



Report & Accounts 2006

The Medical Defence Union Limited for the Year Ended 31 December 2006



REPORT OF THE CHAIRMAN

It is an honour to be appointed MDU Chairman. I have been an MDU member for 43 years, and a member of Council for over 20 years, and have been privileged to have had considerable 'hands-on' medico-legal experience. I have assisted members by providing expert opinions in negligence claims and acting as an expert at GMC investigations and hearings. But in all that time the medico-legal climate has not been as challenging for MDU members as it is now. In this my first report as Chairman I cover the radical proposals for changes to the regulation of healthcare professionals set out in the White Paper *Trust, Assurance and Safety – The Regulation of Health Professionals in the 21st century*. I also comment on aspects of the Government's statement of policy in *Safeguarding Patients*, its response to the recommendations of the Shipman Inquiry's fifth report and the recommendations of the Ayling, Neale and Kerr/Haslam inquiries; and *Learning from Tragedy: Keeping Patients Safe*, an overview of its actions and proposals in response to the recommendations of the Shipman Inquiry reports.

Many of the proposals are for new procedures and processes, such as for the collection of 'soft information' about doctors and for GMC affiliates with regional regulatory powers; or for radical revision of existing procedures, such as the NHS complaints procedure and, controversially, for a move to the civil standard of proof by the GMC in fitness to practise (FTP) cases. There are also proposals for a robust revalidation procedure, including recertification for GPs and doctors on the specialist register; as well as a move of the adjudicatory powers from the GMC to a separate, independent tribunal.

The MDU has commented in detail and welcomed some of the proposals, such as the move of the adjudicatory part of the FTP procedure to an independent tribunal, which we suggest should have a legal chair. We have, however, expressed grave concerns about other aspects: particularly the move from the criminal to the civil standard by the GMC and GDC, and proposals for a new regulatory layer of GMC affiliates. In the absence of any detail about how they will work, it is particularly concerning that GMC affiliates will be able to issue 'recorded concerns'. We have similar reservations about the proposals for collection of 'soft information', that is, information that has not been substantiated and that may be wrong; yet both of these could have considerable potential to damage a doctor's career.

The Government may consider that such changes are necessary in the interests of patient safety and, if they work, they are likely to be extended from doctors to dentists. It is difficult to support changes that add to your regulatory burden and replicate the aims of what exists already, rather than trying to make existing procedures work more effectively, to the same end. We oppose change just for the sake of it. Changes should be proportionate to any risk they seek to prevent and must take account of the rights of healthcare professionals who are subject to them.

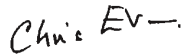
So how can the MDU assist you with all this? There will probably need to be primary and secondary legislation, and that will require consultation and careful drafting of the legislation itself and also of rules and guidance on implementation of the changes. We will continue to discuss and work with the Government and other bodies such as the regulators, in order to look after your medico-legal interests. We wish to ensure, as far as we are able, that any new procedures and processes are at least as fair as those that currently exist. They should be robust and transparent, and should not infringe members' rights. They will also need to be audited regularly to ensure consistency of processes and decision-making. Members should have access to proper representation, especially if there is a risk that their livelihood, or even career, is at stake. Ultimately, if some of the changes introduced are not demonstrably fair, we may also need to consider the appropriate route for challenge on a case by case basis. We hope it will not come to this, but members are assured that the MDU is keenly aware of the need to consider and to promote their medico-legal interests throughout all stages of the forthcoming changes.

The report of the Chief Executive displays the success of your Board's strategic planning over the previous five years under the guiding chairmanship of Mr David Markham who retired last September, and to whom we owe a debt of gratitude. We said goodbye to several non-executive directors last year and are grateful for their varied contributions. It is with pleasure that I welcome to the Board Mr Richard Pearson, who sits on our audit, nomination and remuneration committees, as well as Mr Harold Clarke and Mr Kerry Richardson. In keeping with the ethos of 'doctors for doctors', Mr Paul Riordan-Eva and Professor Keith Cartwright also join the Board as independent non-executive directors.

It is my sad duty to report the deaths during the year of former Council members Sir Martin Roth and Mr George Bonney, both eminent clinicians in their respective fields of psychiatry and orthopaedics, who made significant contributions to the MDU's work on behalf of members.

REPORT OF THE CHAIRMAN

Finally, an essential duty for any Chairman is to visit all the departments in the organisation. I have found a loyal and hard-working staff, united in purpose and dedicated to providing the best possible service to our members so that you have peace of mind as regards all matters medico-legal and the assurance of a unique insurance policy for claims. In the words of a former MDU Secretary: 'You are our members and you matter'.

A handwritten signature in black ink that reads "Chris Evans". The signature is written in a cursive, slightly slanted style.

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



I am pleased to report 2006 has been a good year for the MDU. Our financial position and membership numbers continued to improve in line with our long term business plan.

The MDU regularly seeks the opinion of members regarding the services we provide. Colleagues in our Marketing Department say that there is only one question that really needs to be asked – how likely are you to recommend the MDU to a colleague? I am pleased to report that consistently over 95% of members who are asked say they are either very or quite likely to recommend the MDU to others. Perhaps as a reflection of this, membership has risen by nearly 30,000 in the last four years and now stands at over 187,000 members, in the United Kingdom and Ireland.

