

**The Medical Defence Union Limited**  
**(A Company Limited by Guarantee)**

**Directors' Report and Financial Statements**  
**for the year ended 31 December 2015**

WEDNESDAY



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**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

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**Report of the Chairman**  
**For the Year Ended 31 December 2015**

If the volume of calls we receive seeking help and advice is anything to go by, 2015 was a particularly stressful year for our members. What with the growing demands on the services provided by doctors and the rising tide of complaints against healthcare professionals generally, more doctors than ever before were leaving the profession and a growing number were becoming unwell or suffering 'burn out'.

In a study jointly funded by Health Education England and NHS England and reported in the BJGP the reasons why so many GPs below the age of fifty were leaving the NHS were examined. Not surprisingly, amongst the key drivers were overwork, stress and 'burn out'. Contributing to this was a culture of blame and fear of litigation. This unsustainable pressure on our GP members impacted on our work not only with more requests for advice but with rising numbers of claims and complaints.

I am pleased to say we rose to the challenge. By offering advice and guidance, supporting members with disciplinary procedures, GMC enquiries and coroners' inquests, as well as helping with claims, we like to think we lessened their burden a little. For ours is not an organisation that exists simply to assist with claims, but one that provides immediate guidance and support in times of need.

Our dedicated medico-legal team has the specific knowledge to support members with their problems. As doctors themselves, they understand the pressures and procedures of the medico-legal world, and time and again have proved themselves to be an invaluable resource. Also, by working in concert with organisations like the Royal Medical Benevolent Fund we were able to point members, be they doctors or medical students, to sources of further help in times of crisis and financial hardship.

Our hospital colleagues experienced similar pressure, facing long hours and often a heavy workload, and the need to belong to an organisation like the MDU is as relevant to those who work in the NHS as those who are in the private sector. Absence of suitable indemnity can potentially lead to professional and financial ruin, and for some, reliance simply on NHS indemnity led in some cases to difficulties in facing disciplinary hearings or police investigations. However, as Dr Christine Tomkins mentions in her report, when the GMC reminded doctors of the need to be suitably indemnified we were able to provide advice and support to those seeking clarification.

### **Above and beyond**

But the benefits of MDU membership extend beyond just the provision of indemnity. Our experience and commitment to providing a first class service to all our members was reflected in the unsolicited responses we received, a prime example of which arrived for one of our staff recently. 'As you are aware this sad case has been going on for at least two years,' the member wrote. 'Throughout that time I have very much appreciated your professionalism...What was equally important was your kindness and emotional support. The former you could argue was your job. The latter is very much about the person you are and is the prime reason why I wanted to write and thank you again'.

This kind of feedback sums up exactly the sort of experience we want members to have - dedicated, personal and supportive on every level, and from every department.

The MDU's rebuttal rate in dealing with accusations of clinical negligence has again been excellent in the last year, as Dr Tomkins describes in her report, with 80% of medical claims successfully defended in 2015. The claims department also receives high praise from those at the heart of their work, such as the member who wrote in to say, 'I would like to thank the DDU, yourself, and the solicitor you appointed, so very much for handling this matter...I think I have now been a member of the DDU (MDU as it was then), for fifty years - and cannot speak too highly of the help and support I have always received'. Our claims handlers' technical expertise is invaluable, but it is the deep-seated empathy for the practitioner behind each claim that resonates most strongly with members.

Our website received over 2.86 million page views during 2015. However, it was our medico-legal team, led by Dr Caroline Fryar, that often proved the first port of call for members faced with a medico-legal problem. With over 30,000 calls to our advice line in the year, our 33 medico-legal advisers (all qualified doctors, many with an additional legal qualification) can be congratulated for dealing promptly with often complex issues and receiving high satisfaction scores. Over 95% of members calling during working hours were speaking to a specialist adviser within 20 seconds, and 99% of members surveyed in 2015 said they are likely to recommend the MDU to a colleague.

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**Report of the Chairman**  
**For the Year Ended 31 December 2015**

**The bigger picture**

Of course, the work of the MDU doesn't stop there. Unmeritorious claims against GPs and consultants in independent practice must be fought, and this can be an expensive business. Equally, damages must be paid where appropriate and much of the money collected in subscriptions went towards paying damages. As a not-for-profit organisation we have to ensure the money you entrust us with is used prudently, but the damages paid out have now reached a level where defence organisations are required to seek higher and higher subscriptions from their members, whose income in real terms is dropping.

In our case, it also compels us to fight for a more reasonable and affordable system of awarding damages. That means reform of the existing law. Our Chief Executive, Dr Tomkins, elaborates further on this as well as on our progress in achieving tort reform. Our campaign for fair compensation is one more reason why belonging to the MDU is a sensible option.

Claimants' legal costs in low value claims have often been excessive. In one recent case the MDU paid the patient £4,200 in compensation and the patients' lawyer's fees were £70,000. It was good to hear in 2015 that the Department of Health and the NHS Litigation Authority were jointly considering a fixed recoverable costs scheme. A consultation is promised for 2016 and we believe it could have the merit of restoring proportionality to a system where costs have become out of proportion to the damages awarded in lower value claims.

Claims and complaints may be rising but it would be wrong to conclude that this represented a deterioration in standards of care. The climate in which doctors work can often seem difficult, but standards of care are high and our members continue to provide an excellent service to the communities they serve. Although the outlook for 2016 suggests that we can expect further disruption in the coming months, our members can rely on the MDU to be on their side and by their side throughout.

**Board and council update**

Paul Robinson stepped down as a member of the Board at the last AGM. He joined the MDU's Council and Dental Advisory Committee in 1999 and was appointed to the Board in 2004.

Sir Roger Vickers, our longest serving Council member, retired in April having joined in 1983.

Sir Alan Craft also stepped down as a member of the Board at the same time but remains on Council.

We welcomed one new clinician onto the Board in 2015, Dr Simon Watkin.

Charles Dewhurst stepped down from his role as head of legal services at the end of the year. It was he who first established our in-house legal department in 1993 and we owe him a considerable debt of gratitude for building up the department. From a team of two solicitors there are now thirty lawyers and twelve support staff. He is succeeded by Joanne Bateman.

Rupert Hoppenbrouwers, who likewise has been a long serving member and head of the DDU for over 17 years, along with his deputy Bryan Harvey, stepped down at the year-end. We extend our thanks to them both for their commitment to the company and their hard work. Their successors are John Makin and Leo Briggs, respectively.



Name **Dr Peter R Williams**  
Chairman of the board of management and President of the MDU

Date 26 April 2016

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**Group Strategic Report**  
**for the Year Ended 31 December 2015**

2015 was another challenging year for the MDU's members because of the continued financial and other pressures on the NHS and their direct impact on clinicians who work within it. The Foundation Programme figures for FY2 doctors showed that only 52% of those completing foundation training in 2015 moved on to specialist training posts within the UK, a drop from 58.5% in 2014 and higher figures in the two preceding years. It is not clear what has caused this drop, since 2012, in the number of doctors progressing from foundation to specialist training, but it calls into question morale and job satisfaction among this group of talented young doctors who should be so highly valued.

For the MDU's part we recognise that clinical negligence claims contributed to the pressure on our members. This is because the number of doctors and dentists being sued remains high, but the position is not as bleak as it may seem.

Doctors and dentists are not to blame for the rise in claims frequency and costs, which are largely driven by factors external to, and distinct from, the quality of clinical care provided. First, professional standards remain high and GMC and GDC fitness to practise statistics continue to demonstrate that there has been no deterioration in clinical standards. Second, the rise in claims numbers in the last four years is principally a result of the 2013 legal changes introduced by the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012, and an environment that facilitates and encourages the making of complaints and claims.

Third, while claims numbers have increased, so has the MDU's success in rebutting claims on behalf of our members. In 2015, we only paid compensation in 20% of medical claims and successfully defended the other 80%. Fourth, and equally important, the size of claims - that is, compensation payments of many millions - are not an indication of the 'seriousness' of the incident, nor are they indicative of any punitive award. They are solely a result of the spiralling cost of compensating severely damaged patients, which is principally caused by the legal requirement to calculate compensation awards on the assumption that care will be provided privately, irrespective of how it is in fact later sought and delivered.

The MDU continues to campaign actively for legal change to address the rising cost and number of claims, and there are some positive signs. During 2015 the Government published initial proposals for a fixed recoverable costs scheme for lower value claims, on which further consultation is promised. There has also been increased engagement with the problem from governmental and other bodies which publicly recognise the impact that high value claims are having on indemnity subscriptions. They have for the first time given public undertakings to work to reduce the cost on practitioners who have to pay for their indemnity. NHS England's reimbursement of the indemnity costs of GPs providing additional out of hours service during the winter is one example. However, the need for more radical and permanent reform remains acute and the MDU continues to press for change.

Another notable event during 2015 was the introduction of a legal requirement for indemnity by all UK healthcare professional regulators. The series of mailings to UK doctors by the General Medical Council reminding them of the need to have adequate indemnity in place led to our receiving a surge of enquiries from potential new members. This contributed in part to a growth in MDU membership, which ended 2015 with substantially increased numbers as our GP, consultant and dental membership reached an all-time high, and it is pleasing that so many new members have chosen to join the MDU.

I am sure this is because they recognise the MDU employs on behalf of its members experienced and skilled individuals and teams, who continually demonstrate through excellent results and robust defence of our members that they are the best in their fields. These words, from just one of the many members who wrote recently to thank the MDU, are typical and describe a member of staff as, 'an absolute credit to your firm and its ethos as a caring service which upholds the highest level of skill and medico-legal professionalism.'

