

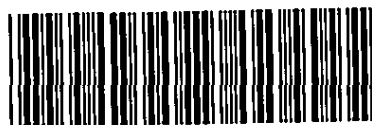
The Medical Defence Union Limited

(Registered number 21708)

Consolidated Financial Statements

for the year ended 31 December 2008

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The Medical Defence Union Limited

for the year ended 31 December 2008

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Report of the Chairman

The theme of this year's Annual Report is the future. We are on the brink of a great number of changes that are likely to affect members.

A very significant change to the MDU itself was the retirement at the end of April 2009 of Dr Michael Saunders, who was on the MDU staff for 23 years and Chief Executive for fourteen.

Working with a strong executive Dr Saunders has excelled and demonstrated considerable determination and commitment to protect doctors, dentists and allied healthcare professionals from medico-legal threats. Equally important, he has enhanced the rights and security of patients who have suffered negligent treatment. He has achieved this by focusing the company's expertise on supporting our members in the UK and Ireland and by introducing insured indemnity. He is also responsible for creating a Board of Management with external directors who have brought essential experience and strategic direction to the organisation which is now regulated by the FSA. Under his guidance the MDU has introduced in-house specialist claims and legal departments and a blossoming advisory service provided 24 hours a day, seven days a week, by home-working medico and dento- legal advisers.

Michael has effected the advances through his personal ability to engage, inspire, persuade and harmonise with staff as well as liaising with and influencing governmental, professional and regulatory bodies. His contributions have been massive, as reference to the financial report demonstrates, and we wish him and his family a long, healthy and happy retirement.

Michael's successor is Dr Christine Tomkins who is well known to many members as the Deputy Chief Executive and Professional Services Director. Her appointment maintains our unique 'Doctors for Doctors' ethos. She was an outstanding candidate for the post and we can look forward with the utmost confidence to another Chief Executive with great vision and drive. And of course, like Michael, Christine is supported by a loyal and dedicated staff who understand the importance of treating members fairly and make sure that providing the best possible services for members is central to everything they do.

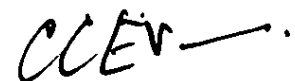
Crucial for medical members are the host of regulatory changes planned for the near future. Autumn 2009 should see the GMC's introduction of the licence to practise, to be followed in due course by relicensing and recertification. Some members have asked us about the effect of these radical developments on their practice, but the GMC has not yet finalised its plans so it is too early to provide definitive advice. We probably won't know all the answers until next year. However, I am able to reassure members who retire and wish to come off the Medical Register that they can still remain with the MDU as retired members. Doctors who are not registered cannot practise medicine, but would be able to offer help in an emergency, as a Good Samaritan, as long as they did not hold themselves out to be registered doctors. Retired MDU members could still seek assistance if any problem arose from a Good Samaritan act, and I would encourage anyone who would like to become a retired member to contact our membership department.

On the advisory side, 2009 saw the introduction of the NHS and social care complaints procedure on 1 April which will affect all members. The new procedure has just two stages and we are pleased to see greater emphasis on local resolution, where MDU experience is that 85% of complaints that GP and GDP members notify to us are resolved satisfactorily. Saying 'I'm sorry this has happened to you' are seven words of apology and sincerity that, when appropriate, can do so much to prevent a claim. Such a sincere expression of regret is very much what complainants are looking for, without compromising the defence of the healthcare professional. Less welcome, given the need to preserve the professional/patient relationship, is that patients can now make complaints direct to the PCT instead of the GP or GDP. In these cases GPs and GDPs should of course be treated fairly and allowed to respond, but members who encounter difficulties are advised to contact us.

This is just one of the unwelcome innovations arising out of recent high-profile enquiries. As with the proposed introduction of GMC affiliates, responsible officers and 'recorded concerns', we do not think these innovations have been properly considered. They have been devised to meet a supposed need that we do not think has been satisfactorily demonstrated to exist. They have the potential, at best, to involve countless hours' extra work for very many members and, at worst, to increase members' exposure to yet more regulatory procedures that we believe are unnecessary, for what we fear will be no appreciable improvement in already high standards of patient care and safety. Our role, as always, is to work with those who are developing such procedures, to contribute our expertise to ensure members' rights to fairness and justice are not compromised and, when and if all this comes about, to assist members who are held accountable. However, I do not believe the future is bleak, because the MDU remains constantly vigilant on your behalf