As mentioned last year, indemnity for clinical negligence claims is soon to be a compulsory requirement for continued registration for both the GMC and GDC. The MDU continues to be actively engaged in discussions with these bodies as to the appropriate form that the indemnity should have. Members will know that it is the Board's view that the contractual indemnity of insurance should provide the core of any new requirement. It is also important to ensure that members will be able easily and effectively to give proof that they have the indemnity required.

Dental members have the additional benefit upon retirement from practice of a run-off endorsement to the insurance policy. This enables retired dental members and, where necessary, their estates to report claims in retirement to be dealt with under the terms of the policy. Work continues to develop a similar benefit for medical members in the light of such regulatory requirements as may be introduced.

Discretionary benefits of membership remain important, however, as they enable the MDU to expand the range of assistance available to members beyond the purely contractual. They are also the basis upon which assistance is currently available in retirement for medical members.

Ireland

Following the imposition of the Clinical Indemnity Scheme for consultants in 2004, a scheme that provides state indemnity for both private and public practice in state hospitals going forward, nothing has yet been agreed regarding the problem of historic obstetric liabilities. The Department of Health and Children (DoHC) had full knowledge of the problem, gave us repeated assurances that it would be addressed when the scheme was introduced, but that has not happened. It seemed to think it acceptable that other MDU members should carry that burden. As previously reported, the Board decided in 2004 in the interests of all the MDU's members, that in some Irish obstetric cases it would decline to exercise its discretion to assist or to continue to assist and such decisions continue to be made.

OPERATING AND FINANCIAL REVIEW

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 that this undertaking is being honoured to date. However, as detailed below, in the Financial Review, the MDU continues to make substantial payments, £9 million in 2006, on behalf of members and former members in Ireland.

The Irish Government has chosen to support litigation to challenge the Board's decisions in some cases. These are currently not proceeding, pending a decision on whether Ireland or England is the appropriate jurisdiction in whose courts the cases should be heard. This raises matters of European law such that the Supreme Court of Ireland has referred certain questions to the European Court of Justice.

Business Review

Strategy

The company's strategy is to provide the highest quality of medico-legal support through the provision of specialist advice from doctors, dentists and other professionals who combine an understanding of the realities of clinical practice with medico-legal expertise, and insurance policies provided by regulated insurers.

Principal risks and uncertainties

The key challenge for the MDU is the competitive market it operates in. The MDU monitors this carefully, aiming to provide our members with the highest quality of service, with the additional security of insurance for their professional indemnity needs.

The MDU operates in an ever changing medico-legal environment. The MDU is well placed to respond to such challenges as outlined in the Chairman's Report.

The MDU has an established risk management procedure that is regularly reviewed by the Board and seeks to ensure that procedures and strategies are in place so that risks can be managed appropriately.

The MDU's joint venture partner, Converium AG, is currently the subject of a takeover approach by a competitor. The MDU Board has established a committee to consider the options available to it, should such a takeover be successful.

OPERATING AND FINANCIAL REVIEW

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:

i. Membership Statistics

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

ii. Quality of Service

The MDU monitors, by means of a regular membership survey, satisfaction with service levels provided by the company through the Medical and Dental Advisory, Claims and Membership Departments.

iii. Financial Performance

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

The company is committed to maintaining a strong management team, the organisational effectiveness of the company, tight cost control and appropriate investment in systems and technology.

Financial Review

Income

Subscription income for the year ended 31 December 2006 was £165m (2005: £152.9m). Over 97% of subscriptions come from our UK members, the remainder being from our members in Ireland.

Added to the subscription income are investment income gains for the year of £1.4m bringing the total mutual income for the MDU group in 2006 to £166.4m (2005: £154.6m).

Expenditure

In 2006 the MDU paid out on behalf of its members £38m in discretionary indemnity claims and legal costs (2005: £41m). This reduction, which is in line with expectations, results from the planned transfer of risk to individual insurance policies for the MDU's UK and Irish members. Within the £38m of indemnity and legal payments for 2006, £9m (24%) relates to our Irish members' claims.

Insurance and reinsurance premiums increased by 3% to £103.5m (2005: £100.3m).

The insurance policy provides each paying member of the MDU in the UK with the security of a £10m individual insurance policy in his/her name. The insurance policy covers 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 2006 was £2.5m (2005: £5.9m).

In overall terms the MDU's estimated gross obligations in respect of outstanding indemnity claims have reduced by £33.6m in the year (2005: £39.5m).

Medical and dental advisory costs along with administrative and finance costs amounted to £24m in 2006 (2005: £23m).

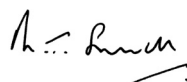
Indemnity Provision

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 taking all the above factors into consideration and is shown in the accounts up to the value of the total net book assets of £83m (2005: £79.6m). The joint venture arrangements provide the MDU with additional reinsurance and capital funding.

In summary the MDU concentrates on providing the best advisory, risk management and claims handling service to our members, with the financial security of insured claims and associated legal costs being provided through regulated insurance.



Dr Michael Saunders
Chief Executive

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2006.