This expertise is vital in the current adversarial climate, and although 2015 saw a slight decrease in the number of members seeking assistance from our medico-legal team, the number of requests for dento-legal assistance rose. These teams guide, support and defend members facing complaints, disciplinary procedures, regulatory body enquiries, coroners' inquests, criminal investigations and other legal or ethical difficulties arising out of their clinical practice. They are doctors and dentists with medico-legal and dento-legal training and expertise and they bring a unique combination of skills, knowledge and insight to their work in assisting and supporting members as fellow professionals.

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**Strategic report (continued)**

On the medical side, the slight drop in requests for assistance is in part a reflection of the GMC's experience of complaints during 2015. In that year the GMC also introduced a provisional enquiry process which aims to identify cases early on that are unlikely to meet the threshold where a practitioner's fitness to practise may be in doubt. Preliminary investigations then determine if the initial view is correct, and this has speeded up closure of many cases that don't need to be investigated formally. The MDU has supported the GMC in developing this process because the benefit to doctors is that cases that do not amount to potential impaired fitness to practise can be closed within a few weeks. The process is quicker and less stressful for doctors and the GMC often needs only to notify the Responsible Officer about the complaint, rather than make formal enquiries of each of the doctor's employers.

On the dental side, the slight increase in our advisory assistance work reflected a rise in requests for advice and assistance with patient complaints.

The fact there remains significantly greater overall demand for assistance from the MDU's advisory teams now than there was five years ago is explained by the relentless medico-legal climate, which continues to encourage complaints and claims against doctors and dentists.

Having experienced dramatic rises in claims between 2012-14, in advance of and after the LASPO Act 2012 was implemented in April 2013, we anticipated that claimants' solicitors would have notified all the claims signed up under the 'old style conditional fee agreement' cases just before the reforms were implemented. This appears to be the case and we saw a slight drop in new medical negligence claim notifications in 2015 when compared to 2014. Disappointingly, the increase in new dental claims files continued, though the rate of increase was more modest than in 2014.

It was again notable that the merits of medical and dental claims had not been investigated as thoroughly by claimants' solicitors' as they should have been and our claims team were able to achieve an excellent success rate, closing 80% of medical claims and just under 60% of dental claims with no damages or claimants' costs paid. These unmeritorious claims still take their toll on members and there is a considerable cost to the MDU in investigating and responding to so many of them. We cannot recover these costs from unsuccessful claimants. It is hoped there might be some relief with the proposed fixed recoverable costs scheme, which may cause claimants' solicitors to select cases more carefully so that the merit of claims, rather than the volume, becomes the driver.

Our in-house legal team had another extremely busy year and took over 700 new instructions in 2015. They support members with GMC and GDC investigations and hearings, inquests, criminal investigations and litigated claims. Between them they have over 278 years of defending doctors at the GMC, at which they excel. In 2014 over 96% of GMC cases where they assisted members were resolved without a hearing. That is an outstanding result. We monitor member satisfaction with all the MDU's services and in 2015 member feedback about the quality of the support they received from in-house and external panel solicitors was, at an average score of 4.68 out of 5 across all aspects surveyed, the highest ever recorded.

An important part of the MDU's work on behalf of members is representing your interests with the government, regulators and other bodies and our priority remains the Fair Compensation campaign for tort reform. Individual clinicians and taxpayers cannot be expected to fund indemnity costs that must reflect claims inflation, which continues to rise at around 10% (including the number and size of awards) each year. The MDU's highest payout to date was £9.2 million in compensation and costs to a patient rendered tetraplegic after spinal surgery. On behalf of a GP member, the highest payment was £8.4 million in compensation and costs after misdiagnosis of subarachnoid haemorrhage. Within seven years the cost of those compensation awards is likely to have doubled, at least. We believe many opinion formers now appreciate, as these figures demonstrate clearly, that the rising cost of indemnity is unsustainable.

The UK is not alone. Spiralling indemnity claims have, in the past, been experienced in other countries such as the USA and Australia. The only solution was tort reform and that is what we continue to advocate for the UK. Our aim is to ensure the problem is addressed in a timely and ordered manner and that it does not develop into the crises experienced in these other countries, as that would be no good for our members or for patients. Patients who are negligently damaged should receive compensation, but it is in everyone's interests that these awards are fair and affordable. I urge you to find out more about the MDU's campaign and to help us to raise awareness of the need to address the issue urgently. Details of the MDU's Fair Compensation campaign are available on the MDU's website at [themdu.com/faircomp](http://themdu.com/faircomp)

On the regulatory side, we were disappointed that the last Government didn't find time for a Bill that would allow

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**Strategic report (continued)**

regulators such as the GMC and GDC to update their fitness to practise (FTP) procedures and other aspects of their work more quickly and effectively than their current powers allow. It was not to be, and although a further consultation is promised for later in 2016, any reform, even if it happens, is a long way away. The regulators recognise the effect on and expense for registrants of their current less-than-ideal procedures and will have to do what they can to modernise within their existing rules.

The GDC, thanks in part to a postcard campaign by some DDU members, got a degree of legislative relief and will introduce case examiners in 2016. They have worked well for the GMC and they could be equally effective at the GDC. Even so, both regulators are still receiving too many cases where they spend time and registrants' fees formally investigating matters that they should be able to close earlier. We use our knowledge and experience to help them address all of this and our senior in-house legal and advisory colleagues work tirelessly with the regulators on streamlining their FTP procedures.

Our aim is to relieve members from the additional stresses of slow or delayed investigation and decision-making on cases that will not reach the FTP threshold. But if a case needs to go to a tribunal, it should be made out competently and moved ahead swiftly. We are acutely aware of the distress caused to members by a regulator's investigation, right from the first letter. We involve ourselves in every aspect of the minutiae of their FTP procedures and tribunals, with the sole aim of ensuring that regulators recognise the impact on registrants and do their best to ameliorate it. Other than when we respond to consultations, we do a lot of this behind the scenes. We never let up and are as assiduous when dealing with the procedures as a whole as we are when defending an individual member.

Elsewhere we continue to liaise with a wide range of bodies and individuals that have influence over our members collectively or individually. On your behalf it is important that we are recognised as an authoritative voice on all medico-legal matters and that our opinion counts. We put some of our acknowledged experts onto this work so that anyone who comes into contact with the MDU in this way knows that they are dealing with people who understand the detail thoroughly and whose comments and recommendations can be relied upon.

**Business review**  
**Strategy**

In each annual report I explain the combination of factors that create the backdrop against which we need to plan the MDU's long-term strategy.

As I explained above, the medico-legal climate remains harsh, and we influence development of policy and procedures through which members are scrutinised and held accountable for their treatment of patients, to the full extent that we can. We also make sure we understand the environment in which members work, including the various economic, societal and other pressures, and the impact all this has on decisions you make, both personally and professionally.

This is important to our success in meeting the company's objective of providing the highest quality support to members at the lowest cost compatible with financial security. Our core services must always meet members' needs, and we must ensure we remain in the best position to provide 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.

**Key performance indicators**

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

The MDU monitors its business activity by means of a number of key performance indicators (KPIs), which the Board considers on a quarterly basis. These KPIs are designed to track the activity and achievement of the company. They are described below in conjunction with relevant results, in order to illustrate the MDU's achievements during 2015.

*Membership statistics*

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

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**Strategic report (continued)**

*Quality of service*

We understand how important it is to members that your calls are answered as quickly as possible. I am pleased to report that our membership staff answered 96% of the 179,000 calls received, and 69% of these were answered within 20 seconds. In addition, we answered 93% of the 97,000 items of members' correspondence within five days.

We take the quality of our Membership department service seriously and only 0.07% of these contacts from our members resulted in a complaint. We aim to provide service of such a high quality that members have no cause for complaint but acknowledge that, occasionally, things do go wrong. Our aim is therefore to keep complaints from members as low as possible and when members do complain, to ensure we respond swiftly, fully and courteously.

In recognition of the high standard of service we provide to members, our membership department was again successfully reaccredited under the Customer Service Excellence Standard. This is a recognised independent benchmark of excellent service. The Standard tests in depth the areas that research shows are important to you – timeliness, accuracy, professionalism and staff attitude – and places great emphasis on how well the MDU understands our members' experience of service.

We saw growth in our Corporate membership as organisations indemnified by the MDU successfully obtained provider contracts from Clinical Commissioning Groups. We have been pleased to support our members as they seek to protect their livelihoods and expand their practice through these new contracts.

By percentage increase, our strongest area of growth has been in Scotland, where we have been able to offer doctors and dentists an attractive combination of subscription price and personal service.

We continue to look to support our members with new services and during 2015 we introduced our new digital journals. Available quarterly, this initiative offers members a high quality publication tailored to their interests with links to our comprehensive website for further reading.

In response to the change in the discount rate in Ireland, we converted our Irish members' benefits to claims made as they renewed from July onwards. We took care to explain the change with a separate mailing and the vast majority of members have renewed onto the new basis.

**Principal risks and uncertainties**

The MDU is always looking at the options open to us to ensure we best serve members' needs to the first class standard they expect, and as economically as is feasible, while still ensuring subscription income is sufficient to provide members with long-term security and peace of mind.

The MDU has a risk management procedure which includes assessment of reinsurance security including credit risk, currency risk and risks associated with financial instruments. More information is set out below. The MDU's risk policies and processes encompass areas such as staff development and training, conflicts of interest, and fair treatment of members. Risks are regularly reviewed by the Board to ensure the necessary procedures and strategies are in place to manage risks appropriately.

