental advisory services		19,688		18,441	
Indemnity, legal, reinsurance and insurance costs	4	124,692		118,812	
Administrative costs		11,753		11,066	
Finance cost	5	2,375		2,781	
Total mutual expenditure			158,508		151,100
Result from mutual activities before taxation			36,335		38,400
Taxation charge	7(a)		(1,367)		(867)
Result after taxation transferred to accumulated fund	15		34,968		37,533

All activities relate to continuing operations

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2010

		Notes	2010	2009
			£'000	£'000
Result after taxation			34,968	37,533
Actuarial loss on pension scheme	15, 17		(2,000)	(5,400)
Revaluation gain on investments			4,976	2,736
Tax charge on realised gains on disposal of investments	7(b)		(340)	-
Total recognised gains and losses since the last annual report			37,604	34,869

Consolidated and Company Balance Sheets

as at 31 December 2010

Registered number 21708

	Notes	2010		2009	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	8	4,147	90	2,914	201
Investments	9	188,321	5,160	153,861	5,160
		<u>192,468</u>	<u>5,250</u>	<u>156,775</u>	<u>5,361</u>
Current assets					
Debtors - amounts falling due within one year	10	26,511	213,367	19,271	176,679
Debtors - amounts falling due after more than one year	11	14,446	14,446	10,028	10,028
Cash at bank and in hand		16,338	2,264	21,749	6,318
		<u>57,295</u>	<u>230,077</u>	<u>51,048</u>	<u>193,025</u>
Creditors - amounts falling due within one year	12	13,231	8,857	13,783	10,178
Net current assets		<u>44,064</u>	<u>221,220</u>	<u>37,265</u>	<u>182,847</u>
Total - fixed assets and net current assets		<u>236,532</u>	<u>226,470</u>	<u>194,040</u>	<u>188,208</u>
Provisions					
Indemnity	13(a)	129,847	129,847	126,259	126,259
Pension	13(b)	5,700	5,700	4,400	4,400
Other provisions	14	-	1	-	15
Total Provisions		<u>135,547</u>	<u>135,548</u>	<u>130,659</u>	<u>130,674</u>
Reserves					
Accumulated fund	15	100,985	90,922	63,381	57,534
Total - provisions and reserves		<u>236,532</u>	<u>226,470</u>	<u>194,040</u>	<u>188,208</u>

Approved and authorised for issue by the Board of Management on the 19th April 2011
and signed on its behalf by

CCE v -

C C Evans - Director

C. Tomkins

C M Tomkins - Director

Consolidated Cash Flow Statement

for the year ended 31 December 2010

		2010		2009	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16(a)		21,890		22,004
Returns on investments				-	
Investment income received		<u>7,640</u>		<u>3,918</u>	
Net cash inflow from returns on investments			7,640		3,918
Corporation tax paid			(1,381)		(1,215)
Acquisitions and disposals					
Purchase of tangible fixed assets		(2,439)		(896)	
Purchase of investments		(150,558)		(133,179)	
Sale of tangible fixed assets		19		21	
Sale of investments		<u>104,184</u>		<u>4,056</u>	
Net cash outflow from acquisitions and disposals			(48,794)		(129,998)
Decrease in cash	16(b)		<u>(20,645)</u>		<u>(105,291)</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2010

		2010	2009
		£'000	£'000
Decrease in cash	16(b)	<u>(20,645)</u>	<u>(105,291)</u>
Movement in net funds		(20,645)	(105,291)
			-
Net funds at 1 January 2010		<u>44,023</u>	<u>149,314</u>
Net funds at 31 December 2010	16(b)	<u>23,378</u>	<u>44,023</u>

Notes to the Financial Statements

for the year ended 31 December 2010

1 Accounting Policies

(a) Basis of preparation of financial statements

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

(b) Basis of consolidation

The group income and expenditure account and balance sheet consolidate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2010. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006.

(c) Members' subscriptions

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

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

(d) Insurance premiums

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

(e) Indemnity, legal, reinsurance and insurance costs

Expenditure on indemnity payments, including the movement on the indemnity provision between the beginning and end of the year, and on legal charges covers the aggregate of all indemnity payments, and legal services provided for members, together with insurance premiums, including those collected on behalf of and paid over to SCOR and Hannover in the UK as and when received from members. These costs include 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.