Activities

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

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

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

Directors

The following served as directors in 2006:

Board Member	Appointed/Resigned/Retired	No. of meetings attended
C C Evans 1 2 3		4
D E Markham 1 2 3	Retired on 19 September 2006	3
P Armstrong		4
M Arnold 1 2	Resigned on 17 March 2006	1
Hedley E Berry 1 3		5
K A V Cartwright	Appointed on 19 September 2006	1
A D Chambers 1 2	Resigned on 25 July 2006	3
M M Gallivan 3		5
Lord Glenarthur 1 2	Resigned on 25 July 2006	3
Sir Robin Mountfield 1 2 3	Resigned on 25 July 2006	3
R J C Pearson 1 2 3	Appointed on 1 November 2006	1
M S Richmond		5
P Riordan-Eva	Appointed on 19 September 2006	1
P D Robinson 2 3		5
M T Saunders 1 3		5
C M Tomkins 3		5
P R Williams 2 3		5

1 Members of the Remuneration Committee

2 Members of the Audit Committee

3 Directors or alternate directors of MDU Services Ltd

DIRECTORS' REPORT

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:

M T Saunders
P D Robinson

Hedley E Berry is due to retire by rotation.

The Board has appointed the following directors, who will stand for election at the Annual General Meeting:

K A V Cartwright
R J C Pearson
P Riordan-Eva
H E Clarke (with effect from 27 February 2007)
K F Richardson (with effect from 1 May 2007)

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.

Eight members of the MDU serve on the Board in a non-executive capacity. There are three executive directors, two of whom are also MDU members. The Board also has two non-executive directors who are not members of the MDU. A third such director, Mr Kerry Richardson is appointed to the Board with effect from 1 May 2007. All the non-executive directors are considered to be independent. The Chairman was independent at the time of his appointment. 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.

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 4. 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.

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-medical independent director. Mr Pearson is a retired chartered accountant and has extensive audit experience. The committee consists of three other non-executive members of the Board. The committee meets with the internal and external auditors, and the committee spends time alone with both 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.

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.

Remuneration Committee

The Remuneration Committee, also chaired by the Chairman of the Board, makes recommendations on the remuneration of 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.

The remuneration of the executive directors is determined by the Remuneration Committee of MDU Services Ltd. Members of this committee include the Chairman of the MDU and are identified in the Annual Report of MDU Services Ltd.

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 2 to 3.

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 make 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. In view of its exposure in Ireland to the Euro, the Board has entered into a series of forward contracts to limit the risk of increased costs due to a fall in the value of sterling. All other currency requirements are funded in the spot market as and when required.

As the counterparty to all financial instruments is its bankers, it is also exposed to minimal credit and liquidity risks in respect of these instruments. Its cash flow risk in respect of forward currency purchases is also minimal as it aims to match these purchases against its cash requirements for Euro claims and advisory costs.

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 and the steps taken for future funding.

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.

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.

Auditors

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

By order of the Directors.

N J Bowman

N J BOWMAN
COMPANY SECRETARY
24 April 2007

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT for the year ended 31 December 2006

		2006	2005
	Notes	£'000	£'000
Members' subscriptions		165,009	152,900
Investment income	2	1,383	1,724
Realised losses from disposal of investments			(4)
Total mutual income		166,392	154,620
Less:			
Medical and dental advisory services		13,489	12,545
Indemnity, legal, reinsurance and insurance costs	3	142,240	130,079
Administrative costs		9,813	9,377
Finance cost	4	828	1,116
Total mutual expenditure		166,370	153,117
Result from mutual activities		22	1,503
Income from non-mutual activities		12,540	11,617
Less: share of joint venture's turnover		(12,540)	(11,617)
Share of operating profit in joint venture	8	465	415
Result before taxation	5(a)	487	1,918
Taxation charge	6(a)	(487)	(318)
Result after taxation transferred to accumulated fund	14	-	1,600

All activities relate to continuing operations.

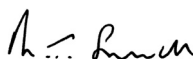
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2006

		2006	2005
	Notes	£'000	£'000
Result after taxation excluding share of profits of joint venture		(465)	1,185
Actuarial loss on pension scheme	14, 16	-	(1,600)
Share of joint venture's profit for the year		465	415
Total recognised gains and losses since the last Annual Report		-	-

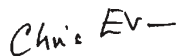
CONSOLIDATED AND COMPANY BALANCE SHEETS at 31 December 2006

	Notes	2006		2005	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	7	701	701	886	886
Investments	8	20,151	2,367	25,247	2,367
Investment in joint venture					
Share of gross assets		10,056	-	9,588	-
Share of gross liabilities		(7,696)	-	(7,551)	-
	8	2,360	-	2,037	-
		23,212	3,068	28,170	3,253
Current assets					
Investments	9	-	-	-	-
Debtors - amounts falling due within one year	10	17,917	35,259	16,758	24,514
Debtors - amounts falling due after more than one year	11	41,717	41,717	37,897	38,740
Cash at bank and in hand		11,276	11,237	8,284	8,013
		70,910	88,213	62,939	71,267
Creditors - amounts falling due within one year	12	11,141	10,348	11,472	11,301
Net current assets		59,769	77,865	51,467	59,966
Total - fixed assets and net current assets		82,981	80,933	79,637	63,219
Provisions					
Indemnity	13(a)	74,914	72,866	70,456	54,038
Pension	13(b)	8,000	8,000	9,100	9,100
Other provisions	13(b)	67	67	81	81
Total provisions		82,981	80,933	79,637	63,219
Reserves					
Accumulated fund	14	-	-	-	-
Total - provisions and reserves		82,981	80,933	79,637	63,219

Approved and authorised for issue by the Board of Management on 24 April 2007 and signed on its behalf by