An assessment is given below of the principal risks:

*Increasing claims cost*

A significant increase in claims cost could affect the funding levels of the MDU. The MDU mitigates this risk in the following ways; first, by having in place highly trained claims and legal staff, managing claims on behalf of members; second, by the purchase of a well-established programme of reinsurance cover to protect against unexpected changes to claims frequency and inflation, including an assessment of the reinsurance security; third, by continuing to lobby for reform on how medical claims can best be funded. This is explained earlier in this report, where on your behalf we continue to pursue a package of reforms, including caps on future care costs and loss of earnings awards.

*Government changes that impact our members*

The MDU actively represents members' interests with the government, regulators and other bodies where there may be a medico-legal or dento-legal impact.

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**Strategic report (continued)**

*Competition*

The MDU aims to differentiate itself from the competition on the quality of service it provides to its members. We continuously monitor our status in the market and have processes in place to respond quickly to potential threats. We also monitor all areas of membership and evaluate any movements in renewals activity; leavers; junior doctor, graduate and student applications; and recruitment overall.

*Information security*

The MDU has IT and security policies and procedures in place. These policies and procedures are subject to monitoring and review by the IT and knowledge and information management departments and the information risk and security officer.

*Failure of internal controls*

The MDU has department procedures and controls in place and ensures ongoing investment in our IT systems to support the service. We also have a risk management process in place. Risks and internal controls are subject to review by internal and external audit. We have an Audit Committee that assesses the adequacy of internal controls and reports to the Board.

*Lack of effective corporate governance*

The directors' report explains the committee structures in place which help to mitigate this risk.

*Investment risk*

The MDU, through MDU Investments Limited (MDUIL), is assisted by advice from an independent investment adviser. The MDU is responsible for setting the company's investment strategy and for reviewing the investment performance of its third party fund managers. In setting our investment objectives we take into account the estimated provision for future indemnity payments, and the effect of general economic risks which include market, credit, interest rate, inflation, liquidity and currency risks.

During the year the fund managers held derivative financial instruments in order to achieve the group's financial risk management objective. These instruments involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future. The net finance income and cost of these contracts are included in note 4 to the financial statements.

**Risk characteristics of financial instruments**

*Market risk*

The MDU has adopted a prudent investment strategy that identifies the levels of risk and return acceptable in its portfolio. External professional advice is regularly sought and investment performance is subject to regular review.

Asset volatility is addressed as follows. First, by the majority of its assets being in corporate and government bonds and pooled funds which have a relatively low level of volatility compared to equities. Second, by the fact that exposure to a single issuer of any corporate bond is limited to 3% of the fund, unless specifically agreed otherwise. Third, by the use of derivative financial instruments.

*Credit risk*

The MDU manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment.

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**Strategic report (continued)**

*Interest rate risk*

The group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to interest rate risks. Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative to determine the number and type of derivatives that need to be held.

*Inflation risk*

The estimate of the MDU's indemnity provision is influenced by the likely cost of future claims, some of which can take many years to settle and are affected by compensation for future costs and losses, such as loss of earnings and cost of future care. Such costs are affected by inflation, and therefore to mitigate this risk the MDU holds investments in UK index-linked government gilts and UK index-linked corporate bonds, which by their very nature provide protection against movements in inflation.

*Liquidity risk*

This year the level of total assets less current liabilities and creditors has increased by £140m while the estimate of known provisions and pension asset/(liability) has increased by £86m. The MDU group monitors the likely timing of the payment of its claims liabilities, and its policy is to finance these through matching subscription and other receipts, and investment assets. As the group's investment assets are mostly in easily traded financial instruments or cash, the group ensures that any liquidity risk is minimal.

*Currency risk*

The MDU group's financial risk management objective is broadly to seek to realise neither profit nor loss from exposure to currency rate risks. The group monitors its likely exposure to non-sterling claims and advisory costs, and its policy is, where possible, to finance these through matching subscription and other receipts, and investment assets, held in the same currency. Where investments are held in non-sterling currencies, the exchange rate risk is hedged.

**Change in accounting standards**

This year's financial statements are presented using the requirements set out in the new Financial Reporting Standard 102 (FRS 102). The MDU transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2015, restating 2014 comparative figures. An explanation of how the transition to FRS 102 has affected the reported financial position and performance is given in note 26.

In summary, the significant changes relate to the increases or decreases in fair value of investments which are now fully reported in the consolidated statement of comprehensive income.

**Financial performance**

Every quarter the Board reviews the MDU's overall financial performance including subscription levels, reinsurance premiums, claims payments, legal costs and claims reserves. Details are given in the financial review, but the key figures are as follows.

The MDU's net assets now total £253m (2014: £199m) after indemnity, insurance, other provisions and pension asset/liabilities of £406m (2014: £320m). This figure does not represent the total potential liability of our members since it excludes incurred but not reported cases (IBNR). As these are notified they can be picked up by the MDU under its discretionary indemnity provided to members.

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**Strategic report (continued)**

**Financial review**

**Income**

Total subscription income for the year ended 31 December 2015 was £248.1m (2014: £233.0m), of which 98.9% was received from our UK members, the remainder, amounting to £2.8m, being from our members in Ireland.

**Expenditure**

In 2015 the MDU paid out £39.6m (2014: £43.5m) in discretionary indemnity claims and legal costs, of which £1.6m relates to our Irish members' claims.

Insurance and reinsurance premiums in 2015 were £17.9m (2014: £20.1m).

Medical and dental advisory costs amounted to £28.8m in 2015 (2014: £26.5m), the increase of £2.3m reflecting enhancements in the medical and dental advisory services for our members.

Administration and finance costs in 2015 were £24.7m (2014: £23.4m).

**Result after tax**

The total comprehensive income, including investment income, net of tax, is £54.1m in 2015 (2014: £25.5m). This surplus is to fund future expenditure on indemnity, legal and advisory costs, supporting our members throughout their professional lives.

**Assets/indemnity provision**

The Statement of Financial Position for the MDU now shows total assets less current liabilities and creditors of £659m, compared to £519m in 2014.

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

No provision is made for discretionary indemnity claims that may arise from incidents occurring before the Statement of Financial Position date but not reported to the MDU at that date, or for defendant legal costs. As these claims are notified to us they can be picked up by the MDU under its discretionary indemnity provided to members.

The level of indemnity and insurance provision (see note 19) has been estimated on the advice of the company actuary, taking all the above factors into consideration, and is shown in the accounts at £408m (2014: £313m).

In summary, the MDU is a not-for-profit mutual owned by its members. We concentrate on providing the best advisory, risk management and claims handling service to members, while controlling costs and managing funds prudently for members' financial security.

This strategic report was approved by order of the board of management.

**Dr Christine Tomkins**  
Chief executive



For and on behalf of the board of management.

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**Directors' Report**  
**For the Year Ended 31 December 2015**

The directors present their report and the financial statements for the year ended 31 December 2015.

**Activities**

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

The MDU continues to set subscriptions which the directors, on the advice of the company actuary, consider sufficient for overheads and foreseeable discretionary indemnity payments and legal costs.

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

Until the end of March 2013, through MDU Services Limited (MDUSL), the group provided paying members in the UK with insurance policies against claims of clinical negligence. These are underwritten by SCOR UK Company Limited and International Insurance Company of Hannover SE. MDUSL, a wholly owned subsidiary of the MDU, is authorised and regulated by the Financial Conduct Authority as an insurance intermediary.

MDU Investments Limited (MDUIL), a wholly-owned subsidiary of the MDU, manages investments on behalf of the MDU. Funds are invested with third party investment managers and MDUIL does not undertake any direct investment activity.

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

**Directors**

The following served as directors in 2015:

<b>Board member</b>		<b>No. of meetings attended*</b>
P R Williams	1 3 4 5	6
K A V Cartwright	1	6
H E Clarke	1 2 4 5	6
Sir Alan W Craft	7	3
W R J Dinning	4 5	6
N A Dungay	4	6
C L A Edginton	1 4 5	4
M M Gallivan	4 5	6
C W Heron	2 4	6
I D Hutchinson	1 2 3 4 5	6
M T Lee	4	6
P Riordan-Eva	1 2 3 4 5	6
P D Robinson	2 4 7	3
O C E Sparrow	8	4
C M Tomkins	1 3 4 5	6
S W Watkin	6	2
P D Webster	1 2 4 5	6

- 1 Members of the remuneration committee
- 2 Members of the audit committee
- 3 Members of the nomination committee
- 4 Directors of MDU Services Limited
- 5 Members of the investments committee of MDU Investments Limited
- 6 Appointed 15 September 2015
- 7 Retired 15 September 2015
- 8 Appointed on 28 April 2015
- \* 6 meetings were held throughout the year

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Directors' Report**  
**For the Year Ended 31 December 2015**

In accordance with the articles of association, the following directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next annual general meeting:

C W Heron  
I D Hutchinson  
M T Lee  
P Riordan-Eva

S W Watkin was appointed by the Board and will stand for election at the next annual general meeting in accordance with article 54.

K A V Cartwright retires by rotation under article 49 but will not put himself forward for re-election.

The MDU's articles of association give the members of the Board an indemnity (including qualifying third party indemnity provisions within the meaning of section 234 Companies Act 2006, which were in force during the year ended 31 December 2015 and remain in force) against liabilities incurred in relation to the affairs of the MDU. The group also purchases directors' and officers' liability insurance which gives appropriate cover for legal action brought against directors of group companies.