You may remember that last year Jill Harding and Rupert Hoppenbrouwers, our Head of Claims and Head of the DDU respectively, reported on the increase in claims costs generally, and disproportionate claimants' solicitors' costs specifically. We are certain that the cost of compensation paid to patients who have sustained long-term damage will continue to increase as a result of the *Thompsonstone* case, and because of the rise in damages payments more generally. However, there is potential for change with claimants' solicitors' costs, where the MDU has not been alone in highlighting concerns. At the 2008 Labour Conference, the Justice Secretary, Jack Straw, condemned the behaviour of some lawyers in conditional fee cases and went so far as to say that the fees charged were 'nothing short of scandalous'. To address concerns about costs voiced by defendants' representatives and others, the MDU among them, the Master of the Rolls has appointed Lord Justice Jackson to lead a fundamental review of civil costs. It goes without saying that the MDU is very pleased to be able to contribute data to this review in the interests of members. It cannot be right that some legal firms should receive payment entirely out of proportion to the size of the damages awarded.

Finally, we welcome Mr Alasdair Miller to the Dental Advisory Committee, and three new Council members, Prof Derek Alderson, Prof Matt Thompson and Mr Owen Sparrow. We say goodbye and thanks to retiring Council members Sir Peter Bell and Mr Glenn Neil-Dwyer who have served our members so well.



C C Evans
Chairman of the Board of Management
President of the MDU

Operating and Financial Review 2008

Given the current difficult economic times, you may not expect me to say that 2008 was another good year for your company. However, it was a good year and membership numbers continued to grow and our financial position was further enhanced.

Total membership now stands at over 192,000, representing an increase of 34% since 2000. This represents in excess of 50% of the UK market thereby underlining the MDU's status as the UK's leading Medical Defence Organisation.

The MDU's assets total £178m and are held almost entirely in liquid assets, namely cash or near cash. These assets are invested in two global funds where the money is spread across approximately 100 banks, all A-rated or better, and where no holding in either fund exceeds 5%. The Board believes that this spread of investments currently provides the best protection for members' funds, and provided a reasonable rate of return during most of 2008.

The balance sheet shows a surplus £28.5m over the total indemnity and pension provision of £149.5m. This figure does not represent the potential total liability of our members since it excludes incurred but not reported cases (IBNR), the majority of which 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.

During the year further enhancements to services to members were made.

The Board knows how important it is that members' calls are answered as quickly as possible and that you get a swift response to your letters. We made a significant investment in our Membership department to improve the service we provide when you contact us. We have increased managerial and staff numbers leading to improved telephone answering times and more rapid turnaround for correspondence.

The Marketing department has reviewed methods of communication with members, leading to new publications for practice managers, GP registrars, doctors in the training grades, and for consultants. There are now more GP liaison managers available to visit GP members in practice. They provide more free training seminars, which are highly sought after and well received. Enhancements continue to be made to our GP group schemes. One such change gives group scheme members access to an employment helpline, which has been well used and has proved very helpful.

The MDU awaits proposals, by the GMC and GDC, regarding adequate and appropriate forms of indemnity for both medical and dental practitioners. The GDC, at the time of writing, has embarked upon a period of public consultation. It remains your Board's view that insurance offers the best guarantee of indemnity for patients and practitioners.

Ireland

The dispute with the Department of Health and Children continues. Members will recall that it has as its basis the problem of historic obstetric liabilities and the imposition by the Irish Government of the Clinical Indemnity Scheme on consultants. The MDU's Board decided in 2004 in the interest of all members, that in some Irish obstetric cases it would decline to exercise its discretion to assist or continue to assist, and such decisions continue to be made.

The Irish Government has chosen to support litigation to challenge the Board's decisions in some cases. The Supreme Court of Ireland referred the question of jurisdiction as a matter of European law to the European Court of Justice. Judgement was given in October to the effect that only certain procedural aspects of the exercise of discretion were subject to Irish jurisdiction. The cases are proceeding.

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 significant payments of £4.8m (2007: £7.6m) on behalf of members and former members in Ireland.

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 mutual organisation, fairness and quality are essential to our reputation.

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. The MDU monitors the market carefully, aiming to provide its members with the highest quality of service for their professional needs at a competitive cost, while ensuring enough subscription income to meet future liabilities.

The medico-legal environment is ever changing and the MDU monitors developments closely, making representations to protect members' interests, when appropriate.

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 register and procedures to ensure that members are treated fairly. These are regularly reviewed by the Board to ensure that the necessary procedures and strategies are in place to manage risks appropriately.

