



THE
MDU

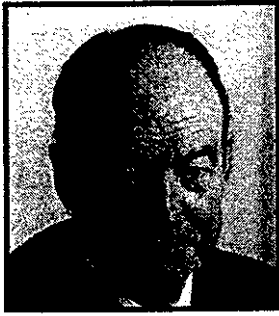
Annual Report and Accounts

For the year ended 31 December 1997

THE MEDICAL DEFENCE UNION LIMITED



A38 *ABK127KZ* 544
COMPANIES HOUSE 03/07/98



Report of the Chairman

I would like to start my first report as your Chairman by paying tribute to my predecessor Ian Kelsey Fry who has guided The MDU with great wisdom over the past four years. I am grateful to the Board who, with the support of Council, have elected me Chairman and I will do my best to keep up the standards set by Ian Kelsey Fry.

Following the successful launch of our MDU-owned 'captive' insurance company in Guernsey, which goes from strength to strength, we have established an Australian insurance company which has got off to a great start under the Chairmanship of Mr Richard Beetham, former Australian Federal Commissioner of Insurance.

In July 1997 all our medical members in Australia changed to a 'claims-made' product which is in line with the trend to a more insurance-orientated approach dealt with in the Operating and Financial Review (page 2). The move has been well received by our members in Australia who recognise the greater security offered by this type of arrangement, which involves a claims made policy of insurance.

The global role of The MDU has been strengthened by our association with the Physician Insurers Association of America (an association of organisations similar to The MDU) and with colleagues in continental Europe through our membership of Europa Medica. Members may derive some comfort from the fact that their colleagues in other countries face similar issues in their practice.

Membership continues to rise and we are grateful to the Sales, Marketing and Membership Departments for their efforts in the medical schools. Our 'Membership in Practice' scheme has proved particularly attractive to general practitioners. Cost-effective provision of legal advice through our in-house Legal Department, which was started by Charles Dewhurst in 1993 and now

consists of ten lawyers, together with our claims handlers, continues to contribute significantly to keeping down the ever-increasing costs associated with litigation.

However there is considerable delay, often several years, between the date of an incident and the date it is reported to The MDU, necessitating the provision of adequate funds to pay these 'incurred but not reported' claims in due course.

Our financial reserves have grown and a significant portion of our fund is managed by our captive insurance company, MDU Insurance Ltd, under the watchful eye of its Board in Guernsey.

This year three members retired from Council. Professor David Poswillo served The MDU for many years as Chairman of the Dental Committee and as a founder member of the Board of Management. His wisdom and experience will be much missed as will that of Dr Geoffrey Pollock who represented general practice on the Council and Cases Committee for many years. Mrs Carmel Hemming resigned from the Council to go to New Zealand. We wish them all well.

The future holds a number of challenges with escalation of claims and increasing awards by the courts. The UK civil litigation scene is under review and it is difficult to foresee with any accuracy what effect changes, yet to be announced, will have on The MDU. Members may however be confident that, whatever the future may hold, their interests will be championed and supported by our dedicated staff: medical, dental, legal and lay.



MR J C SMITH

CHAIRMAN OF THE BOARD OF MANAGEMENT
PRESIDENT OF THE MDU



Operating and Financial Review

It is pleasing to report that the membership of The MDU has increased to over 160,000 worldwide and on this basis your company is the largest of its kind in the world. While this indicates that the need for medical defence is ever present, and in some cases rising, it is important to remember that these needs are complex and vary by country and hence the services that The MDU needs to provide also vary.

The majority of The MDU's business arises from the United Kingdom, Ireland, Australia, New Zealand, South Africa, Singapore and Malaysia. The services we provide vary from largely advisory and disciplinary support in New Zealand, where a no-fault compensation system exists; to robust, insurance-based support for negligence claims brought against members in Australia, currently the most litigious area.

The challenge of flexibility in meeting members' needs has been met in Australia by the establishment of our wholly-owned insurance subsidiary, MDUAIL, under the regulation of the Australian Insurance and Superannuation Commission. The benefits of membership in Australia now include an insurance policy and all are offered on a claims-made basis. This has been welcomed by our members, the vast majority of whom have renewed and membership numbers have increased.