#### **Corporate governance**

Set out below is a summary of the MDU's approach to corporate governance. The participation of MDU members on the Board is a particular feature and strength of the governance arrangements.

There are four executive directors, two of whom are also MDU members. The Board has five 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 six non-executives with MDU membership, who may receive fees as Board members and as expert witnesses. The Board does not consider that this compromises their independence as Board members. All the non-executive directors are therefore considered to be independent. The non-executive directors are sufficiently strong in numbers and independence to provide a proper balance on the Board.

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

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

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

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

The Board met six times in the year. The attendance record of the directors at the Board meetings is set out on page 10. 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.

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Directors' Report**  
**For the Year Ended 31 December 2015**

**Audit committee**

The Board has an audit committee, which meets as often as necessary. The committee is chaired by Mr I D Hutchinson, a non-executive director without MDU membership. Mr Hutchinson is a chartered accountant. 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 company actuary each year, reviews the results of his work and receives and considers a report from consulting actuaries on their peer review.

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

**Nomination committee**

The Board's nomination committee, chaired by the chairman of the Board, makes recommendations on the appointment of directors. Membership of the nomination committee comprises the chairman and vice-chairman of the Board, the chairman of the audit committee and the chief executive. Other Board members may be co-opted by the committee according to the nature of the vacancy under consideration. 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 strategic report at pages 6 to 8.

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, review the effectiveness of the risk management and internal control of the group.

**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.

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Directors' Report**  
**For the Year Ended 31 December 2015**

**Relations with members**

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

**Disabled employees**

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

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

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

**Staff involvement**

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

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

**Statement of directors' responsibilities**

The directors are responsible for preparing the Group Strategic Report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the surplus or deficit of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Directors' Report**  
**For the Year Ended 31 December 2015**

**Provision of information to auditor**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

By order of the board of management

*N J Bowman*

**N J Bowman**  
Company secretary

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

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

We have audited the financial statements of The Medical Defence Union Limited for the year ended 31 December 2015 which comprise the consolidated Statement of Comprehensive Income, the consolidated and company Statement of Financial Position, the consolidated and company Statement of cash flows, the consolidated and company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

**Respective responsibilities of directors and auditors**

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

**Scope of the audit of the financial statement**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

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

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

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

**Matters on which we are required to report by exception**

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

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

*BDO LLP*

Jason Homewood (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
Date *27/4/16*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**THE MEDICAL DEFENCE UNION LIMITED**  
(A Company Limited by Guarantee)

**Consolidated statement of comprehensive Income**  
**For the year ended 31 December 2015**

	Note	2015 £000	2014 £000
Members' subscriptions		<b>248,050</b>	232,988
<b>Less</b>			
Medical and dental advisory services		<b>(28,820)</b>	(26,489)
Indemnity, legal, reinsurance and insurance costs	6	<b>(134,034)</b>	(148,087)
Administrative costs		<b>(20,317)</b>	(21,229)
Finance costs	7	<b>(4,405)</b>	(2,189)
		<hr/>	<hr/>
<b>Operating surplus</b>		<b>60,474</b>	34,994
Changes in fair value of investments	3	<b>(14,091)</b>	(11,908)
Net investment income	4	<b>904</b>	5,935
Interest payable	5	<b>(1,266)</b>	(707)
		<hr/>	<hr/>
<b>Income and expenditure before taxation</b>		<b>46,021</b>	28,314
Taxation	10	<b>2,829</b>	2,824
		<hr/>	<hr/>
<b>Income and expenditure after taxation</b>		<b>48,850</b>	31,138
		<hr/>	<hr/>
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on pension scheme		<b>5,200</b>	(5,600)
		<hr/>	<hr/>
<b>Total other comprehensive income</b>		<b>5,200</b>	(5,600)
		<hr/>	<hr/>
<b>Total comprehensive income for the year</b>		<b>54,050</b>	25,538
		<hr/> <hr/>	<hr/> <hr/>

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**  
**Registered number:21708**

**Consolidated statement of financial position**  
**As at 31 December 2015**

	Note	2015 £000	2014 £000
<b>Fixed assets</b>			
Tangible assets	11	18,553	18,778
Investments	12	885,092	585,771
		903,645	604,549
<b>Current assets</b>			
Debtors: Amounts falling due after more than one year	14	31,113	22,365
Debtors: Amounts falling due within one year	14	16,947	50,850
Cash at bank and in hand		17,414	14,293
		65,474	87,508
Creditors: Amounts falling due within one year	16	(274,915)	(140,670)
		(209,441)	(53,162)
<b>Net current liabilities</b>			(53,162)
		694,204	551,387
<b>Total assets less current liabilities</b>			551,387
Creditors: Amounts falling due after more than one year	15	(35,172)	(32,248)
<b>Provisions</b>			
Indemnity and insurance	19	(407,651)	(312,738)
Other provisions	19	(2,330)	(2,300)
		249,051	204,101
<b>Net assets excluding pension scheme</b>			204,101
Pension asset/(liability)	21	4,100	(5,000)
		253,151	199,101
<b>Net assets including pension scheme</b>		253,151	199,101
<b>Reserves</b>			
Revaluation reserve		(17,188)	1,054
Retained earnings		270,339	198,047
		253,151	199,101
		253,151	199,101

The financial statements were approved and authorised for issue by the Board on 26 April 2016 and were signed on its behalf by

**C M Tomkins**  
Chief executive



**P R Williams**  
Chairman



**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**  
**Registered number:21708**

**Company statement of financial position**  
**As at 31 December 2015**

	Note	2015 £000	2014 £000
<b>Fixed assets</b>			
Investments	12	15,160	5,160
		15,160	5,160
<b>Current assets</b>			
Debtors: Amounts falling due after more than one year	14	31,113	22,365
Debtors: Amounts falling due within one year	14	609,400	470,655
Cash at bank and in hand		3,220	6,403
		643,733	499,423
Creditors: Amounts falling due within one year	16	(170)	(137)
		643,563	499,286
<b>Net current assets</b>		<b>643,563</b>	<b>499,286</b>
<b>Total assets less current liabilities</b>		<b>658,723</b>	<b>504,446</b>
<b>Provisions</b>			
Indemnity and insurance	19	(407,651)	(312,738)
		(407,651)	(312,738)
<b>Net assets excluding pension scheme</b>		<b>251,072</b>	<b>191,708</b>
Pension asset / (liability)	21	4,100	(5,000)
<b>Net assets including pension scheme</b>		<b>255,172</b>	<b>186,708</b>
<b>Reserves</b>			
Retained earnings		255,172	186,708
		<b>255,172</b>	<b>186,708</b>

The financial statements were approved and authorised for issue by the Board on 26 April 2016 and were signed on its behalf by

C M Tomkins  
Chief executive



P R Williams  
Chairman



**THE MEDICAL DEFENCE UNION LIMITED**  
(A Company Limited by Guarantee)

**Consolidated Statement of changes in equity**  
**As at 31 December 2015**

	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	1,054	198,047	199,101
Result after taxation	(14,091)	62,941	48,850
Actuarial gain on pension scheme	-	5,200	5,200
	<u>(13,037)</u>	<u>266,188</u>	<u>253,151</u>
Realised on disposal of investments	(4,151)	4,151	-
<b>At 31 December 2015</b>	<u><u>(17,188)</u></u>	<u><u>270,339</u></u>	<u><u>253,151</u></u>

**Consolidated Statement of changes in equity**  
**As at 31 December 2014**

	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2014	13,249	160,314	173,563
Result after taxation	(11,908)	43,046	31,138
Actuarial loss on pension scheme	-	(5,600)	(5,600)
	<u>1,341</u>	<u>197,760</u>	<u>199,101</u>
Realised on disposal of investments	(287)	287	-
<b>At 31 December 2014</b>	<u><u>1,054</u></u>	<u><u>198,047</u></u>	<u><u>199,101</u></u>

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Company Statement of Changes in Equity**  
**As at 31 December 2015**

	Retained earnings £000	Total equity £000
At 1 January 2015	186,708	186,708
Result after taxation	63,264	63,264
Actuarial gain on pension scheme	5,200	5,200
<b>Total comprehensive income for the year</b>	<b>68,464</b>	<b>68,464</b>
<b>At 31 December 2015</b>	<b>255,172</b>	<b>255,172</b>

**Company Statement of Changes in Equity**  
**As at 31 December 2014**

	Retained earnings £000	Total equity £000
At 1 January 2014	155,755	155,755
Result after taxation	36,553	36,553
Actuarial loss on pension scheme	(5,600)	(5,600)
<b>Total comprehensive income for the year</b>	<b>30,953</b>	<b>30,953</b>
<b>At 31 December 2014</b>	<b>186,708</b>	<b>186,708</b>

The notes on pages 24 to 47 form part of these financial statements.