Key performance indicators

The MDU monitors its business activity by means of a number of key performance indicators designed to track the activity and achievement of the company. The Board considers the following on a quarterly basis:

1. Membership statistics

The MDU monitors all areas of its membership and evaluates any movements in renewals activity; leavers; junior doctors, graduate and student applications, and recruitment overall.

2. Quality of service

The company monitors, by means of regular membership surveys, satisfaction with service levels provided by the Medical and Dental Advisory, Claims and Membership Departments. The company welcomes comment from members on the quality of services provided.

3. Financial performance

The Board reviews on a quarterly basis the MDU's overall financial performance including subscription levels, insurance premiums, claims payments, legal costs and claims reserves. These are highlighted below in the Financial Review.

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.

Financial Review

Income

Subscription income for the year ended 31st December 2008 was £180.7m (2007: £176m).

Over 97% of subscriptions come from our UK members, the remainder being from our members in Ireland.

Added to the subscription income is investment income for the year of £6.2m bringing the total mutual income for the MDU group in 2008 to £186.9m (2007: £178m).

Expenditure

In 2008 the MDU paid out on behalf of its members £31m in discretionary indemnity claims and legal costs (2007: £25m). Within the £31m of indemnity and legal payments for 2008, £4.8m (15%) relates to our Irish members' claims.

Insurance and reinsurance premiums in 2008 were £106.6m (2007: £108.7m).

Following the successful renegotiation of the new insurance arrangements with SCOR in December 2007 the MDU has again been able to benefit from a positive adjustment of premium of £20.8m in 2008 (2007: £28.2m) – see note 4 (premium element adjustment). This was due to an improvement in the insurer's claims experience.

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 has a reinsurance programme, which includes additional protection for discretionary claims. The amount of reinsurance recoveries in 2008 was £5.3m (2007 £1.3m).

Medical and dental advisory costs along with administrative costs amounted to £26.9m in 2008 (2007: £24.6m), the increase of £2.3m 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 £178m compared to £132m in 2007. This improvement is mainly due to good operating 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 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 under 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 £143m (2007: £129m). This increase includes the effect of an adverse difference on the sterling/euro exchange rate at year end of some £15m.

In summary the MDU concentrates 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.

This is my last Annual Report, as by the time you read this I will have been retired for some months. I am pleased to say that the MDU, your company, whose Board and management are focused on members' needs, has an increasingly strong financial and membership base. I wish the company and my successor, Dr Christine Tomkins, every good fortune.



Dr Michael Saunders
Chief Executive

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2008.

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.

Through MDU Services Ltd, the group provides paying members with insurance policies for claims of clinical negligence. These are underwritten by SCOR Insurance (UK) Ltd and International Insurance Company of Hannover Ltd in the UK and by Zurich Insurance Ireland Ltd in Ireland. MDU Services Ltd, 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 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.

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 15 to 34, 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.

Disabled employees

The MDU group gives full consideration to applications for employment from disabled people where the requirements of the job can be adequately fulfilled by a 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 2008:

<u>Board Member</u>	<u>No. of meetings attended</u>
C C Evans 1 3 4	5
P R Williams 1 2 3 4	2
P Armstrong	5
K A V Cartwright 1	5
H E Clarke 1 2 3 4	5
M M Gallivan 3 4	5
R J C Pearson 1 2 3 4	5
K F Richardson 1 2 3	5
M S Richmond	5
P Riordan-Eva	5
P D Robinson 2 3	5
M T Saunders 1 3 4	5
C M Tomkins 3 4	4

- 1** **Members of the Remuneration Committee**
- 2** **Members of the Audit Committee**
- 3** **Directors of MDU Services Limited**
- 4** **Member of the Investments Committee of MDU Investments Ltd**

In accordance with the *Articles of Association*, the following directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting:

P R Williams
H E Clarke
P D Robinson

P Armstrong is due to retire by rotation and does not offer himself for re-election. As stated in the Chairman's report, M T Saunders will retire as Chief Executive and consequently as a director of the MDU and MDU Services Ltd at the end of April 2009.

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 Combined 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 three 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 five times in the year. The attendance record of the directors at the Board meetings is set out on page 8. 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.

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 3 - 6.

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 in the same currency. The matter is kept under constant review and if deemed appropriate forward contracts are entered into.

The directors do not consider any other risks attaching to the use of financial instruments to be material to an assessment of its financial position.

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 21 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). The financial statements are required to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

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

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

The directors are responsible for keeping proper accounting records that 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

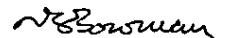
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may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

Provision of information to auditors

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 auditors are 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 auditors are aware of the information.