It also remains a consistent goal of your company to strive to improve its overall funding position and significant advances have been made in recent years. Accordingly, your Board continues to explore ways

to enhance the value of The MDU's fund and engender further security for members. The addition of insurance subsidiaries in recent years to our group of companies has been a significant part of this process. We have also taken steps to cease operations in some countries where your Board felt that, with a small number of members and an uncertain local legal system, it was not in the interests of the membership as a whole to continue to offer membership to local practitioners.

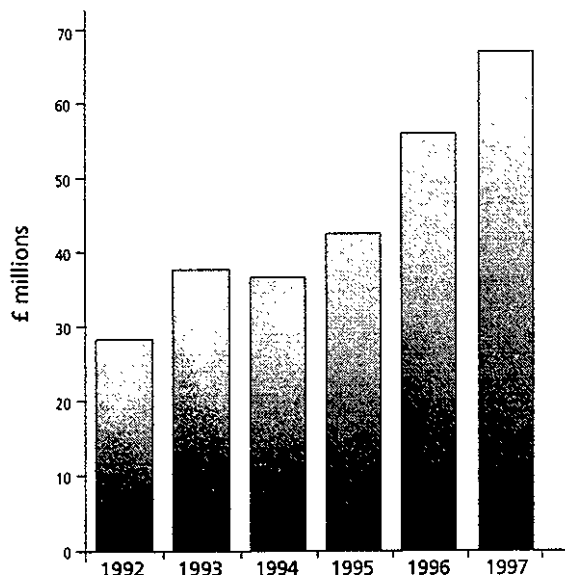
At this year's Annual General Meeting, it is proposed to add a further object to The MDU's Memorandum. This will afford the Board the necessary flexibility in considering the widest range of options to meet members' needs. The details are set out in Resolution 12.

Financial Review

During 1997 The MDU has continued to pursue the dual objectives of securing the long term funding of the group and minimising wherever possible the upward pressure on subscriptions. The reported results for 1997 show reserves of £278m compared with the estimated cost of settlement for indemnity cases notified of £262m.

The MDU has reported a small loss after tax of £2.4m which was due primarily to the need to make an unexpected number of indemnity payments on behalf of members earlier than expected so that they fell into this financial year. In most cases these payments are for incidents that occurred several years ago and in some cases payments have been made on behalf of former members. Accordingly,

Figure 2. Indemnity and legal payments 1992-1997



The MDU has continued to develop its reinsurance programme to mitigate the severity and timing of these payments in any one year. This has led to an increase in reinsurance costs in 1997, the aim of which is to protect The MDU's fund for the future.

During the year The MDU secured substantial reinsurance backing to support the establishment of its Australian insurance subsidiary which is now providing insurance policies direct to members in that jurisdiction. This emphasises the on-going assessment of members' requirements in delivering the service and security needed. The benefits of this reinsurance strategy will be to reduce the indemnity payments for The MDU in future years.

Income

Subscription income for the year ended 31 December 1997 was £95.4m (1996 - £89.2m). The recent strength of sterling has reduced the value of some overseas income during the year - particularly Australia. This is because of the relative weakness of these currencies when converted to sterling. This conversion is in line with The MDU's accounting policy.

Investment income of £10.9m and gains from disposal of investments of £4.8m have resulted in

total mutual income for The MDU group being £111m for 1997 (1996 - £99m).

Expenditure

There continues to be a growth in costs associated with indemnity claims brought against members. In 1997, some £67m (1996 - £54m) was paid out on behalf of members. Although a significant increase on the previous years a large part of this increase is associated with expenditure in countries where The MDU ceased operations some years ago for the reasons outlined earlier. Payment of claims in these countries will diminish as time passes, but it is a feature of 'incident occurrence' membership, currently being offered by The MDU in most areas of the world.

Group Developments

The group continues to derive significant benefits from having direct access to the global reinsurance market through MDU Insurance Limited, our wholly-owned captive insurance company in Guernsey. Wherever practical and cost-effective The MDU is attempting to minimise its exposure through a comprehensive reinsurance programme, developed in conjunction with major reinsurers, and tailored to meet The MDU's specific needs around the world.

This policy will enable The MDU to smooth the claims payments pattern over time, ensuring the financial stability of the organisation and protecting our members' interests for the future.

Historically attendance at AGMs has not been high but I do encourage you to attend, you will be most welcome. Alternatively please let us have your completed proxy card.