**THE MEDICAL DEFENCE UNION LIMITED**  
(A Company Limited by Guarantee)

**Consolidated Statement of Cash Flows**  
**For the Year Ended 31 December 2015**

	2015	2014
	£'000	£'000
<b>Cash flows from operating activities</b>		
Income and expenditure after taxation	48,850	31,138
<b>Adjustments for:</b>		
Depreciation of tangible fixed assets	2,689	1,818
Loss on disposal of tangible fixed assets	54	278
Foreign exchange differences	(689)	35
Net fair value losses	14,091	11,908
Increase in provisions (indemnity & other)	95,022	122,795
Losses on disposal of investments	1,264	1,536
Non cash investment expense	1,653	(1,197)
Finance charge on pension scheme	200	-
Increase/(decrease) in deferred taxation	(2,829)	(2,824)
Decrease/(increase) in debtors (excluding taxation)	27,251	(39,171)
Increase/(decrease) in creditors	754	4,834
Payments made - other provisions	(79)	-
Pension contributions made in excess of service cost	(4,100)	(900)
Corporation tax recovered	733	1,062
<b>Net cash generated from operating activities</b>	<u>184,864</u>	<u>131,312</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(4,346)	(14,812)
Sale of tangible fixed assets	31	4
Purchase of investments	(538,177)	(188,267)
Sale of investments	200,380	88,081
Movement in other liquid resources	25,491	(25,770)
Purchase of derivative contracts	(5,649)	(1,043)
<b>Net cash from investing activities</b>	<u>(322,270)</u>	<u>(141,807)</u>
<b>Cash flows from financing activities</b>		
Increase in bank borrowings	16,640	7,300
Increase in other bank borrowings	123,887	-
<b>Net cash used in financing activities</b>	<u>140,527</u>	<u>7,300</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	3,121	(3,195)
Cash and cash equivalents at beginning of year	<u>14,293</u>	<u>17,488</u>
Cash at bank in hand	<u>17,414</u>	<u>14,293</u>

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Company Statement of Cash Flows**  
**For the Year Ended 31 December 2015**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>		
Income and expenditure after taxation	<b>63,264</b>	36,553
<b>Adjustments for:</b>		
Decrease/(increase) in debtors	<b>25,169</b>	(37,519)
(Decrease)/increase in creditors	<b>33</b>	(2,090)
Increase/(decrease) in amounts receivable from subsidiary undertakings	<b>(172,662)</b>	(124,634)
Pension contributions made in excess of service cost	<b>(4,100)</b>	(900)
Increase in indemnity provision	<b>94,913</b>	120,495
Loss on disposal of tangible fixed assets	<b>-</b>	26
Finance cost on pension scheme	<b>200</b>	-
<b>Net cash generated from operating activities</b>	<b><u>6,817</u></b>	<b><u>(8,069)</u></b>
<b>Cash flows from investing activities</b>		
Purchase of ordinary shares in subsidiary undertaking	<b>(10,000)</b>	-
<b>Net cash from investing activities</b>	<b><u>(10,000)</u></b>	<b><u>-</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(3,183)</b>	(8,069)
Cash and cash equivalents at beginning of year	<b><u>6,403</u></b>	<b><u>14,472</u></b>
Cash at bank in hand	<b><u><u>3,220</u></u></b>	<b><u><u>6,403</u></u></b>

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**1. Accounting policies**

**1.1 Basis of preparation of financial statements**

These financial statements for the year-ended 31 December 2015 are the first financial statements of the Medical Defence Union Limited that comply with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. The date of transition to FRS 102 was 1 January 2015.

The transition to FRS 102 has resulted in a small number of changes in accounting policies compared to those used previously. Note 26 to the financial statements describes the effect the transition has had on opening equity and total comprehensive income for the comparative period.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed asset investments and certain financial liabilities included within creditors and in accordance with Financial Reporting Standard FRS 102 and the Companies Act 2006.

The following principal accounting policies have been applied:

**1.2 Basis of consolidation**

The group statement of comprehensive income and financial position consolidate the financial results of the company and its subsidiary undertakings for the year ended 31 December 2015. No statement of comprehensive income is presented for the Medical Defence Union Limited as permitted by section 408 of the Companies Act 2006

**1.3 Members' subscription**

Members' subscriptions consist of subscriptions for members' services. These are accounted for on the basis of amounts received by the group before the statement of financial position date, without apportionment.

Subscriptions retained by the company and group 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.

**1.4 Insurance premiums payable**

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.

**THE MEDICAL DEFENCE UNION LIMITED**  
**(A Company Limited by Guarantee)**

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**1. Accounting policies (continued)**

**1.5 Indemnity, legal, reinsurance and insurance costs**

Expenditure on indemnity payments, including the movement on the indemnity and insurance 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. These costs include claimants' 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.

**1.6 Indemnity and insurance provision**

Provision is made for the estimated outstanding cost of settlement including insurance premiums and for related claimants' costs for discretionary indemnity cases from all reported incidents notified as at the statement of financial position date. The gross provision is calculated by the company actuary and peer reviewed by consulting actuaries.

No provision is made for claims that may arise from incidents occurring before the statement of financial position date but not reported to the group at that date (IBNR) nor for defendant legal costs, nor for claims where The Medical Defence Union Limited has not exercised its discretion to assist.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the company actuary. 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 1.30% (2014: 1.04%) per annum.

The principal financial assumptions used in the actuary's calculation of the gross indemnity provision for the company and the group are that claims inflation will be RPI plus 4.5% per annum (2014: RPI plus 4.5% per annum) over the period of settlement and that a net discount rate of 1.65% per annum (2014: 0.95% net per annum) is used to discount the claims payments to the Statement of Financial Position date.

**1.7 Other Provisions**

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Unless these conditions are met, no provision is recognised.

Subsequently, provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

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**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**1. Accounting policies (continued)**

**1.8 Tangible fixed assets**

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:

The estimated useful lives range as follows:

Long-term leasehold property	-	15 years
Furniture, office equipment, computer equipment and software	-	3 - 10 years

**1.9 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 statement of financial position date or the appropriate forward contract rate. All differences are taken to the income and expenditure account.

**1.10 Taxation**

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

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

Where gains and losses are recognised in the income and expenditure account, the related taxation is also taken directly to the income and expenditure account.

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**1. Accounting policies (continued)**

**1.11 Investments**

(i) Recognition

Initial recognition of investment financial assets/liabilities occurs when the entity becomes party to the contractual provisions of the instrument. The investment financial asset/liability is recognised initially at the transaction price (including transaction costs). For commercial real estate loans, arrangement fees paid upfront by the borrower are recognised as deferred income on the date the facility is drawn.

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

(ii) Subsequent Measurement

Investment financial assets and liabilities at the statement of financial position date are subsequently measured at market value or amortised cost.

*Financial assets/liabilities at fair value:*

Financial assets and liabilities measured at fair value, include; gilts, bonds, equities, pooled funds, short sold government bonds and derivative contracts. Subsequently, movements on revaluation are accounted for through the income and expenditure account. At the year end, changes in fair value recognised through the income and expenditure account are transferred to the revaluation reserve.

*Financial assets/liabilities at amortised cost:*

Financial assets and liabilities measured at amortised cost, include; commercial real estate loans, certain loans receivable and cash and cash equivalents held with investment managers. Commercial real estate loans are carried at cost with a consideration for impairment. Fair value was not selected for commercial real estate loans since market valuations are not readily available. Arrangement fees are credited to the income and expenditure account over the term to maturity of the facility.

(iii) Derecognition

A financial asset is derecognised when: the contractual rights to cash flows expire or are settled, substantially all the risks and rewards of ownership are transferred to another party, or some of the risks and rewards are transferred to another party, in addition, control of the asset is transferred to that party such that the other party will be able to sell the whole asset externally without any restrictions.

When some significant risks and rewards are retained by the entity and the entity retains control of the asset, this does not result in derecognition of the asset, but instead the recognition of a financial liability for the consideration received. These are not offset. On derecognition, the proceeds are compared to the carrying value and the resulting gain or loss, credited or charged to the income and expenditure account.

(iv) Derivatives

Derivative financial instruments "derivatives" are held and traded in conjunction with the groups' risk management objectives. Derivatives are defined as a financial instrument that derives its value from the price or rate of some underlying item. Derivatives are carried on the statement of financial position at market value ("marked to market"). Derivatives with a positive market value are included within investments, those with a negative market value are shown as liabilities. Changes in that value are recognised in the income and expenditure account. This method is used for all derivatives which are held for trading purposes.

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**1. Accounting policies (continued)**

**1.12 Investment income**

Investment income includes; interest, dividends, coupons, foreign exchange gains/(losses), swap settlements and deferred arrangement fees (see note 1.11).

Investment income is accounted for on an accruals basis.

**1.13 Operating lease**

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

Lease incentives

- (i) Landlord contributions are initially recognised as a deferred income liability on the Statement of Financial Position. These contributions are then released to administrative expenses over the length of the lease.
- (ii) During a rent-free period, a liability is built up on the balance sheet which is then charged to the income and expenditure account over the life of the lease. Rent free periods are not discounted.

**1.14 Pension costs**

The group operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme.

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

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

The assets of the defined benefit pension scheme are measured at their market value at the statement of financial position 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.

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**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**1. Accounting policies (continued)**

The extent to which the scheme's assets exceed/fall short of their liabilities is shown as a surplus/deficit in the balance sheet to the extent that a surplus is recoverable by the company or that a deficit represents an obligation of the company. The following are charged to the income and expenditure account:-

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

Actuarial gains and losses are recognised in other comprehensive income.