By order of the Directors.



N J BOWMAN
Company Secretary
28 April 2009

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

We have audited the group and parent company financial statements ('the financial statements') of The Medical Defence Union Limited for the year ended 31 December 2008 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 statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom accounting standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. This information in the directors' report includes that specific information presented in the operating and financial review that is cross-referenced to the business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report, the report of the chairman, and the operating and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PKF(UK)LLP

PKF (UK) LLP
Registered Auditors
London, UK
7 May 2009

Consolidated Income and Expenditure Account

for the year ended 31 December 2008

		2008		2007	
	Notes	£'000	£'000	£'000	£'000
Members' subscriptions			180,681		176,059
Investment income	3		<u>6,157</u>		<u>2,112</u>
Total mutual income			186,838		178,171
Less:					
Medical and dental advisory services		16,248		13,949	
Indemnity, legal, reinsurance and insurance costs	4	122,901		155,770	
Administrative costs		10,626		10,665	
Finance cost	5	<u>2,683</u>		<u>1,841</u>	
Total mutual expenditure			<u>152,458</u>		<u>182,225</u>
Result from mutual activities			<u>34,380</u>		<u>(4,054)</u>
Income from non-mutual activities			-		12,555
Less: share of joint venture's turnover			-		<u>(12,555)</u>
Share of operating profit in joint venture			-		<u>608</u>
Result before taxation	6(a)		34,380		(3,446)
Taxation charge	7(a)		<u>(1,668)</u>		<u>(754)</u>
Result after taxation transferred to accumulated fund	15		<u>32,712</u>		<u>(4,200)</u>

All activities relate to continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2008

	Notes	2008	2007
		£'000	£'000
Result after taxation excluding share of profits of joint venture		32,712	(4,808)
Actuarial (loss)/gain on pension scheme	15, 17	(4,200)	4,200
Share of joint venture's profit for the year		-	<u>608</u>
Total recognised gains and losses since the last annual report		<u>28,512</u>	<u>-</u>

Consolidated and Company Balance Sheets

as at 31 December 2008

	Notes	2008		2007	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	8	3,236	392	3,192	517
Investments	9	118,666	5,160	36,110	5,160
		<u>121,902</u>	<u>5,552</u>	<u>39,302</u>	<u>5,677</u>
Current assets					
Debtors - amounts falling due within one year	10	27,903	156,797	57,480	108,329
Debtors - amounts falling due after more than one year	11	11,651	11,651	12,387	12,387
Cash at bank and in hand		30,648	11,536	39,971	17,591
		<u>70,202</u>	<u>179,984</u>	<u>109,838</u>	<u>138,307</u>
Creditors - amounts falling due within one year	12	14,104	9,647	17,231	13,359
Net current assets		<u>56,098</u>	<u>170,337</u>	<u>92,607</u>	<u>124,948</u>
Total - fixed assets and net current assets		<u>178,000</u>	<u>175,889</u>	<u>131,909</u>	<u>130,625</u>
Provisions					
Indemnity	13(a)	143,088	143,088	128,709	127,380
Pension	13(b)	6,400	6,400	3,200	3,200
Other provisions	14	-	39	-	45
Total Provisions		<u>149,488</u>	<u>149,527</u>	<u>131,909</u>	<u>130,625</u>
Reserves					
Accumulated fund	15	28,512	26,362	-	-
Total - provisions and reserves		<u>178,000</u>	<u>175,889</u>	<u>131,909</u>	<u>130,625</u>

Approved and authorised for issue by the Board of Management on 28th April 2009
and signed on its behalf by

Director

CCEV

Director

H. T. R. R. R.

Consolidated Cash Flow Statement

as at 31 December 2008

		2008		2007	
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	16(a)		69,989		21,092
Returns on investments					
Interest received		<u>5,894</u>		<u>2,046</u>	
Net cash inflow from returns on investments			5,894		2,046
Corporation tax paid			(1,396)		(777)
Acquisitions and disposals					
Purchase of fixed assets		(1,290)		-	
Sale of fixed assets		36		-	
Cash acquired on purchase of MDU Services Limited		<u>-</u>		<u>22,293</u>	
Net cash (outflow)/inflow from acquisitions and disposals			(1,254)		22,293
Increase in cash	16(b)		<u><u>73,233</u></u>		<u><u>44,654</u></u>

Reconciliation of Net Cash Flow to Movement in Net Funds

for the year ended 31 December 2008

		2008	2007
		£'000	£'000
Increase in cash	16(b)	<u>73,233</u>	<u>44,654</u>
Movement in net funds		73,233	44,654
Net funds at 1 January 2008		<u>76,081</u>	<u>31,427</u>
Net funds at 31 December 2008		<u><u>149,314</u></u>	<u><u>76,081</u></u>

Notes to the Financial Statements

as at 31 December 2008

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 and in accordance with the Companies Act 1985 and applicable accounting standards in the UK. As permitted by the Companies Act 1985, the financial statements formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the company and group.