Notes to the Financial Statements

for the year ended 31 December 2010

1 Accounting Policies (continued)

(f) Indemnity provision

Provision is made for the estimated outstanding cost of settlement and related claimants' costs for discretionary indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of group and company net book assets as the group and company indemnity provision cannot exceed their assets. The gross provision, is calculated on the advice of the consulting actuaries and has been discounted to allow for future investment returns in accordance with FRS12.

No provision is made for claims that may arise from incidents occurring before the balance sheet date but not reported to the group at that date (IBNR) nor for defendant legal costs, nor for claims where The Medical Defence Union Limited has not exercised its discretion to assist. Nearly all paying members now have an insurance policy and, for those who do, such IBNR claims are covered under the terms of their policy.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the consulting actuaries. The provision will be paid over an extended period and subject to agreement by all parties. It is not practical to estimate the periods in which the indemnity provision might be paid. The movement on the provision separately identifies the unwinding of the discount which is disclosed as a finance cost in the income and expenditure account. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 2.125% (2009 2.125%) per annum.

The principal financial assumptions used in the actuaries' calculation of the gross indemnity provision for the company and the group are that claims inflation will be 8.0% per annum (2009 8.0% per annum) over the period of settlement and that a net discount rate of 1.8% per annum (2009 2.3% per annum) is used to discount the claims payments to the balance sheet date.

(g) Tangible fixed assets and depreciation

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

- | | |
|--|---|
| ▪ Leasehold property improvements | the shorter of the length of the lease and 10 years |
| ▪ Furniture, office and computer equipment | 3 – 5 years |
| ▪ Motor vehicles | 4 years |

(h) Investments

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

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

Notes to the Financial Statements

for the year ended 31 December 2010

1 Accounting Policies (continued)

(i) Foreign currencies

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

(j) Tax

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

Deferred taxation is provided using the full provision method following adoption of FRS19. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets and liabilities are calculated at the tax rate expected to be effective at the time that the timing differences are expected to reverse, and are not discounted. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered.

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

(k) Investment income

Investment income is accounted for on an accruals basis.

(l) Operating leases

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

(m) Pension costs

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2010

1 Accounting Policies (continued)

(m) Pension costs (continued)

The assets of the defined benefit pension scheme are measured at their market value at the balance sheet date and the liabilities of the scheme are measured using the projected unit method. The discount rate used is the current rate of return on an AA corporate bond of equivalent term to the liabilities. The following are charged to the income and expenditure account -

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

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

Notes to the Financial Statements
for the year ended 31 December 2010

2 Employee information

	2010	2009
	£'000	£'000
Salaries	16,049	14,810
Social security costs	1,669	1,533
Pension costs - defined benefit scheme	1,700	1,800
- defined contribution scheme	498	381
Other staff costs	1,061	900
	<u>20,977</u>	<u>19,424</u>
	2010	2009
Average number of employees in the year	<u>325</u>	<u>316</u>

3 Investment Income

	2010	2009
	£'000	£'000
(Loss)/gain on investments re exchange rate movements	(1,061)	1,213
Bond and gilt interest	5,814	1,734
Bank interest and similar income	298	1,153
Other investment income	187	12
Gain/(loss) on disposal of investments	777	(466)
Investment Income	<u>6,015</u>	<u>3,646</u>

4 Indemnity, Legal, Reinsurance and Insurance Costs

	£'000	£'000
Insurance and reinsurance premiums	109,965	115,635
Premium element adjustment (see note 1d)	(17,013)	(12,119)
Indemnity paid	25,315	19,479
Increase/(decrease) in indemnity provision	<u>1,113</u>	<u>(19,510)</u>
Net increase/(decrease) in indemnity provision (note 13a)	26,428	(31)
Legal costs	17,463	16,144
Reinsurance recoveries	<u>(12,151)</u>	<u>(817)</u>
	<u>124,692</u>	<u>118,812</u>