M T Saunders - Chief Executive



C C Evans - Chairman

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2006

		2006	2005	
	Notes	£'000	£'000	£'000
Net cash outflow from operating activities	15(a)	(2,908)		(11,955)
Returns on investments				
Interest received		1,344		1,773
Net cash inflow from returns on investments			1,344	1,773
Corporation tax paid			(540)	(718)
Decrease in cash	15(b)	(2,104)		(10,900)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
for the year ended 31 December 2006

		2006	2005
		£'000	£'000
Decrease in cash	15(b)	(2,104)	(10,900)
Movement in net funds		(2,104)	(10,900)
Net funds at 1 January 2006		33,531	44,431
Net funds at 31 December 2006		31,427	33,531

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

1. Accounting Policies

(a) Basis of preparation of financial statements

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

(b) Basis of consolidation

The consolidated income and expenditure account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006. No income and expenditure account is presented for The Medical Defence Union Ltd as permitted by section 230 of the Companies Act 1985.

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

(c) Members' subscriptions

Members' subscriptions consist of subscriptions for members' services and insurance premiums received from members for payment to Converium Insurance (UK) Ltd 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 Converium Insurance (UK) Ltd and Zurich Insurance Ireland Ltd are charged to the income and expenditure account. The insurance arrangements in place provide for a reduction in premiums if the actual claims experience is better than envisaged at the time the premium is initially established. Such amounts will be recovered in 2010 and thereafter, and are brought into account as debtors (premiums recoverable) when they can be reliably measured and will be 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 legal charges covers the aggregate of all indemnity settlements, and legal services provided for members, together with insurance premiums, including those collected on behalf of and paid over to Converium Insurance (UK) Ltd in the UK and Zurich Insurance Ireland Ltd in Ireland as and when received from members. These costs include plaintiffs' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

(f) Indemnity provision

Provision is made for the outstanding cost of settlement and related claimants' costs for indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of group and company net book assets as the group and company liabilities cannot exceed their assets (see note 13(a)). The provision 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. 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 3.25% 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 or for defendant legal costs, nor for claims where The Medical Defence Union Ltd has not exercised its discretion to assist. 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 principal financial assumptions used in the actuaries' calculation of the indemnity provision for the company and the group are that claims inflation will be 8.5% per annum (2005: 7.7% per annum) over the period of settlement and that a net discount rate of 3.3% per annum (2005: 2.7% per annum) is used to discount the claims payments to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

(g) Non-mutual activities

Income from non-mutual activities and share of joint venture turnover represents the group's share of the turnover of MDU Services Ltd comprising expenses recharged to The Medical Defence Union Ltd for the year ended 31 December 2006.

Share of operating profit in joint venture represents the group's share of the profit before tax of MDU Services Ltd for the year ended 31 December 2006.

(h) 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:-

- Leasehold property improvements:

Refurbishment costs on leasehold properties are written off over the shorter of the length of the lease and 10 years.

(i) Investments

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

(j) 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.

(k) 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.

(l) Investment income

Investment income is accounted for on an accruals basis.

(m) Operating leases

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

(n) Pension costs

Under the terms of the arrangements between the company and MDU Services Ltd the company is responsible for any deficit of the pension scheme for which MDU Services Ltd 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:-

- 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 2006

	2006	2005
	£'000	£'000
2 Investment income		
Loan and bank interest	1,383	1,724
	£'000	£'000
3 Indemnity, Legal, Reinsurance and Insurance costs		
Indemnity paid	27,356	29,941
Reduction in indemnity provision (see note 13a)	(33,596)	(39,497)
Reversal of restriction in indemnity provision (see note 13a)	36,826	34,072
Reinsurance recoveries	(2,484)	(5,886)
Legal costs	10,599	11,160
Reinsurance and insurance costs	103,539	100,289
	142,240	130,079
	£'000	£'000
4 Finance cost		
Finance cost relating to indemnity provision (see note 13a)	1,228	1,316
Finance credit relating to pension provision (see note 16)	(400)	(200)
	828	1,116
5 (a) Result Before Taxation		
Result before taxation has been arrived at after charging the following:		
	£'000	£'000
Depreciation (note 7)	185	184
Operating lease rentals - land and buildings	965	965
Fees payable to the company's auditor's and its associates		
- for the audit of the company's annual accounts	62	50
- for the audit of accounts of associates pursuant to legislation	5	9
- for other services pursuant to legislation	17	25
- for tax services	61	98
- for services related to information technology	15	-
- for services related to litigation	3	18

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

	2006	2005
	£'000	£'000
(b) Directors' Remuneration		
Fees	275	310
Directors' emoluments	306	262
Amounts due and receivable under long-term incentive plans	113	117
	694	689
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))	255	229
Accrued annual pension (excluding indexation)	75	65

Retirement benefits are accruing to three directors (2005: three) under a defined benefit scheme.

The fees disclosed above represent the remuneration of the non-executive directors of The Medical Defence Union Ltd. Amounts included under directors' emoluments and amounts due and receivable under long term incentive plans represent that proportion of the total remuneration of the executive directors attributable to their services for The Medical Defence Union Ltd.