(b) Basis of consolidation

The 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 2008, using acquisition accounting. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 230 of the Companies Act 1985.

(c) Members' subscriptions

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

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, Hannover and Zurich Insurance Ireland Limited 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 and Zurich Insurance Ireland Limited in Ireland as and when received from members. These costs include plaintiffs' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

Notes to the Financial Statements

as at 31 December 2008

1 Accounting Policies (continued)

(f) Indemnity provision

Provision is made for the estimated outstanding cost of settlement and related claimants' costs for indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of group and company net book assets as the group and company liabilities cannot exceed their assets (see note 13(a)). The gross provision, before restriction, is calculated on the advice of the consulting actuaries and has been discounted to allow for future investment returns in accordance with FRS12.

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 2.625% (2007: 3.375%) per annum.

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) or 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 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 7.5% per annum (2007: 8.5% per annum) over the period of settlement and that a net discount rate of 2.1% per annum (2007: 3.1% per annum) is used to discount the claims payments to the balance sheet date.

(g) Tangible fixed assets and depreciation

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

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

(h) Investments

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

Notes to the Financial Statements

as at 31 December 2008

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) Deferred taxation

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.

(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

Under the terms of the arrangements between the company and MDU Services Limited the company is responsible for any deficit of the pension scheme for which MDU Services Limited is the principal employer. FRS17 has been fully adopted.

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 is charged to the income and expenditure account:-

Notes to the Financial Statements

as at 31 December 2008

1 Accounting Policies (continued)

(m) Pension costs (continued)

- 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

as at 31 December 2008

2 Employee information

Staff costs including directors' remuneration:	2008	2007
	£'000	£'000
Salaries	13,482	11,770
Social security costs	1,375	1,202
Pension costs - defined benefit scheme	1,979	2,026
- defined contribution scheme	282	189
Other staff costs	1,172	776
	18,290	15,963
	2008	2008
Average number of employees in the year	291	257

For purposes of comparability the 2007 figures above have been adjusted to include MDU Services as if it was a wholly owned subsidiary.

3 Investment Income

	2008	2007
	£'000	£'000
Bank interest	6,157	2,112

4 Indemnity, Legal, Reinsurance and Insurance Costs

	£'000	£'000
Insurance and reinsurance premiums	106,593	108,683
Premium element adjustment (see note 1d)	(20,803)	(28,196)
Indemnity paid	18,802	14,219
Increase/(decrease) in indemnity provision	10,596	(4,019)
Net increase in indemnity provision (note 13a)	29,398	10,200
Legal costs	12,184	10,788
Reinsurance recoveries	(5,271)	(1,278)
Reversal of restriction in indemnity provision (note 13a)	800	55,573
	122,901	155,770

5 Finance cost

	£'000	£'000
Finance cost relating to indemnity provision (note 13a)	2,983	2,241
Finance credit relating to pension provision (note 17)	(300)	(400)
	2,683	1,841

Notes to the Financial Statements

as at 31 December 2008

6 (a) Result Before Taxation

Result before taxation has been arrived at after charging the following:

	£'000	£'000
Depreciation (note 8)	1,234	184
Profit on disposal of fixed assets	(24)	-
Operating lease rentals		
- land and buildings	965	965
- office equipment	60	-
- motor vehicles	32	-
Fees payable to the company's auditors and its associates		
- for the audit of the company's annual accounts	52	68
- for the audit of accounts of associates pursuant to legislation	79	70
- for tax services	42	106
- for other services pursuant to legislation	5	26
- for services related to litigation	9	18
- for other services	2	-

For purposes of comparability the 2007 figures above for fees payable to the company's auditors have been adjusted to include MDU Services as if it was a wholly owned subsidiary.

(b) Directors' Remuneration	2008	2007
	£'000	£'000
Fees	377	329
Directors' emoluments	854	838
Amounts due and receivable under long term incentive plans	231	273
	<u>1,462</u>	<u>1,440</u>

The highest paid director in The Medical Defence Union Limited earned:

	£'000	£'000
Emoluments (including short term incentive plans (STIP)) and benefits under the long term incentive plan (LTIP).	<u>463</u>	<u>480</u>
Accrued annual pension (excluding indexation)	<u>130</u>	<u>121</u>

Retirement benefits are accruing to three directors (2007: three) 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 6 (2007: 7) of the non-executive directors received fees totalling £56,000 (2007: £57,000) for acting as expert witnesses on behalf of members.