DR MICHAEL SAUNDERS
CHIEF EXECUTIVE OF THE MDU

Report of the Board of Management

THE DIRECTORS present their report and the financial statements for the year ended 31 December 1997.

Activities

The MDU's activities include the discretionary provision, in accordance with the *Memorandum and Articles of Association*, of indemnity and advisory services for its members and the provision of insurance by a wholly-owned and regulated Australian Insurance Company, MDU Australia Insurance Co Pty Limited (MDUAIL).

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

The MDU has a branch in Australia and uses the services of subscriptions agents in other jurisdictions.

Review of Business

Members' attention is drawn to the Report of the Chairman, and the Operating and Financial Review, in which the salient features of the year are highlighted. The financial statements, on pages 6 to 18, set out the financial results of the year's activities.

The Group's total reserves have increased from £267m at 31 December 1996 to £278m at 31 December 1997.

The MDU continues to set subscriptions which the directors, on the advice of the consulting actuaries, consider will suffice to meet overheads and foreseeable discretionary indemnity payments and legal costs.

MDUAIL, which provides insurance policies to members in Australia, started trading on 1 July 1997.

Directors

The following served as directors in 1997:

J C Smith* (Vice-Chairman; appointed Chairman 24.6.97)

P C Ball

Hedley E Berry

E M Cooke

R D Corley*

C C Evans*

M M Gallivan

Baroness Hooper*

W S L La Frenais

D E Markham*

R J Maxwell*

M T Saunders*

Sir Roland Smith*

C M Tomkins

I Kelsey Fry*

(Chairman (retired 24.6.97))

M J Gifford

(appointed 24.6.97)

C D Marsden

(appointed 26.8.97)

D E Poswillo

(retired 24.6.97)

P R Williams

(appointed 26.8.97)

*being members of the Remuneration Committee

Mr M J Gifford, DipM MCIM, was appointed to The MDU Board of Management on 24 June 1997. Mr Gifford joined The MDU in September 1991 and was appointed commercial director in November 1996. Previously he was a management consultant with Price Waterhouse in London.

Professor C D Marsden, MB BS FRCP MRCPsych FRS DSc, was appointed to The MDU Board of Management on 26 August 1997. He is Professor of Neurology at The Institute of Neurology, University of London.

Dr P R Williams, MA MB BChir Camb MRCP, was appointed to The MDU Board of Management on 26 August 1997. He is currently a partner in general practice in Oxford and also a course organiser for general practice, John Radcliffe Hospital, Oxford.

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:

Hedley E Berry

E M Cooke
Baroness Hooper
C M Tomkins

Dr R J Maxwell retires by rotation and does not offer himself for re-election.

Corporate Governance

- The Board of The MDU supports the principles established in the report of the Cadbury Committee on the Financial Aspects of Corporate Governance. The Board complies with all the provisions of the code where they are appropriate to The MDU's structure as a company limited by guarantee there being no shareholders and no payment of dividends.
- The Board has a schedule of matters reserved to itself and has a procedure for directors to obtain independent advice.
- The Board has an Audit Committee (chaired by Sir Roland Smith, a non-executive director) which consists of all members of The Board and meets not less than twice a year. The Board also has Nomination and Remuneration Committees.
- The policy of The MDU's Remuneration Committee is to provide the packages needed to attract, retain and motivate Board members of the quality required.
- The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets.
- The directors acknowledge that they are responsible for the group's system of internal financial control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis.
- The Board, through the Audit Committee, has reviewed the effectiveness of the internal financial control environment of the group. Meetings of the Audit Committee are attended by the internal and external auditors.

- The Hampel Committee on Corporate Governance published its final report in January 1998. The committee intends to produce a set of principles and a code of good corporate governance practice. Once these are available the Board will review them and, where appropriate, adopt their provisions.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the surplus or deficit of the group for that period. In preparing those financial statements, the directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, Pannell Kerr Forster, chartered accountants, have signified their willingness to continue in office. A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board of Management.