**2. Employee information**

	<b>2015</b>	2014
	<b>£000</b>	£000
Salaries	<b>25,306</b>	23,654
Social security costs	<b>2,921</b>	2,734
Pension costs-defined benefit scheme	<b>2,500</b>	2,000
Pension costs-defined contribution scheme	<b>1,409</b>	1,269
Other staff costs	<b>1,594</b>	1,199
	<b>33,730</b>	30,856
	<b>33,730</b>	30,856

	<b>2015</b>	2014
	<b>£000</b>	£000
Average number of employees in the year	<b>438</b>	421
	<b>438</b>	421
	<b>438</b>	421

**3. Changes in fair value of investments**

	<b>2015</b>	2014
	<b>£000</b>	£000
Changes in fair value - assets	<b>(17,042)</b>	25,616
Changes in fair value - liabilities	<b>2,951</b>	(37,524)
	<b>(14,091)</b>	(11,908)
	<b>(14,091)</b>	(11,908)

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**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**4. Net investment income**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Exchange rate movements	<b>689</b>	(35)
Bond and interest income	<b>7,328</b>	5,289
Bank interest	<b>251</b>	254
Other investment income	<b>(6,100)</b>	1,963
Loss on disposal of investments	<b>(1,264)</b>	(1,536)
	<b>904</b>	5,935

Investment income from listed investments in the year was £6.9m (2014: £6.3m)

**5. Interest payable**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Bank interest	<b>1,266</b>	707

**6. Indemnity, legal, reinsurance and insurance costs**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Insurance and reinsurance premiums	<b>17,889</b>	20,116
Increase in indemnity and insurance provision (see note 19)	<b>128,777</b>	154,879
Premium element adjustment (see note 1.4)	<b>(11,913)</b>	(35,536)
Legal costs	<b>16,507</b>	14,920
Reinsurance recoveries (including the movement in reinsurance provision)	<b>(17,226)</b>	(6,292)
	<b>134,034</b>	148,087

**7. Finance cost**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Finance cost relating to indemnity and insurance provision (see note 19)	<b>4,205</b>	2,189
Finance cost relating to pension provision (see note 21)	<b>200</b>	-
	<b>4,405</b>	2,189

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**Notes to the Financial Statements**  
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**8. Result before taxation**

The result before taxation has been arrived at after charging the following:

	<b>2015</b>	2014
	<b>£000</b>	£000
Depreciation (see note 11)	<b>2,689</b>	1,844
Loss on disposal of fixed assets	<b>54</b>	278
Operating lease rentals - land and buildings	<b>1,882</b>	2,199
Operating lease rentals - office equipment	-	4
Operating lease rentals - motor vehicles	<b>216</b>	208
<b>Fees payable to the company's auditors and its associates:</b>		
- for the audit of the company's accounts	<b>63</b>	56
- for the audit of accounts of subsidiaries	<b>73</b>	70
- for tax services	<b>290</b>	232
Defined contribution pension cost	<b>1,409</b>	1,269
Defined benefit pension cost (see note 21)	<b>2,500</b>	2,000
	<b>2,500</b>	2,000

**9. Directors' remuneration**

	<b>2015</b>	2014
	<b>£000</b>	£000
Fees	<b>492</b>	460
Directors' emoluments	<b>1,416</b>	1,128
Amounts due and receivable under long-term incentive plans	<b>202</b>	267
	<b>2,110</b>	1,855

The highest paid director in the year earned:

	<b>2015</b>	2014
	<b>£000</b>	£000
Emoluments (including short-term incentive plans (STIP) and benefits under the long-term incentive plan (LTIP))	<b>779</b>	525
Accrued annual pension (excluding indexation)	<b>147</b>	177
	<b>926</b>	702

Retirement benefits are accruing to two directors (2014: 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 six (2014: five) of the non-executive directors received fees totalling £46,000 (2014: £61,000) for acting as expert witnesses on behalf of members.

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**Notes to the Financial Statements**  
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**Directors remuneration (continued)**

	Fee/Salary £000	Benefits [i] £000	STIP/ LTIP [ii] £000	Other [iii] £000	2015 £000	2014 £000
<b>Executive directors</b>						
C M Tomkins	302	19	186	272	779	525
M M Gallivan	194	17	104	-	315	324
N A Dungay	123	15	66	-	204	212
M T Lee	198	15	107	-	320	334
	<b>817</b>	<b>66</b>	<b>463</b>	<b>272</b>	<b>1,618</b>	<b>1,395</b>

	Fees/Salary £000	Other [iv] £000	2015 £000	2014 £000
<b>Non-executive directors</b>				
P R Williams	76	11	87	79
K A V Cartwright	23	28	51	50
H E Clarke	35	6	41	40
A W Craft	7	12	19	22
W R J Dinning	35	3	38	11
C L A Edginton	35	5	40	39
C W Heron	17	22	39	30
I D Hutchinson	42	5	47	48
K F Richardson	-	-	-	27
P Riordan-Eva	35	12	47	54
P D Robinson	7	10	17	20
O C E Sparrow	7	7	14	-
S W Watkin	3	8	11	-
P D Webster	35	6	41	40
	<b>357</b>	<b>135</b>	<b>492</b>	<b>460</b>

**[i]** Benefits include car allowances, medical and other benefits in kinds or their equivalent monetary value.

**[ii]** STIP represents those amounts that have been paid in 2015 and amounts accrued in respect of the year to 31 December 2015. The STIP is determined by comparing actual performance against set targets for the key performance indicators over the year.

LTIP represents those amounts that have been paid in 2015 and amounts accrued in respect of the year ended 31 December 2015. 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.

**[iii]** The "other" amount for C M Tomkins represents a one-off payment in return for the surrendering of certain pension rights.

**[iv]** "Other" represents expenses paid to Board members and any fees and expenses for attendance at council and committee meetings other than MDU Board and its related committees.

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**Notes to the Financial Statements**  
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**10. Taxation**

	<b>2015</b>	2014
	<b>£000</b>	£000
Timing differences	<b>3,407</b>	2,967
Adjustments for prior periods	<b>133</b>	-
Difference in tax rate on deferred tax movement	<b>(711)</b>	(143)
	<b>2,829</b>	2,824
<b>Taxation credit</b>	<b>2,829</b>	2,824

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%). Reconciling items are explained below:

	<b>2015</b>	2014
	<b>£000</b>	£000
Result from mutual activities before taxation	<b>46,021</b>	28,314
	<b>46,021</b>	28,314
Result before taxation multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.49%)	<b>9,319</b>	6,085
<b>Effects of:</b>		
Net mutual income not subject to corporation tax	<b>(12,803)</b>	(7,891)
Expenses not deductible for tax	<b>2,631</b>	117
Adjustments to brought forward value	-	(3,869)
Non allowable depreciation	<b>148</b>	125
Other permanent differences	-	2,344
Adjustments in respect of prior periods	<b>(133)</b>	-
Non-taxable income	<b>(2,701)</b>	(82)
Difference in tax rate on deferred tax movement	<b>711</b>	344
Deferred tax not recognised	<b>(1)</b>	3
	<b>(2,829)</b>	(2,824)
<b>Total tax (credit) for the year</b>	<b>(2,829)</b>	(2,824)

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**Notes to the Financial Statements**  
**For the Year Ended 31 December 2015**

**11. Tangible fixed assets**

**Group**

	Long-term leasehold property £000	Furniture, office equipment, computer equipment and software £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2015	10,577	14,117	24,694
Additions	-	2,549	2,549
Disposals	(85)	(1,122)	(1,207)
<b>At 31 December 2015</b>	<b>10,492</b>	<b>15,544</b>	<b>26,036</b>
<b>Depreciation</b>			
At 1 January 2015	-	5,916	5,916
Charge for the year	683	2,006	2,689
Disposals	-	(1,122)	(1,122)
<b>At 31 December 2015</b>	<b>683</b>	<b>6,800</b>	<b>7,483</b>
<b>At 31 December 2015</b>	<b>9,809</b>	<b>8,744</b>	<b>18,553</b>
At 31 December 2014	10,577	8,201	18,778

Included in furniture, office equipment, computer equipment and software is £nil in respect of assets in the course of construction (2014: £2,137,000)

**12. Fixed asset investments**

**Group**

	Investments in cash & cash equivalents £000	Funds held by Investment Managers £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2015	35,276	550,495	585,771
Additions	-	538,177	538,177
Disposals	-	(200,380)	(200,380)
Foreign exchange movement	-	689	689
Revaluation of investments	-	(17,042)	(17,042)
Net movement in cash and accrued income	(25,386)	(959)	(26,345)
Profit/(loss) on disposal	-	4,222	4,222
<b>At 31 December 2015</b>	<b>9,890</b>	<b>875,202</b>	<b>885,092</b>
At 31 December 2014	35,276	550,495	585,771

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**Notes to the Financial Statements**  
For the Year Ended 31 December 2015

**12. Fixed asset investments (continued)**

**Company**

	<b>Investments in subsidiary companies £000</b>
<b>Cost or valuation</b>	
At 1 January 2015	5,160
Additions	10,000
<b>At 31 December 2015</b>	<b>15,160</b>
At 31 December 2014	5,160

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

During the year, the company increased its investment in MDU Investments Limited by a further £10m.

Dormant companies are disclosed in note 27.