Notes to the Financial Statements

as at 31 December 2008

(b) Directors' Remuneration (continued)

	Fees / Salary	Benefits (note 1)	STIP (note 2)	LTIP (note 3)	Other (note 4)	Total 2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors							
M T Saunders (Chief Executive)	198	15	153	97	-	463	480
C M Tomkins (Deputy Chief Executive)	173	13	70	72	-	328	327
M M Gallivan (Finance Director)	149	13	70	62	-	294	304
Non Executive Directors							
C C Evans (Chairman)	54	-	-	-	25	79	78
P R Williams (Vice-Chairman)	47	-	-	-	13	60	37
R J Pearson (Chairman of Audit Committee)	38	-	-	-	5	43	42
P Armstrong	9	-	-	-	4	13	12
H E Berry (resigned 18 September 2007)	-	-	-	-	-	-	30
K A Cartwright	15	-	-	-	19	34	25
H E Clarke (appointed 27 February 2007)	32	-	-	-	7	39	29
K F Richardson (appointed 1 May 2007)	32	-	-	-	5	37	22
M S Richmond	9	-	-	-	10	19	16
P Riordan-Eva	9	-	-	-	23	32	20
P D Robinson	9	-	-	-	12	21	18
	774	41	293	231	123	1,462	1,440

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 2008 and amounts accrued in respect of the year to 31 December 2008. 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 2008 and amounts accrued in respect of the year to 31 December 2008. 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 amounts for attendance at council and committee meetings other than the MDU Board and its related committees.

Notes to the Financial Statements

as at 31 December 2008

7 Taxation	2008	2007
	£'000	£'000
(a) Income and Expenditure Account		
Corporation tax for the year at 28.5 per cent (2007: 30 per cent) on income and capital gains from investments	1,702	608
Adjustment in respect of previous years	(2)	(21)
	<u>1,700</u>	<u>587</u>
Deferred taxation (note 14)	(32)	(22)
Share of joint venture's taxation charge	-	189
Taxation charge	<u>1,668</u>	<u>754</u>

(b) 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 (28.5 per cent). Reconciling items are explained below:

	£'000	£'000
Result from mutual activities before taxation	<u>34,380</u>	<u>(4,054)</u>
Result before taxation multiplied by standard rate of corporation tax in the UK of 28.5% (2007 : 30%)	9,798	(1,216)
Effects of :		
Net mutual income not subject to corporation tax	(8,136)	1,824
Capital allowances less than depreciation	32	-
Expenses not allowable	8	-
Adjustment in respect of previous years	(2)	(21)
	<u>1,700</u>	<u>587</u>

Notes to the Financial Statements
as at 31 December 2008

8 Fixed Assets - Tangible

Group

	Motor vehicles	Furniture, office and computer equipment	Leasehold Properties and Improvements under 50 years	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2008	177	2,498	1,873	4,548
Additions in year	40	1,190	60	1,290
Disposals	(31)	-	-	(31)
At 31 December 2008	186	3,688	1,933	5,807
Depreciation				
At 1 January 2008	-	-	1,356	1,356
Charge for the year	89	960	185	1,234
Disposals	(19)	-	-	(19)
At 31 December 2008	70	960	1,541	2,571
Net Book Amount				
At 31 December 2008	116	2,728	392	3,236
At 31 December 2007	177	2,498	517	3,192

Company

**Leasehold Properties and
Improvements under 50 years**
£'000

Cost	
At 1 January 2008	1,873
Additions in year	60
At 31 December 2008	1,933
Depreciation	
At 1 January 2008	1,356
Provided in year	185
At 31 December 2008	1,541
Net Book Amount	
At 31 December 2008	392
At 31 December 2007	517

Notes to the Financial Statements

as at 31 December 2008

9 Fixed Assets - Investments

Group

Cash & Investment in Cash Fund

£'000

At 1 January 2008	36,110
Net increase in cash	82,556
At 31 December 2008	118,666

Company

Subsidiary Undertakings

£'000

At 1 January & 31 December 2008	5,160
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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 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 1985, dispensed with the requirement.