N J BOWMAN
COMPANY SECRETARY
24 March 1998

CONSOLIDATED INCOME AND
EXPENDITURE ACCOUNT FOR THE YEAR
ENDED 31 DECEMBER 1997

	Notes	1997		1996	
		£'000	£'000	£'000	£'000
MEMBERS' SUBSCRIPTIONS			95,416		89,244
INVESTMENT INCOME	2(a)		10,878		10,577
REALISED GAINS AND LOSSES FROM DISPOSAL OF INVESTMENTS			4,807		(466)
TOTAL MUTUAL INCOME			111,101		99,355
LESS:					
MEDICAL AND DENTAL ADVISORY SERVICES		11,995		11,065	
INDEMNITY, REINSURANCE AND LEGAL COSTS	3	87,702		56,145	
ADMINISTRATIVE COSTS		9,116		7,345	
TOTAL MUTUAL EXPENDITURE			108,813		74,555
SURPLUS FROM MUTUAL ACTIVITIES			2,288		24,800
NET RESULT OF INSURANCE BUSINESS ^{2(b)}			(65)		-
SURPLUS BEFORE TAXATION	4		2,223		24,800
TAXATION	5		4,650		4,655
(DEFICIT)/ SURPLUS AFTER TAXATION TRANSFERRED TO ACCUMULATED FUND	11		(2,427)		20,145

All amounts relate to continuing operations.

CONSOLIDATED STATEMENT
OF TOTAL RECOGNISED
GAINS AND LOSSES FOR THE YEAR ENDED

	1997	1996
	£'000	£'000
(DEFICIT)/SURPLUS AFTER TAXATION	(2,427)	20,145
UNREALISED SURPLUS ON REVALUATION OF INVESTMENTS	13,254	7,445
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	10,827	27,590

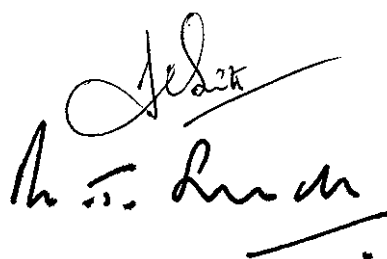
NOTE OF HISTORICAL COST
GAINS AND LOSSES

	£'000	£'000
REPORTED SURPLUS BEFORE TAXATION	2,223	24,800
REALISATION OF INVESTMENT GAINS OF PREVIOUS YEARS	5,899	16,843
DIFFERENCE BETWEEN AN HISTORICAL COST DEPRECIATION CHARGE AND THE ACTUAL DEPRECIATION CHARGE FOR THE YEAR CALCULATED ON THE REVALUED AMOUNT	35	35
HISTORICAL COST SURPLUS BEFORE TAXATION	8,157	41,678
HISTORICAL COST SURPLUS AFTER TAXATION	3,507	37,023

CONSOLIDATED AND
COMPANY BALANCE SHEETS AT
31 DECEMBER 1997

		1997		1996	
	Notes	Group £'000	Company £'000	Group £'000	Company £'000
FIXED ASSETS					
Tangible assets	6	9,295	9,295	9,689	9,689
Investments	8	272,845	121,641	259,037	93,707
		282,140	130,936	268,726	103,396
CURRENT ASSETS					
Debtors	9	2,788	99,747	2,171	143,814
Deposits at banks		6,633	3,314	2,281	2,267
		9,421	103,061	4,452	146,081
Creditors – amounts falling due within one year	10(a)	11,562	11,268	6,301	6,249
NET CURRENT (LIABILITIES) / ASSETS		(2,141)	91,793	(1,849)	139,832
Insurance technical provisions	10(b)	2,295	-	-	-
NET ASSETS		277,704	222,729	266,877	243,228
RESERVES					
	11				
Property revaluation reserve		2,507	2,507	2,507	2,507
Investment revaluation reserve		25,523	14,890	18,168	13,601
Accumulated fund		249,674	205,332	246,202	227,120
TOTAL RESERVES		277,704	222,729	266,877	243,228

Approved by the Board of Management on 24 March 1998



J C Smith
CHAIRMAN

M T Saunders
CHIEF EXECUTIVE

CONSOLIDATED CASH FLOW
STATEMENT FOR THE YEAR ENDED
31 DECEMBER 1997

		1997		1996	
	Notes	£'000	£'000	£'000	£'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	1		(5,336)		15,642
RETURNS ON INVESTMENTS					
Interest received		1,508		2,270	
Investment income		7,767		6,608	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS			9,275		8,878
CORPORATION TAX PAID			(3,200)		(1,977)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchases of fixed assets		(1,004)		(1,521)	
Sales of fixed assets		112		78	
Purchases of investments		(190,273)		(332,023)	
Sales of investments		201,648		261,623	
NET CASH INFLOW/(OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			10,483		(71,843)
INCREASE/(DECREASE) IN CASH	2		11,222		(49,300)