The remuneration of the executive directors all of which is ultimately charged to The Medical Defence Union Ltd is determined by the Remuneration Committee of MDU Services Ltd. The proportion of their remuneration attributable to their services for the joint venture company, MDU Services Ltd, is however reflected in the accounts of that company. The total remuneration for both companies was made up as follows:

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

(b) Directors' Remuneration (continued)

	Fees / Salary £'000	Benefits (note 1) £'000	STIP (note 2) £'000	LTIP (note 3) £'000	Other (note 4) £'000	Total £'000	Amount included in MDU Services £'000	Medical Defence Union	
								2006 £'000	2005 £'000
Executive Directors									
M T Saunders (Chief Executive)	183	14	167	138	-	*502	(402)	100	91
C M Tomkins (Deputy Chief Executive)	160	12	79	89	-	340	(85)	255	229
M M Gallivan (Finance Director)	137	12	79	89	-	317	(253)	64	59
Non Executive Directors									
C C Evans (Chairman)	31	-	-	-	9	40	-	40	35
Hedley E Berry (Vice-chairman)	21	-	-	-	12	33	-	33	29
R J C Pearson (Chairman of Audit Committee, appointed 1 Nov 2006)	5	-	-	-	1	6	-	6	-
P Armstrong	8	-	-	-	3	11	-	11	10
K A V Cartwright (appointed 19 September 2006)	4	-	-	-	6	10	-	10	-
M S Richmond	8	-	-	-	9	17	-	17	1
P Riordan-Eva (appointed 19 September 2006)	2	-	-	-	2	4	-	4	-
P D Robinson	8	-	-	-	6	14	-	14	13
P R Williams	14	-	-	-	5	19	-	19	15
M Arnold (resigned 17 March 2006)	8	-	-	-	1	9	-	9	29
A D Chambers (resigned 25 July 2006)	19	-	-	-	7	26	-	26	41
The Lord Glenarthur (resigned 25 July 2006)	16	-	-	-	3	19	-	19	29
D E Markham (retired 19 September 2006)	30	-	-	-	19	49	-	49	75
Sir Robin Mountfield (resigned 25 July 2006)	16	-	-	-	2	18	-	18	29
T J Walley (resigned 20 September 2005)	-	-	-	-	-	-	-	-	4
	670	38	325	316	85	1,434	(740)	694	689

*The amount of £502,000 above represents £430,000 paid in the year with the remaining £72,000 being the movement in the accrual for amounts due under incentive schemes.

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 2006 and amounts accrued in respect of the year to 31 December 2006. Of the total cost of £325,000 some £85,000 has been recovered from Converium AG. 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 2006 and amounts accrued in respect of the year to 31 December 2006. 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
for the year ended 31 December 2006

	2006	2005
	£'000	£'000
6 Taxation		
(a) Income and Expenditure Account		
Corporation tax for the year at 30% (2005: 30%) on income and capital gains from investments	365	277
Adjustment in respect of previous years	(6)	33
	359	310
Deferred taxation	(14)	(16)
Share of joint venture's taxation charge	142	24
	487	318
Factors affecting tax charge for the year		
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). Reconciling items are explained below:		
	£'000	£'000
Result from mutual activities before taxation	22	1,503
Result before taxation multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	7	451
Effects of:		
Tax on non-exempt income	335	271
Non taxable credit relating to pension scheme	-	(480)
Capital allowances less than depreciation	23	35
Adjustments to tax charge in previous periods	(6)	33
	359	310

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

7 Fixed Assets - Tangible
Group and Company

Leasehold Properties and
Improvements under 50 years

£'000

Cost

At 1 January & 31 December 2006 **1,873**

Depreciation

At 1 January 2006 987

Provided in year 185

At 31 December 2006 **1,172**

Net book amount

At 31 December 2006 **701**

At 31 December 2005 886

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

8 Fixed Assets - Investments

Group

Cash & Investment
in Cash Fund

	£'000
At 1 January 2006	25,247
Net decrease in cash	(5,096)
At 31 December 2006	20,151

Joint Venture - Group

Group

	£'000
At 1 January 2006	2,037
Share of operating profit in joint venture	465
Share of taxation on operating profit in joint venture	(142)
At 31 December 2006	2,360

Company

	Subsidiary Undertakings	Joint Venture	Total
	£'000	£'000	£'000
At 1 January & 31 December 2006	10	2,357	2,367

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 Investments Ltd, an investment company, incorporated in England and indirectly MDU Guernsey Ltd (formerly MDU Insurance Ltd), incorporated in Guernsey and MDU Reinsurance Ltd, an insurance company, 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.

The investment in the joint venture represents the company's interest in 75% of the ordinary shares and 50.1% of the voting shares of MDU Services Ltd. This company was incorporated as a limited liability company in England and certain aspects of the discretionary cover provided by The Medical Defence Union Ltd are being operated by MDU Services Ltd on an agency basis. The other party to the joint venture is Converium AG. The company's interest comprises 100% of the A and B ordinary shares and F participating preference shares of MDU Services Ltd.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

9	Current Assets - Investments	Group
		£'000
	Cost of investments at 1 January 2006 and 31 December 2006	51
	Provision for diminution in value of investments at 1 January 2006 and 31 December 2006	51
	Market Value	
	At 31 December 2006	-
	At 31 December 2005	-

The above investments represent those investments which it is the intention of the company to dispose of.