Notes to the Financial Statements

for the year ended 31 December 2010

5 Finance cost	2010	2009
	£'000	£'000
Finance cost relating to indemnity provision (note 13a)	2,475	2,681
Finance (credit)/cost relating to pension provision (note 17)	(100)	100
	<u>2,375</u>	<u>2,781</u>
 6 (a) Result Before Taxation	 2010	 2009
Result before taxation has been arrived at after charging/(crediting) the following	£'000	£'000
Depreciation (note 8)	1,197	1,209
Profit on disposal of fixed assets	(10)	(12)
Operating lease rentals	965	945
- land and buildings	56	52
- office equipment	117	95
- motor vehicles		
Fees payable to the company's auditors and its associates		
- for the audit of the company's accounts	53	55
- for the audit of accounts of associates pursuant to legislation	73	80
- for tax services	169	130
 (b) Directors' Remuneration	 2010	 2009
	£'000	£'000
Fees	372	359
Directors' emoluments	880	734
Amounts due and receivable under long term incentive plans	147	178
	<u>1,399</u>	<u>1,271</u>
 The highest paid director in the Medical Defence Union Ltd earned	 £'000	 £'000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP)	361	335
Accrued annual pension (excluding indexation)	127	111

Retirement benefits are accruing to four directors (2009 four) under a defined benefit scheme

The fees disclosed above represent the remuneration of the non-executive directors of The Medical Defence Union Limited. In addition seven (2009 seven) of the non-executive directors received fees totalling £100,000 (2009 £73,000) for acting as expert witnesses on behalf of members.

Notes to the Financial Statements

for the year ended 31 December 2010

(b) Directors' Remuneration (continued)

	Fees Salary	Benefits (note 1)	STIP (note 2)	LTIP (note 3)	Other (note 4)	Total 2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors							
C M Tomkins (Chief Executive)	227	16	70	48	-	361	335
M M Gallivan (Finance Director)	158	14	42	36	-	250	254
N A Dungay (Marketing & Sales Director - appointed 15th September 2009)	109	13	23	29	-	174	50
M T Lee (Professional Services Director - appointed 15th September 2009)	161	13	34	34	-	242	67
M T Saunders (Chief Executive - retired 30 April 2009)	-	-	-	-	-	-	206
Non Executive Directors							
C C Evans (Chairman)	68	-	-	-	11	79	85
P R Williams (Vice-Chairman)	31	-	-	-	11	42	53
R J C Pearson (Chairman of Audit Committee)	37	-	-	-	5	42	40
P Armstrong (retired 15th September 2009)	-	-	-	-	-	-	9
K A V Cartwright	21	-	-	-	22	43	28
H E Clarke	31	-	-	-	6	37	34
A W Craft (appointed 15th September 2009)	9	-	-	-	11	20	10
K F Richardson	31	-	-	-	4	35	33
M S Richmond	9	-	-	-	8	17	19
P Riordan-Eva	15	-	-	-	23	38	30
P D Robinson	9	-	-	-	10	19	18
	916	56	169	147	111	1,399	1,271

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

Note 2 - STIP represents those amounts that have been paid in 2010 and amounts accrued in respect of the year to 31 December 2010. The STIP is determined by comparing actual performance against set targets for key performance indicators over the year.

Note 3 - LTIP represents those amounts that have been paid in 2010 and amounts accrued in respect of the year to 31 December 2010. The LTIP is determined by comparing actual performance against set targets over a three year period, and relates primarily to the overall financial position of the Company and its key membership statistics.

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

Notes to the Financial Statements
for the year ended 31 December 2010

7 Taxation	2010	2009
	£'000	£'000
(a) Income and Expenditure Account		
Corporation tax for the year at 28% (2009 28%)	1,332	912
Adjustment in respect of previous years	(51)	6
	1,281	918
Deferred taxation (note 14)	79	(56)
Overseas taxation	7	5
Taxation charge	1,367	867

(b) Statement of Total Recognised Gains and Losses	2010	2009
	£'000	£'000
Corporation tax for the year at 28% (2009 28%) on gains from investments	340	-

(c) Factors affecting tax charge for the year

The tax assessed for the year is less than the standard rate of corporation tax in the UK (28%)
Reconciling items are explained below