10 Debtors - amounts falling due within one year

	2008		2007	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	132,545	-	53,442
Premium element adjustment (see note 1d)	21,059	21,059	24,618	24,618
Reinsurance and insurance recoveries	2,157	2,157	29,641	29,665
Other debtors	2,835	523	2,602	416
Prepayments and accrued income	1,778	210	577	188
Taxation	-	303	-	-
Deferred tax (note 14)	74	-	42	-
	27,903	156,797	57,480	108,329

Notes to the Financial Statements

as at 31 December 2008

11 Debtors - amounts falling due after more than one year

	2008		2007	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	6,477	6,477	6,255	6,255
Premium element adjustment (see note 1d)	5,174	5,174	6,132	6,132
	11,651	11,651	12,387	12,387

12 Creditors - falling due within one year

	2008		2007	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Taxation and social security	1,222	23	871	45
Other creditors and accruals	12,882	9,624	16,360	13,314
	14,104	9,647	17,231	13,359

13 Provisions

(a) Indemnity Provisions

	2008		2007	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Gross indemnity provision				
At 1 January	129,509	129,509	131,287	131,287
Finance costs	2,983	2,965	2,241	1,946
Indemnity paid	(18,802)	(18,802)	(14,219)	(14,219)
Net increase in indemnity provision (note 4)	29,398	29,416	10,200	10,495
At 31 December	143,088	143,088	129,509	129,509
Restriction on the indemnity provision				
At 1 January	800	2,129	56,373	58,421
Reversal of restriction (note 4)	(800)	(2,129)	(55,573)	(56,292)
At 31 December	-	-	800	2,129
Indemnity provision at 31 December	143,088	143,088	128,709	127,380

In accordance with the group's accounting policy for indemnity provisions explained in note 1(f), the charge to the income and expenditure account has been increased by £0.8m (note 4) (2007: £55.6m). In aggregate the restriction on the indemnity provision is £nil (2007: £0.8m).

Notes to the Financial Statements

as at 31 December 2008

13 Provisions (continued)

(b) Other provisions - pensions

Group and company	2008	2007
	£'000	£'000
At 1 January 2008	3,200	8,000
Movement in year	3,200	(4,800)
At 31 December 2008 (note 17)	6,400	3,200

14 Deferred tax

	2008		2007	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
At 1 January 2008	(42)	45	67	67
Acquired on purchase of MDU Services Limited	-	-	(87)	-
Movement in year	(32)	(6)	(22)	(22)
At 31 December 2008	(74)	39	(42)	45

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.

15 Reserves

Group

	Accumulated Fund before pensions liability	Pensions liability	Accumulated Fund
	£'000	£'000	£'000
At 1 January 2008	3,200	(3,200)	-
Result for year	31,712	1,000	32,712
Actuarial loss on pension scheme	-	(4,200)	(4,200)
At 31 December 2008	34,912	(6,400)	28,512

Notes to the Financial Statements

as at 31 December 2008

15 Reserves (continued)

Company

	Accumulated Fund before pensions liability	Pensions liability	Accumulated Fund
	£'000	£'000	£'000
At 1 January 2008	3,200	(3,200)	-
Result for year	29,562	1,000	30,562
Actuarial loss on pension scheme	-	(4,200)	(4,200)
At 31 December 2008	32,762	(6,400)	26,362

16 Notes to the Consolidated Cash Flow Statement

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

	2008	2007
	£'000	£'000
Result before taxation	34,380	(3,446)
Profit on disposal of fixed assets	(24)	-
Share of operating profit in joint venture	-	(608)
Investment income	(6,157)	(2,112)
Depreciation	1,234	184
Decrease/(increase) in debtors	29,840	(37,110)
Decrease in debtors due in more than one year	736	29,330
Decrease in creditors	(3,399)	(18,274)
Increase in provisions	13,379	53,128
Net cash inflow from operating activities	69,989	21,092

(b) Analysis of net funds

	At 1 January 2008	Cash Flows	At 31 December 2008
	£'000	£'000	£'000
Cash held for investment and investment in cash funds	36,110	82,556	118,666
Deposits at bank	39,971	(9,323)	30,648
	76,081	73,233	149,314

Cash includes investment cash funds which are repayable on notice of not more than one working day.

Notes to the Financial Statements

as at 31 December 2008

17 Pension costs

As explained in accounting policy note 1(m) the company is responsible for any deficit of the pension scheme for which MDU Services Limited is the principal employer. MDU Services Limited provides a pension scheme that provides defined benefits for employees who accepted employment before 1 January 2003, and defined contributions for employees who accepted employment after 31 December 2002. The assets of the scheme are held under trust separately from those of MDU Services Limited. The funding of the scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 March 2006 and has been updated to 31 December 2008 by qualified independent actuaries for the purpose of reporting pension costs.