**13. Analysis of funds held by investment managers**

	2015 %	2015 £000	2014 %	2014 £000
UK index-linked government gilts [i]	26.3	230,201	42.3	232,829
Sterling index-linked corporate bonds	7.3	63,622	11.8	65,223
Sterling fixed interest corporate bonds	0.2	1,884	2.4	13,195
UK equities	2.1	18,336	2.6	14,177
Overseas equities	2.7	23,519	4.1	22,656
Cash and liquidity balances	0.9	7,483	1.4	7,571
Pooled funds [ii]	40.6	354,959	28.5	156,743
Commercial real estate loans [iii]	5.6	48,614	6.9	38,101
Loans receivable [iv]	14.5	126,584	-	-
	<b>100</b>	<b>875,202</b>	<b>100</b>	<b>550,495</b>
	<b>100</b>	<b>875,202</b>	<b>100</b>	<b>550,495</b>

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**Analysis of funds held by investment managers (continued)**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
<b>Valuation basis of investments</b>		
Fair value	<b>692,522</b>	504,823
Amortised cost [v]	<b>182,680</b>	45,672
	<b>875,202</b>	550,495
	<b>875,202</b>	550,495

- [i]** Index linked gilts include the assets with a carrying value of £141.2m (2014 : £127.0m) provided as collateral against the bank borrowings detailed in note 16.
- [ii]** Pooled funds represent investments in funds that hold short term debt and similar instruments; medium to long term debt; and diversified assets that aim to balance equity, interest rate and inflation risks.
- [iii]** Commercial real estate loans are syndicated loans made via an investment manager to the UK's commercial property sector. These loans are secured against the underlying property.
- [iv]** Loans receivable are loans made to banks. Collateral of £126.6m was provided by the counterparties
- [v]** Fixed asset investments at amortised cost, include; commercial real estate loans, loans receivable and cash and cash equivalents with investment managers.

**14. Debtors**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Due after more than one year</b>				
Reinsurance and insurance recoveries	<b>31,113</b>	22,365	<b>31,113</b>	22,365
	<b>31,113</b>	22,365	<b>31,113</b>	22,365
	<b>31,113</b>	22,365	<b>31,113</b>	22,365
	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Due within one year</b>				
Reinsurance and insurance recoveries	<b>3,400</b>	1,284	<b>3,400</b>	1,284
Amounts owed by subsidiary undertakings	-	-	<b>601,509</b>	428,847
Other debtors	<b>1,434</b>	3,358	-	-
Prepayments and accrued income	<b>6,086</b>	6,740	<b>4,491</b>	4,988
Premium element adjustment	-	35,536	-	35,536
Corporation tax	-	733	-	-
Deferred taxation [i]	<b>6,027</b>	3,199	-	-
	<b>16,947</b>	50,850	<b>609,400</b>	470,655
	<b>16,947</b>	50,850	<b>609,400</b>	470,655

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**14. Debtors (continued)**

- [i]** The deferred tax asset recognised (and further explained in note 20) will reverse over future accounting periods, as; depreciation is charged to the Statement of Comprehensive Income and investments are revalued.

**15. Creditors: Amounts falling due after more than one year**

	<b>Group</b> <b>2015</b> <b>£000</b>	Group 2014 £000	<b>Company</b> <b>2015</b> <b>£000</b>	Company 2014 £000
Deferred income (see note 1.13)	<b>2,272</b>	2,455	-	-
Other creditors and accruals	<b>729</b>	649	-	-
Derivative contracts [i]	<b>32,171</b>	29,144	-	-
	<b>35,172</b>	32,248	-	-

- [i]** Derivative contracts are held by investment managers

**16. Creditors: Amounts falling due within one year**

	<b>Group</b> <b>2015</b> <b>£000</b>	Group 2014 £000	<b>Company</b> <b>2015</b> <b>£000</b>	Company 2014 £000
Bank borrowings [note i, iii]	<b>141,153</b>	124,565	-	-
Derivative contracts [note iii]	<b>833</b>	4,757	-	-
Short sold government bonds [note ii, iii]	<b>122,521</b>	-	-	-
Taxation and social security	<b>859</b>	732	<b>32</b>	30
Other creditors and accruals	<b>9,549</b>	10,616	<b>138</b>	107
	<b>274,915</b>	140,670	<b>170</b>	137

- [i]** Bank borrowings are secured against index-linked gilts with a market value of £141.2m (2014: £127.0m) as part of a sale and repurchase agreement, with repurchase to occur within one year. Bank borrowing are measured at amortised cost.

- [ii]** As at 31st December 2015, there is a commitment to purchase government bonds, within one year, with a current market value of £122.5m (2014: £nil).

- [iii]** Current creditors include £264.5m (2014: £129.3m) of financial liabilities held with investment managers.

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**17. Creditors: Valuation basis**

	<b>Group 2015 £000</b>	Group 2014 £000	<b>Company 2014 £000</b>	Company 2014 £000
Fair value [i]	<b>155,526</b>	33,901	-	-
Amortised cost	<b>154,561</b>	139,017	<b>170</b>	137
	<b>310,087</b>	172,918	<b>170</b>	137

**[i]** Financial liabilities at fair value include derivative contracts and short sold government bonds.

**18. Net funds held by investment managers**

	<b>2015 £000</b>	2014 £000
Financial assets: investments (see note 12)	<b>875,202</b>	550,495
Financial liabilities: current (see note 16)	<b>(264,508)</b>	(129,322)
Financial liabilities: non-current (see note 15)	<b>(32,171)</b>	(29,144)
	<b>578,523</b>	392,029

The historic cost of net funds held by investment managers is £595.7m (2014: £476.5m)

**(a). Financial assets/(liabilities) valuation basis**

	<b>2015 £000</b>	2014 £000
Fair value (see note 18b)	<b>536,994</b>	470,922
Amortised cost (see note 18b)	<b>41,529</b>	(78,893)
	<b>578,523</b>	392,029

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**(b). Financial assets/(liabilities) valuation basis by category**

	2015 £000	2014 £000
<b>Fair value:</b>		
UK index linked government gilts	230,201	232,829
Sterling index linked corporate bonds	63,622	65,223
Sterling fixed interest corporate bonds	1,884	13,195
UK equities	18,336	14,177
Overseas equities	23,519	22,656
Pooled funds	354,958	156,743
Derivative contracts	(33,005)	(33,901)
Short sold government bonds	(122,521)	-
	<u>536,994</u>	<u>470,922</u>
<b>Total net financial assets</b>		
<b>Amortised cost:</b>		
Cash and liquidity balances	7,483	7,571
Commercial real estate loans	48,614	38,101
Loans receivable	126,585	-
Bank borrowings	(141,153)	(124,565)
	<u>41,529</u>	<u>(78,893)</u>
<b>Total net financial assets/(liabilities)</b>		

**(c). Fair value hierarchy**

The following hierarchy was used to estimate the value of the investments held:

	2015 £000	2014 £000
Quoted prices	383,508	474,546
Recent quoted prices	186,491	30,277
Valuation technique (Unobservable inputs)	(33,005)	(33,901)
	<u>536,994</u>	<u>470,922</u>
<b>Total net assets</b>		

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**(d). Credit risk, liquidity risk and market risk**

**Credit Risk**

*Source and Exposure:*

Credit risk is the risk that the MDU suffers losses, as a result of issuer default. In particular, this risk is associated with loans receivable and similar instruments.

*Objectives, policies and processes:*

The MDU manages credit risk through its investment policy, which sets a maximum exposure to any particular asset class. This is regularly reviewed and updated. All loans receivable are with banks with a long-term Standard & Poor's credit rating greater than or equal to bbb+. Where applicable this exposure is minimised by obtaining collateral held as security and other credit enhancements (see note 13).

**Liquidity Risk**

*Source and Exposure:*

Liquidity risk is the risk that the MDU encounters difficulties in meeting its obligations associated with financial liabilities. Details of financial liabilities, including a maturity analysis, are shown below:

**Maturity Analysis - Financial liabilities**

	2015 £000	2014 £000
<b>Derivatives:</b>		
Less than 1 year	835	4,757
More than 1 year, less than 5 years	1,276	-
More than 5 years, less than 10 years	6,128	7,877
More than 10 years	24,766	21,267
<b>Total</b>	<b>33,005</b>	33,901
<b>Non-derivatives:</b>		
Less than 1 year*	263,674	124,565
<b>Total</b>	<b>263,674</b>	124,565

\*Non derivatives financial liabilities include the bank borrowings and short sold government bonds detailed in note 16.

*Objectives, policies and processes:*

The MDU invests in a diversified range of asset classes, with differing liquidity profiles, including; collateral assets, liquid assets, semi-liquid assets and illiquid assets. In addition, where applicable, the fund managers independently perform a review of collateral management, to ensure the MDU is able to meet its financial commitments as they fall due. Liquidity requirements are regularly reviewed and considered as part of the wider investment strategy.

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**Market Risk**

*Source and Exposure:*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices.

The following factors have been identified as the key drivers impacting market risk (These risks are explained in more detail within the Strategic Report):

- (i). Interest risk
- (ii). Inflation risk
- (iii). Credit spread risk
- (iv). Equity risk

*Objectives, policies and processes:*

As part of its wider investments policy, the MDU actively monitors the impact of these market risks. When setting the investment objectives, the estimated provision for future indemnity payments is considered. As such, the sensitivity analysis performed below, summarises the impact on net assets, being the net movement of the investment portfolio and the indemnity and insurance provision, in response to changes in these market risks.

**Sensitivity analysis**

	<b>Change</b>	<b>2015</b>	<b>2014</b>
	<b>%</b>	<b>£000</b>	<b>£000</b>
<b>Market risk</b>			
Interest rate	+1	<b>(7,978)</b>	2,532
	-1	<b>9,440</b>	(3,029)
Inflation rate	+1	<b>19,394</b>	22,092
	-1	<b>(16,515)</b>	(19,943)
Credit spread	+1	<b>(10,487)</b>	(7,012)
	-1	<b>11,629</b>	7,774
Equity	+25	<b>20,595</b>	13,045
	-25	<b>(20,595)</b>	(13,045)

Sensitivity analysis assumptions:

- [i] When calculating the impact of a movement in any one market risk factor, it is assumed that all other variables remain constant.
- [ii] Impact on equity is net of the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%).