	£'000	£'000
Result from mutual activities before taxation	36,335	38,400
Result before taxation multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	10,174	10,752
Effects of		
Net mutual income not subject to corporation tax	(8,768)	(9,897)
Other income not subject to corporation tax	(48)	(4)
Capital allowances less than depreciation	(31)	53
Expenses not allowable	5	8
Adjustment in respect of previous years	(51)	6
	1,281	918

Notes to the Financial Statements
for the year ended 31 December 2010

8 Fixed Assets - Tangible Group

	Motor vehicles £'000	Furniture, office and computer equipment £'000	Leasehold Properties and Improvements under 50 years £'000	Total £'000
Cost				
At 1 January 2010	157	4,551	1,933	6,641
Additions in year	-	2,439	-	2,439
Disposals	(52)	(170)	-	(222)
At 31 December 2010	105	6,820	1,933	8,858
Depreciation				
At 1 January 2010	92	1,903	1,732	3,727
Charge for the year	36	1,050	111	1,197
Disposals	(43)	(170)	-	(213)
At 31 December 2010	85	2,783	1,843	4,711
Net Book Amount				
At 31 December 2010	20	4,037	90	4,147
At 31 December 2009	65	2,648	201	2,914

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

Company	Leasehold Properties and Improvements under 50 years £'000
Cost	
At 1 January 2010	1,933
Additions in year	-
At 31 December 2010	1,933
Depreciation	
At 1 January 2010	1,732
Charge for the year	111
At 31 December 2010	1,843
Net Book Amount	
At 31 December 2010	90
At 31 December 2009	201

Notes to the Financial Statements
for the year ended 31 December 2010

9 Fixed Assets - Investments Group

	Cash & Investment in Cash Fund	Funds held by Investment Managers	2010 Total	2009
	£'000	£'000	£'000	£'000
Value at 1 January 2010	641	153,220	153,861	118,666
Transfers	-	24,000	24,000	-
Additions	-	150,558	150,558	133,179
Disposals at carrying value	-	(103,412)	(103,412)	(4,522)
Foreign exchange (losses)/gains	-	(1,091)	(1,091)	1,118
Amortisation	-	(2,076)	(2,076)	(779)
Movement in cash and accrued income	(41)	(38,454)	(38,495)	(96,537)
Revaluation of investments	-	4,976	4,976	2,736
Value at 31 December 2010	600	187,721	188,321	153,861

Analysis of funds held by investment managers		2010		2009
	%	£'000	%	£'000
Index linked UK Government and sterling corporate bonds	39.5	74,031	6.5	10,010
Other sterling corporate bonds	31.3	58,680	53.5	81,903
Non sterling bonds	18.5	34,768	23.7	36,354
UK equities	3.4	6,456	0.7	996
Overseas equities	3.1	5,826	1.0	1,463
Forward and future contracts	0.8	1,520	0.6	861
Cash and liquidity balances	3.4	6,440	14.1	21,633
	100.0	187,721	100.0	153,220

A £1.8m (2009: £0.8m) tax charge would arise should the equities and bonds held be sold at the market values at which they are included in the balance sheet.

Company

Subsidiary Undertakings
£'000

Cost at 1 January & 31 December 2010

5,160

The company, either directly or indirectly, holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the company's financial statements: directly MDU Services Limited and MDU Investments Limited both incorporated in England and indirectly MDU Guernsey Limited (dormant in 2010) and MDU Reinsurance Limited, an insurance company, both incorporated in Guernsey.

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

Notes to the Financial Statements
for the year ended 31 December 2010

10 Debtors - amounts falling due within one year

	2010		2009	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	192,203	-	160,375
Premium element adjustment (see note 1d)	15,607	15,607	13,973	13,973
Reinsurance and insurance recoveries	4,730	4,730	1,376	1,376
Other debtors	3,967	251	1,054	463
Prepayments and accrued income	2,156	315	2,738	306
Corporation tax	-	261	-	186
Deferred tax (note 14)	51	-	130	-
	26,511	213,367	19,271	176,679