10 Debtors - amounts falling due within one year

	2006		2005	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Amounts owed by subsidiary undertakings	-	17,708	-	7,740
Amounts owed by joint venture	12,242	12,017	12,559	12,559
Other debtors	1,340	-	621	237
Prepayments and accrued income	2,591	3,679	1,617	1,617
Reinsurance and insurance recoveries	1,744	1,855	1,961	2,361
	17,917	35,259	16,758	24,514

11 Debtors - amounts falling due after more than one year

	2006		2005	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Reinsurance and insurance recoveries	33,164	33,164	32,935	33,778
Premiums recoverable	8,553	8,553	4,962	4,962
	41,717	41,717	37,897	38,740

12 Creditors

	2006		2005	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Falling due within one year:				
Taxation and social security	298	147	230	122
Other creditors and accruals	10,843	10,201	11,242	11,179
	11,141	10,348	11,472	11,301

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

	Group	Company
	£'000	£'000
13 Provisions		
(a) Indemnity Provisions		
At 1 January 2006	70,456	54,038
Finance costs	1,228	723
Reduction in indemnity provision	(33,596)	(33,091)
Reversal of restriction in indemnity provision	36,826	51,196
At 31 December 2006	74,914	72,866

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 £36.8m, representing a reversal of previous years restrictions (2005: increase of £34.1m), to maintain the indemnity provision at no more than the net assets of the group. In aggregate the restriction on the indemnity provision is £56.4m (2005: £93.2m). This sum will be covered by the group's reinsurance programme and capital funding if required.

(b) **Other Provisions
Group and Company**

	Pensions Liability	Deferred Tax	Total
	£'000	£'000	£'000
At 1 January 2006	9,100	81	9,181
Movement in year	(1,100)	(14)	(1,114)
At 31 December 2006	8,000	67	8,067

As explained in accounting policy note 1(n) the company is responsible for any deficit of the pension scheme for which MDU Services Ltd is the principal employer. As at 31 December 2006 the scheme had an excess of liabilities over assets, under FRS17, of £8.0m (2005: £9.1m) and so the company has provided for a liability equal to this deficit (see note 16).

The deferred tax liability represents the potential tax owing, due to capital allowances on leasehold improvements being less than the depreciation that has been charged to date in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

14 Reserves
Group and Company

	Accumulated Fund before pensions liability	Pensions Fund	Accumulated
	£'000	£'000	£'000
At 1 January 2006	9,100	(9,100)	-
Result for year	(1,100)	1,100	-
Actuarial loss on pension scheme	-	-	-
At 31 December 2006	8,000	(8,000)	-

15 Notes to the Consolidated Cash Flow Statement

	2006	2005
	£'000	£'000
(a) Reconciliation of surplus before taxation to net cash outflow from operating activities		
Result before taxation	487	1,918
Share of operating profit in joint venture	(465)	(415)
Investment income	(1,383)	(1,724)
Realised losses from disposal of investments	-	4
Depreciation	185	184
Increase in debtors	(868)	(2,205)
Increase in debtors due in more than one year	(3,820)	(5,056)
(Decrease)/Increase in creditors	(388)	164
Increase/(decrease) in provisions	3,344	(4,825)
Net cash outflow from operating activities	(2,908)	(11,955)

	At 1 January 2006	Cash Flows	At 31 December 2006
	£'000	£'000	£'000
(b) Analysis of net funds			
Cash held for investment and investment in cash funds	25,247	(5,096)	20,151
Deposits at bank	8,284	2,992	11,276
	33,531	(2,104)	31,427

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

16 Pension costs

As explained in accounting policy note 1(n) the company is responsible for any deficit of the pension scheme for which MDU Services Ltd is the principal employer. MDU Services Ltd 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 Ltd. 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 2006 by qualified independent actuaries for the purpose of reporting pension costs.

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

	31 December 2006	31 December 2005	31 December 2004
Rate of increase in salaries	4.2%	4.0%	4.0%
Rate of increase in pensions pre 97	2.7%	2.8%	2.7%
Rate of increase in pensions post 97	3.1%	2.8%	2.7%
Discount rate	5.1%	4.7%	5.2%
Inflation assumption	3.1%	2.9%	2.9%

	Long term rate of return expected at			Fair value at		
	31 December 2006	31 December 2005	31 December 2004	31 December 2006 £'000	31 December 2005 £'000	31 December 2004 £'000
Equities	7.5%	7.0%	7.5%	37,200	34,800	29,700
Govt. Bonds	4.5%	4.0%	4.5%	12,700	-	7,700
Corp. Bonds	5.0%	4.7%	5.0%	5,400	15,600	3,300
Other	4.5%	3.5%	3.5%	1,000	300	500

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

	31 December 2006 £'000	31 December 2005 £'000	31 December 2004 £'000
Total market value of assets	56,300	50,700	41,200
Present value of scheme liabilities	64,300	59,800	49,400
Net pension liability before deferred taxation	(8,000)	(9,100)	(8,200)

Movement in deficit during the year

	2006 £'000	2005 £'000
Deficit in scheme at beginning of year	(9,100)	(8,200)
Current service cost	(2,100)	(1,800)
Past service cost	(200)	-
Contributions	3,000	2,300
Other finance income	400	200
Actuarial loss	-	(1,600)
Deficit in scheme at end of year	(8,000)	(9,100)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

Analysis of the amount charged to Income & Expenditure

	2006	2005
	£'000	£'000
Current service cost	2,100	1,800
Past service cost	200	-
Total operating charge	2,300	1,800

Analysis of the amount credited to other finance income

	2006	2005
	£'000	£'000
Expected return on scheme assets	3,200	2,800
Interest on scheme liabilities	(2,800)	(2,600)
Net return	400	200