**(e). Capital management**

The Medical Defence Union Limited actively monitors its capital requirements and those of its subsidiary undertakings. When necessary, investments in subsidiary undertakings are increased.

No external capital requirements are imposed on the MDU group.

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**19. Provisions - indemnity and insurance**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
<b>Group and company</b>		
At 1 January	312,738	192,243
Finance costs	4,205	2,189
Indemnity and insurance paid	(38,069)	(36,573)
Increase in indemnity and insurance provision (see note 6)	128,777	154,879
<b>At 31 December</b>	<b>407,651</b>	<b>312,738</b>

**Provisions - other**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
<b>Group</b>		
At 1 January	2,300	-
Increase in the year	109	2,300
Payments	(79)	-
<b>At 31 December*</b>	<b>2,330</b>	<b>2,300</b>

\*Building dilapidation's are recognised on two (2014: three) MDU leased buildings.

**20. Deferred taxation**

**Group**

	<b>Deferred tax</b>
	<b>£000</b>
At 1 January 2015	3,199
Credited to other comprehensive income	2,828
<b>At 31 December 2015</b>	<b>6,027</b>

The deferred tax asset is made up as follows:

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>£000</b>	£000	<b>£000</b>	£000
Accelerated capital allowances	671	371	-	-
Tax losses carried forward	5,356	2,828	-	-
	<b>6,027</b>	3,199	-	-

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The deferred tax asset for the group represents potential relief due to capital allowance on tangible fixed assets held by the group being less than the depreciation that has been charged in the financial statements and the timing difference between when gains or losses on certain investments are recognised for tax and accounting purposes.

**21. Pension costs**

As explained in accounting policy note 1.14 the company operates two pension schemes; a defined benefit pension scheme and a defined contribution pension scheme. The defined benefit pension scheme provides defined benefits for employees who accepted employment before 1 January 2003. The company also manages the defined contributions for employees who accepted employment after 31 December 2002. The assets of both pension schemes are held under trust separately from those of MDU Services Limited. The funding of the defined benefit pension scheme is based on regular triennial actuarial valuations. The last full actuarial valuation of the scheme was carried out as at 31 March 2015 and has been updated to 31 December 2015 by qualified independent actuaries for the purpose of reporting pension costs.

The funded status as at 31 December 2015 reflects the status of the defined benefit section of the Scheme only.

**The major assumptions made by the actuary were:**

	<b>2015</b>	2014	2013
Rate of increase in salaries	<b>3.4%</b>	3.4%	3.7%
Rate of increase in pension pre 16 February 2009 retirees	<b>2.1%</b>	2.1%	2.5%
Rate of increase in pensions post 16 February	<b>3.0%</b>	3.0%	3.3%
Discount rate	<b>3.8%</b>	3.7%	4.6%
RPI inflation assumption	<b>3.2%</b>	3.1%	3.5%
CPI inflation assumption	<b>2.1%</b>	2.0%	2.5%

**Fair value of scheme assets:**

	<b>2015</b>	2014	2013	2012
	<b>£000</b>	£000	£000	£000
Equities	<b>11,900</b>	12,000	10,800	8,800
Property	<b>16,600</b>	14,700	12,400	11,300
Government bonds	<b>20,000</b>	19,300	19,700	12,500
Corporate bonds	<b>57,700</b>	60,200	52,600	53,200
Other	<b>3,700</b>	600	800	8,200
	<b>109,900</b>	106,800	96,300	94,000

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

	<b>2015</b>	2014	2013	2012
	<b>£000</b>	£000	£000	£000
Total market value of assets	<b>109,900</b>	106,800	96,300	94,000
Present value of scheme liabilities	<b>105,800</b>	111,800	96,600	92,200
Pension asset/(liability)	<b>4,100</b>	(5,000)	(300)	1,800

	<b>2015</b>	2014	2013	2012
Assets as a percentage of a liabilities	<b>103.9%</b>	95.5%	99.7%	102.0%

**Movement in the present value of the scheme liabilities during the year:**

	<b>2015</b>	2014
	<b>£000</b>	£000
Opening defined benefit obligations	<b>111,800</b>	96,600
Current service cost	<b>2,500</b>	2,000
Interest cost	<b>4,100</b>	4,400
Contributions by scheme participants	<b>300</b>	300
Actuarial losses on the scheme liabilities	<b>(9,400)</b>	11,900
Net benefits paid out	<b>(3,500)</b>	(3,400)
<b>Closing defined benefit obligations</b>	<b>105,800</b>	111,800

**Movement in the fair value of the scheme assets during the year:**

	<b>2015</b>	2014
	<b>£000</b>	£000
Opening fair value of scheme assets	<b>106,800</b>	96,300
Expected return on scheme assets	<b>3,900</b>	4,400
Actuarial gain/(losses) on scheme assets	<b>(4,200)</b>	6,300
Contributions by employer	<b>6,600</b>	2,900
Contributions by scheme participants	<b>300</b>	300
Net benefits paid out	<b>(3,500)</b>	(3,400)
<b>Closing fair value of scheme assets</b>	<b>109,900</b>	106,800

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

A building block approach is employed in determine the long-term rate of return on the defined benefit pension scheme's assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

**Analysis of the amount charged to Income & Expenditure**

	<b>2015</b>	2014
	<b>£000</b>	£000
Current service cost	2,500	2,000
	2,500	2,000
	2,500	2,000

The total estimated pension expense in 2016 is £2.0m.

**Analysis of the amount charged to other finance costs**

	<b>2015</b>	2014
	<b>£000</b>	£000
Expected return on scheme assets	(3,900)	(4,400)
Interest on scheme liabilities	4,100	4,400
	200	-
<b>Net return</b>	200	-

**Analysis of amounts recognised in other comprehensive income:**

	<b>2015</b>	2014
	<b>£000</b>	£000
Actuarial gains/(losses) on scheme assets	(4,200)	6,300
Actuarial gains/(losses) on scheme liabilities	9,400	(11,900)
	5,200	(5,600)
<b>Actuarial gain/(loss) recognised in other comprehensive income</b>	5,200	(5,600)

**22. 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.

**23. Members liability**

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

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**24. 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.

**25. Commitments under operating leases**

The Group and Company had minimum lease payments under non-cancellable operating leases as set out below:

	<b>Group 2015 £000</b>	<b>Group 2015 £000</b>	<b>Company 2014 £000</b>	<b>Company 2014 £000</b>
Not later than 1 year	1,353	1,346	-	-
Later than 1 year and not later than 5 years	4,835	4,903	43	-
Later than 5 years	10,064	11,248	-	-
	<b>16,252</b>	<b>17,497</b>	<b>43</b>	<b>-</b>

**26. First time adoption of FRS 102**

	<b>Total net assets 01/01/2014 £000</b>	<b>Result for the year ended 31/12/2014 £000</b>	<b>Other gains and losses for year ended 31/12/2014 £000</b>	<b>Total net assets 31/12/2014 £000</b>
As previously stated	173,563	40,591	(15,053)	199,101
<b>Transitional Adjustments</b>				
Reclassification of fair value movements on fixed asset investments [i]	-	(11,908)	11,908	-
Deferred tax recognised on revaluation of fixed asset investments [ii]	-	2,455	(2,455)	-
	<b>173,563</b>	<b>31,138</b>	<b>(5,600)</b>	<b>199,101</b>

**[i]** FRS 102 requires that changes in the fair value of fixed asset investments be recognised in the income and expenditure account for the year. Under previous UK GAAP these changes were recognised outside of the income and expenditure account and presented separately in a revaluation reserve. This change has decreased the reported surplus for the year ended 31 December 2014 but has not affected the measurement of fixed asset investments on the statement of financial position.

**[ii]** FRS 102 requires that deferred tax recognised on the revaluation to fair value of fixed asset investments be recognised in the income and expenditure account. Under previous UK GAAP these changes were recognised outside of the income and expenditure account and presented separately in the Statement of Total Recognised Gains and Losses. This change has increased the reported surplus for the year ended 31 December 2014.

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**27. Dormant Companies**

The MDU group had the following dormant companies as at 31 December 2015:

Hospital and Community Services Limited  
Dental Defence Union Limited  
General Practitioner Defence Union Limited  
MDU Risk Management Limited  
MDU Healthcare Risk Management Limited  
Medical Defence Risk Management Limited  
Medical Defence Healthcare Risk Management Limited  
Healthcare Risk Management Limited  
MDU Medirisk Limited  
Nursing and Midwifery Defence Union Limited  
Nursing and Midwifery Defence Limited  
Dental Auxiliaries Defence Union Limited  
Dental Hygienists Defence Union Limited  
Practice Nurse Defence Union Limited  
Practice Nurse Defence Limited  
Nursing Defence Limited  
Nursing Defence Union Limited  
Nurse Practitioners Defence Limited  
Community Nurse Defence Union Limited  
Community Nurse Defence Limited  
Nurse Practitioners Defence Union Limited  
The Doctors Bank Limited  
Doctors and Dentists Bank Limited  
Just for Doctors Limited  
MDU Healthcare Limited  
Medical Liability Services Limited  
The Dentists Bank Limited

All of the above are; wholly owned subsidiaries of the Medical Defence Union Limited, incorporated in the UK and included in the consolidation.