11 Debtors - amounts falling due after more than one year

	2010		2009	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	10,045	10,045	7,033	7,033
Premium element adjustment (see note 1d)	4,401	4,401	2,995	2,995
	14,446	14,446	10,028	10,028

12 Creditors - falling due within one year

	2010		2009	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Taxation and social security	498	25	453	24
Corporation Tax	738	-	522	-
Other creditors and accruals	11,995	8,832	12,808	10,154
	13,231	8,857	13,783	10,178

Notes to the Financial Statements
for the year ended 31 December 2010

13 Provisions

(a) Indemnity Provisions

	2010		2009	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Gross indemnity provision				
At 1 January	126,259	126,259	143,088	143,088
Finance costs	2,475	2,475	2,681	2,681
Indemnity paid	(25,315)	(25,315)	(19,479)	(19,479)
Net increase/(decrease) in indemnity provision (note 4)	26,428	26,428	(31)	(31)
At 31 December	129,847	129,847	126,259	126,259

(b) Other provisions - pensions

	2010	2009
	£'000	£'000
At 1 January	4,400	6,400
Movement in year	1,300	(2,000)
At 31 December (note 17)	5,700	4,400

14 Deferred tax

	2010		2009	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
At 1 January	(130)	15	(74)	39
Charged/(credited) to Income & expenditure Account	79	(14)	(56)	(24)
At 31 December	(51)	1	(130)	15

The deferred tax asset for the group represents potential relief due to capital allowances on tangible fixed assets held by the group being less than the depreciation that has been charged in the financial statements

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

Notes to the Financial Statements
for the year ended 31 December 2010

**15 Reserves
Group**

	Income and Expenditure	Revaluation Reserve	Accumulated Fund
	£'000	£'000	£'000
At 1 January 2010	60,645	2,736	63,381
Result for year	34,968	-	34,968
Revaluation of fixed asset investments	-	4,976	4,976
Realised on disposal of investments	1,214	(1,214)	-
Tax charge on realised gains on disposal of investments	(340)	-	(340)
Actuarial loss on pension scheme	(2,000)	-	(2,000)
At 31 December 2010	94,487	6,498	100,985

Company

	Accumulated Fund
	£'000
At 1 January 2010	57,534
Result for year	35,388
Actuarial loss on pension scheme	(2,000)
At 31 December 2010	90,922

16 Notes to the Consolidated Cash Flow Statement

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

	2010 £'000	2009 £'000
Result before taxation	36,335	38,400
(Profit) on disposal of fixed assets	(10)	(12)
(Profit)/loss on disposal of investments	(777)	466
Investment income	(5,238)	(4,112)
Depreciation	1,197	1,209
(Increase)/decrease in debtors (excluding deferred tax)	(7,319)	8,632
(Increase)/decrease in debtors due in more than one year	(4,418)	1,623
(Decrease)/increase in creditors (excluding corporation tax)	(768)	27
Increase/(decrease) in indemnity provision	3,588	(16,829)
Cash contributions (more)/less than current service cost and past service gain/loss	(700)	(7,400)
Net cash inflow from operating activities	21,890	22,004

Notes to the Financial Statements

for the year ended 31 December 2010

16 Notes to the Consolidated Cash Flow Statement (continued)

(b) Analysis of net Funds

	At 1 January 2010 £'000	Cash Flows £'000	At 31 December 2010 £'000
Cash held for investment and investment in cash funds	641	(41)	600
Cash with investment managers	21,633	(15,193)	6,440
Deposits at bank	21,749	(5,411)	16,338
	<u>44,023</u>	<u>(20,645)</u>	<u>23,378</u>

17 Pension costs

As explained in accounting policy note 1(m) the company operates two pension schemes, a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pension schemes are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 March 2009 and has been updated to 31 December 2010 by qualified independent actuaries for the purpose of reporting pension costs.

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

	2010	2009	2008
Rate of increase in salaries	4.2%	4.0%	4.1%
Rate of increase in pensions pre 16 February 2009 retirees	2.7%	3.3%	2.9%
Rate of increase in pensions post 16 February 2009 retirees	3.5%	3.3%	2.9%
Discount rate	5.3%	5.7%	6.0%
RPI Inflation assumption	3.7%	3.5%	3.0%
CPI Inflation assumption	2.8%	N/A	N/A

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23 years if they are male and a further 25 years if they are female. For a member who retires in 2029 at the age of 65 the assumptions are they will live on average for a further 25 years after retirement if they are male and a further 26 years after retirement if they are female.