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

	2006	2005
	£'000	£'000
Actual return less expected return on scheme assets	200	5,600
Experience losses arising on the scheme liabilities	(300)	(800)
Changes in assumptions underlying the present value of the scheme	(100)	(6,400)
Actuarial loss recognised in the STRGL	-	(1,600)

History of experience gains and losses

	2006	2005
	£'000	£'000
Actual return less expected return on scheme assets	200	5,600
As a percentage of the scheme assets	0.4%	11.0%
Experience losses arising on the scheme liabilities	(300)	(800)
As a percentage of the present value of the scheme liabilities	0.5%	1.3%
Actuarial loss recognised in the STRGL	-	(1,600)
As a percentage of the present value of the scheme liabilities	0.0%	2.7%

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2006

17 Financial Commitments Group and Company

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

	Land and Buildings	
	2006	2005
	£'000	£'000
Operating leases which expire after five years	965	965

18 Contingent Liabilities

Claims are made against The Medical Defence Union Ltd 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.

19 Members' Liability

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

20 Related Party Transactions

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

During the year the group entered into transactions, in the ordinary course of business with MDU Services Ltd, a joint venture company in which the group has an interest in 75% of the ordinary shares and 50.1% of the voting shares. The trading balance outstanding at 31 December is disclosed in note 10 to these accounts. On behalf of the group, as agent, MDU Services Ltd collected subscriptions from the group's members of £165,844,000 (2005: £153,846,000) and handled claims amounting to £25,270,000 (2005: £35,206,000). Net overheads totalling £24,036,000 (2005: £22,528,000) were recharged by MDU Services Ltd to the group during the year.

NOTICE OF ANNUAL GENERAL MEETING OF THE MEDICAL DEFENCE UNION LTD

Notice is hereby given that the Annual General Meeting of The Medical Defence Union Ltd (a company limited by guarantee) will be held at **230 Blackfriars Road, London, SE1 8PJ on Tuesday, 18 September 2007 at 2.00 pm** for the following purposes:

To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 2006. **Resolution 1**

To elect K A V Cartwright who is due to retire under Article 56. **Resolution 2**

To elect H E Clarke who is due to retire under Article 56. **Resolution 3**

To elect R J C Pearson who is due to retire under Article 56. **Resolution 4**

To elect K F Richardson who is due to retire under Article 56. **Resolution 5**

To elect P Riordan-Eva who is due to retire under Article 56. **Resolution 6**

To elect members of the Board of Management appointed under Article 56, recommended under Article 53(a) or nominated under Article 53(b) after the date of the notice for the 2007 Annual General Meeting. **Resolution 7**

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

M T Saunders (having been recommended by the Board of Management under Article 53(a)). **Resolution 8**

P D Robinson (having been recommended by the Board of Management under Article 53(a)). **Resolution 9**

Hedley E Berry retires by rotation and does not offer himself for re-election.

To invite the Board of Management to appoint as members of the Council of the MDU for 2007-2008 the following: **Resolution 10**

A A J Adgey *CBE MD MB BCh BAO FRCP*

A R Aitkenhead *BSc MD FRCA*

P Armstrong *FMedSci FRCP FRCP*

D F Badenoch *DM MCh FEBU FRCS*

Sir Peter Bell *MD FRCS FRCS (Ed)*

S J Bewley *MD FRCOG*

M J Blott *MB BS FRCOG*

M M BROWN *MD FRCP*

J D Budd *MA MB BChir FRCP*

R J K Caddick *BDS MGDS RCS (Edin)*

S R Cannon *FRCS*

K A V Cartwright *MA BM FRCPath FFPH*

Sir Alan Craft *MD FRCP FRCPCH FFPHM*

C C Evans *MD FRCP FRCPI*

A Fitzgerald O'Connor *MB ChB FRCS*

T E E Goodacre *MB MS LRCP FRCS*

R H Hammond *MB ChB FRCS (Ed) FRCOG*

J M Heath *BDS FDSRCS DGDPI(UK)*

A J Ireland *PhD MSc BDS FDS MOrth RCSEng*

G J Jarvis *MA (Oxon) FRCS FRCOG*

P R Kay *MB ChB BA(Maths) FRCS(G) FRCS*

W S L La Frenais *MB ChB DObsR FRCOG*

I Z MacKenzie *MA MD FRCOG DSc*

A Middleton *BSc (Ed) MB ChB MPhil*

P J Mulligan *MB ChB FRCS FRCS (Glas)*

K W Murphy *MD FRCOG FRCPI DCh*

G Neil-Dwyer *MS FRCS FRCS*

T J Norfolk *BDS MFGDP LLM*

T C O'Dowd *MA MD FRCGP MCGP*

O A Oyeboode *MB BS MD PhD FRCPSych*

R K Prasad *MB MS FRCS (Glas) FRCGP*

M A L Pringle *CBE FRCP FRCGP*

M S Richmond *BSc MB ChB*

NOTICE OF ANNUAL GENERAL MEETING OF
THE MEDICAL DEFENCE UNION LTD

B Riley MBE BSc MB BS FRCA

P Riordan-Eva MA MB BChir FRCS FRCOphth

P D Robinson PhD MB BS BDS FDS RCS (Eng)

R C G Russell MS FRCS

M Slater MBE MEd EDH FETC DipDHE

D Stanley BSc MBBS FRCS

L Turner-Stokes MA MB BS DM FRCP ARCM

R H Vickers MA BM BCh FRCS

P R Williams MA MB BChir (Cantab) MRCP

J S Wyatt FRCP FRCPCH

To re-appoint Messrs PKF (UK) LLP as auditors and to authorise the Board of Management to determine the remuneration of the auditors. **Resolution 11**

To consider and, if thought fit, pass the following resolution, which will be proposed as a Special Resolution, relating to the company's Articles of Association: **Resolution 12**

Article 61 f

Delete in its entirety.