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

	2008	2007	2006
Rate of increase in salaries	4.1%	4.5%	4.2%
Rate of increase in pensions pre 97	2.9%	3.4%	2.7%
Rate of increase in pensions post 97	2.9%	3.4%	3.1%
Discount rate	6.0%	5.8%	5.1%
Inflation assumption	3.0%	3.4%	3.1%

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 21 years if they are male and a further 24 years if they are female. For a member who retires in 2026 at the age of 65 the assumptions are they will live on average for a further 22 years after retirement if they are male and a further 25 years after retirement if they are female.

Long term rate of return expected:

Equities	7.8%	7.5%	7.5%
Government bonds	4.0%	4.5%	4.5%
Corporate bonds	5.5%	4.8%	5.0%
Other	2.8%	4.9%	4.5%

Fair value:	£'000	£'000	£'000
Equities	30,600	40,100	37,200
Government bonds	15,700	14,000	12,700
Corporate bonds	6,600	5,900	5,400
Other	700	900	1,000

Notes to the Financial Statements

as at 31 December 2008

17 Pension costs (continued)

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

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Total market value of assets	53,600	60,900	56,300	50,700	41,200
Present value of scheme liabilities	60,000	64,100	64,300	59,800	49,400
Net pension liability before deferred taxation	(6,400)	(3,200)	(8,000)	(9,100)	(8,200)
Assets as a percentage of liabilities	89.3%	95.0%	87.6%	84.8%	83.4%

Movement in the present value of scheme liabilities during the year

	2008 £'000	2007 £'000
Opening defined benefit obligations	64,100	64,300
Current service cost	2,000	2,000
Past service cost	-	-
Interest cost	3,600	3,300
Contributions by scheme participants	300	300
Actuarial gains on scheme liabilities	(8,400)	(4,000)
Net benefits paid out	(1,600)	(1,800)
Closing defined benefit obligations	60,000	64,100

Movement in the fair value of scheme assets during the year

	2008 £'000	2007 £'000
Opening fair value of scheme assets	60,900	56,300
Expected return on scheme assets	3,900	3,700
Actuarial (losses)/gains on scheme assets	(12,600)	200
Contributions by employer	2,700	2,200
Contributions by scheme participants	300	300
Net benefits paid out	(1,600)	(1,800)
Closing fair value of scheme assets	53,600	60,900

Scheme assets do not include any of the group's own financial instruments or any property occupied by the Medical Defence Union Limited or its subsidiary undertakings.

Notes to the Financial Statements

as at 31 December 2008

17 Pension costs (continued)

MDU Services Limited employs a building block approach in determining the long-term rate of return on pension plan 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 2008 rounded to the nearest 0.25% per annum.

Analysis of the amount charged to Income & Expenditure

	2008	2007
	£'000	£'000
Current service cost	2,000	2,000
Past service cost	-	-
Total operating charge	2,000	2,000

Analysis of the amount credited to other finance income

	2008	2007
	£'000	£'000
Expected return on scheme assets	3,900	3,700
Interest on scheme liabilities	(3,600)	(3,300)
Net return	300	400

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

	2008	2007
	£'000	£'000
Actuarial (losses)/gains on scheme assets	(12,600)	200
Actuarial gains on scheme liabilities	8,400	4,000
Actuarial (loss)/gain recognised in the STRGL	(4,200)	4,200

History of experience gains and losses:

	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Actual return less expected return on scheme assets	(12,600)	200	200	5,600	1,100
As a percentage of the scheme assets	23.5%	0.3%	0.4%	11.0%	2.7%
Experience gains/(losses) arising on the scheme liabilities	0	100	(300)	(800)	(300)
As a percentage of the present value of the scheme liabilities	0.0%	0.2%	0.5%	1.3%	0.6%
Actuarial gain/(loss) recognised in the STRGL	(4,200)	4,200	-	(1,600)	(3,600)
As a percentage of the present value of the scheme liabilities	7.0%	6.6%	0.0%	2.7%	7.3%

Notes to the Financial Statements

as at 31 December 2008

18 Financial Commitments

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

Group

	Other		Land & buildings	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	1	59	9	9
Between one and five years	114	3	-	-
After five years	-	-	957	965

Company

	Land and Buildings	
	2008	2007
	£'000	£'000
Operating leases which expire after five years	957	965

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.