Notes to the Financial Statements
for the year ended 31 December 2010

17 Pension costs (continued)

	2010	2009	2008
Long term rate of return expected:			
Equities	7.8%	8.3%	7.8%
Property	7.3%	N/A	N/A
Government bonds	4.3%	4.5%	4.0%
Corporate bonds	5.2%	5.5%	5.5%
Other	1.4%	0.9%	2.8%

	2010	2009	2008
Fair value:	£'000	£'000	£'000
Equities	12,200	19,000	30,600
Property	10,500	N/A	N/A
Government bonds	10,100	9,200	15,700
Corporate bonds	42,300	38,600	6,600
Other	300	600	700

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

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Total market value of assets	75,400	67,400	53,600	60,900	56,300
Present value of scheme liabilities	81,100	71,800	60,100	64,100	64,300
Net pension liability before deferred taxation	(5,700)	(4,400)	(6,400)	(3,200)	(8,000)
Assets as a percentage of liabilities	93.0%	93.9%	89.3%	95.0%	87.6%

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

	2010	2009
	£'000	£'000
Opening defined benefit obligations	71,800	60,000
Current service cost	1,700	1,800
Interest cost	3,900	3,500
Contributions by scheme participants	600	300
Actuarial losses on the scheme liabilities	5,700	9,100
Net benefits paid out	(2,600)	(2,900)
Closing defined benefit obligations	81,100	71,800

Notes to the Financial Statements
for the year ended 31 December 2010

17 Pension costs (continued)

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

	2010	2009
	£'000	£'000
Opening fair value of scheme assets	67,400	53,600
Expected return on scheme assets	4,000	3,400
Actuarial gains on scheme assets	3,700	3,700
Contributions by employer	2,300	9,300
Contributions by scheme participants	600	300
Net benefits paid out	(2,600)	(2,900)
Closing fair value of scheme assets	75,400	67,400

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

MDU Services Limited employs a building block approach in determining the long-term rate of return on the defined benefit pension scheme's assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the 31 December 2010 rounded to the nearest 0.25% per annum.

Analysis of the amount charged to Income & Expenditure

	2010	2009
	£'000	£'000
Current service cost	1,700	1,800
Total operating charge	1,700	1,800

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

	2010	2009
	£'000	£'000
Expected return on scheme assets	(4,000)	(3,400)
Interest on the scheme liabilities	3,900	3,500
Net return	(100)	100

Notes to the Financial Statements

for the year ended 31 December 2010

17 Pension costs (continued)

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

	2010	2009
	£'000	£'000
Actuarial gains on scheme assets	3,700	3,700
Actuarial losses on scheme liabilities	(5,700)	(9,100)
Actuarial loss recognised in the STRGL	(2,000)	(5,400)

History of experience gains and losses

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Actual return less expected return on scheme assets	3,700	3,700	(12,600)	200	200
As a percentage of the scheme assets	4.9%	5.5%	23.5%	0.3%	0.4%
Experience gains/(losses) arising on the scheme liabilities	(400)	600	-	100	(300)
As a percentage of the present value of the scheme liabilities	0.5%	0.8%	0.0%	0.2%	0.5%
Actuarial (loss)/gain recognised in the STRGL	(2,000)	(5,400)	(4,200)	4,200	-
As a percentage of the present value of the scheme liabilities	2.5%	7.5%	7.0%	6.6%	0.0%

18 Financial Commitments

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

Group

	Other		Land & buildings	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	126	-	9	9
Between one and five years	38	154	977	-
After five years	-	-	-	957

Company

	Land & buildings	
	2010	2009
	£'000	£'000
Operating leases which expire		
Between one and five years	977	-
After five years	-	957

Notes to the Financial Statements

for the year ended 31 December 2010

19 Contingent Liabilities

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

20 Members' Liability

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

21 Related Party Transactions

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