Article 62

Delete in its entirety.

Article 73 d

Delete "the Board of Inland Revenue" and insert "HM Revenue and Customs".

By order of the Board of Management



N J Bowman
Company Secretary
24 April 2007

Registered Office
230 Blackfriars Road, London SE1 8PJ

1. Every member is entitled to attend and vote or may appoint a proxy who must be a member of the MDU. The proxy form is enclosed with this Annual Report. To be effective it must be deposited at the registered office not later than 2.00 pm on 16 September 2007.
2. Prof K A V Cartwright MA BM FRCPath FFPH is a consultant in medical microbiology. He sits on various scientific committees and lectures extensively nationally and internationally. He has also published many books and papers in his specialist subjects. Prof Cartwright is Medical Director of the Meningitis Trust, a charity. From 1995 to 2003, he was a member of the top management committee of the Public Health Laboratory Service. He was appointed as a member of the MDU's Council and Cases Committee in 2003 and has served as Cases Committee Vice-Chairman since 2006. He was appointed to the MDU's Board of Management in 2006.
3. Mr H E Clarke MA MSc FIA is an independent actuarial consultant who is well known in the City. He is a founder member of the Board of Actuarial Standards, which is part of the Financial Reporting Council and is the body responsible for setting actuarial standards. He was a partner of Deloitte & Touche from 2001 to 2005 and before that, a partner at Bacon & Woodrow from 1983 to 2001. He has specialised in non-life insurance since the mid 1980s. He was appointed to the MDU's Board of Management in 2007 and is a member of the Audit Committee.
4. Mr R J C Pearson MA FCA is a former senior partner at PKF and a past member of the Expert Witness Institute. He was appointed to the MDU's Board of Management in November 2006 and is Chairman of the MDU Audit Committee.
5. Mr K F Richardson is a non-executive director of the Simplyhealth Group, a group of companies in the healthcare insurance market, and also of two companies in the technology sector. He served on the board of the Automobile Association for many years and was Managing Director of AA Insurance. During this time he was also Chairman of Centrica Personal Finance Ltd, a joint venture with HBoS. He was appointed to the MDU's Board of Management in 2007.
6. Mr P Riordan-Eva MA MB BChir FRCS FRCOphth is a Consultant Ophthalmologist at King's College Hospital, London. He has published numerous papers and given many lectures nationally and internationally in his specialist field. He was appointed as a member of the MDU's Council and Cases Committee in 2003. He was appointed to the MDU's Board of Management in September 2006.
7. Dr M T Saunders MB BS FFFLM MRCS LRCP DObstRCOG MRCGP, formerly a General Practitioner, was appointed to the MDU's staff in 1986. He became General Manager, Professional Services and was appointed to the MDU's Board of Management in 1991. He was appointed Chief Executive in 1995.
8. Mr P D Robinson PhD MB BS BDS FDS RCS (Eng), is a former Consultant Oral & Maxillofacial Surgeon in London. He was appointed as a member of the MDU's Council and Dental Advisory Committee in 1999 and has served as the Dental Advisory Committee's Chairman since 2004. He was appointed to the MDU's Board of Management in 2004.
9. References to clause numbers in the Special Resolution are taken from the published form of the Articles of Association of the MDU prepared following the 2006 AGM. These may be seen on the MDU's internet site at www.the-mdu.com. Copies may be obtained upon application to the Company Secretary. A version of the Articles of Association showing the changes proposed is available by arrangement with the Company Secretary, and a copy will be available at the meeting.
10. The proposed changes to the Articles of Association are for the following purposes:
 - (a) The new Companies Act abolishes the age limit of directors. Articles 61f and 62 must therefore be brought in line with legislation.
 - (b) The taxation authority referred to in Article 73d has to be updated to its current name, HM Revenue & Customs.

The Articles will be re-numbered accordingly.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MEDICAL DEFENCE UNION LTD

We have audited the group and parent company financial statements ('the financial statements') of The Medical Defence Union Ltd for the year ended 31 December 2006 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.

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.

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 2006 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
Registered Auditors
London, UK
26 April 2007

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Dr C C Evans MD FRCP FRCPI

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

Mr Hedley E Berry MB BS FRCS

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Mr K F Richardson

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Dr C M Tomkins BSc(Hons) MB ChB(Hons) MBA FFLLM FRCS FRCOphth DO

Dr P R Williams MA MB BChir (Cantab) MRCGP

Company Secretary

Nicholas Bowman BSc (Econ) (Hons) ACIS

Council

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Mr T J Norfolk BDS MFGDP LLM

Mr P D Robinson PhD MB BS BDS FDS RCS (Eng)

Mrs M Slater MBE Med EDH FETC DipDHE

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Prof P S Wright BDS PhD FDSRCS

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It is vital that public policy-makers are aware of the medico-legal implications for doctors, dentists and other healthcare professionals of the changes they propose. The MDU actively represents members' medico-legal interests before a wide range of policy-makers including those in government, professional organisations and regulatory bodies.

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