NOTES TO THE CASH FLOW
STATEMENT FOR THE YEAR ENDED
31 DECEMBER 1997

	1997	1996	
	£'000	£'000	
1. RECONCILIATION OF SURPLUS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Surplus before taxation	2,223	24,800	
Investment income	(10,933)	(10,577)	
Realised losses/(gains) from disposal of investments	(4,807)	466	
(Profit)/loss on disposal of fixed assets	(52)	8	
Depreciation	1,338	1,165	
Increase in debtors	(617)	(844)	
Increase in creditors	5,217	624	
Increase in technical provisions	2,295	-	
Net cash(outflow)/inflow from operating activities	(5,336)	15,642	
2. ANALYSIS OF NET FUNDS			
	At 1 January 1997 £'000	Cash Flows £'000	At 31 December 1997 £'000
Cash held for investment	10,092	6,870	16,962
Deposits at bank	2,281	4,352	6,633
	12,373	11,222	23,595

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

1. ACCOUNTING POLICIES

(a) **Basis of accounting and format of accounts**

The Group accounts have been prepared under the historical cost convention, as modified by the revaluation of investments and certain leasehold properties, and in accordance with the Companies Act 1985 and applicable accounting standards. As permitted by the Companies Act 1985, the accounts formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the Group.

The accounts formats have been developed to reflect most appropriately the differing operations of the Group namely the provision of discretionary indemnity conducted through the mutual business and the provision of insurance by a wholly-owned regulated Australian insurance company.

In accordance with the discretionary nature of the mutual activities no provision is included within the financial statements for outstanding reported indemnity cases, though the amount of such cases has been estimated and is referred to in Note 13 to the financial statements.

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

(b) **Basis of consolidation**

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

MUTUAL BUSINESS

(c) **Members' subscriptions**

Subscription income comprises subscriptions due and received before 31 December without apportionment. Pursuant to Schedule 4 para 55(5) of the Companies Act 1985 no geographical

analysis of subscriptions is shown.

(d) **Indemnity and legal costs**

Expenditure on indemnity payments and legal charges covers the aggregate of all indemnity settlements, and legal services provided for members, together with insurance premiums. These costs include plaintiffs' costs incurred under indemnity, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

INSURANCE BUSINESS

(e) **General insurance business technical account**

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

Gross Written Premiums

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

Claims Paid

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

(f) **Technical provisions**

Provision for Unearned Premiums

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

Outstanding Claims

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

recognition of the potential time elapsed in the notification, development and settlement of claims.

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

Provision for Unexpired Risks

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

(g) Tangible fixed assets and depreciation

The cost/revalued amounts of tangible fixed assets are written off evenly over their estimated useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

- **FREEHOLD PROPERTY:**
The cost of freehold office property is written off over 50 years.
- **SHORT LEASEHOLD PROPERTIES:**
Redevelopment costs on short leasehold properties are written off over the period of the leases.
- **LONG LEASEHOLD PROPERTIES:**
The cost/revalued amounts of long leasehold properties are written off over 50 years. Refurbishment costs on long leasehold properties are written off over 10 years.
- **OFFICE EQUIPMENT:**
20–100 per cent per annum on cost.
- **MOTOR VEHICLES:**
20 per cent per annum on cost.

(h) Investments

Listed and unlisted investments held at 31 December are stated at closing valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve. On disposal the proceeds are compared with the

carrying value and the resulting profit or loss credited or charged to the income and expenditure account.

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

(i) Foreign currencies

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

(j) Deferred taxation

No provision is made for potential tax liabilities on unrealised gains arising from the revaluation of investments and certain leasehold properties.

(k) Pension costs

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

(l) Operating leases

Leasing charges in respect of operating leases are recognised in the income and expenditure account over the lives of the lease agreements as incurred.

(m) Comparative figures

The comparative figures have been amended where further disclosure is considered necessary to provide a better understanding of the information contained within the financial statements.

NOTES TO THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997

	1997	1996
	£'000	£'000
2.(a) INVESTMENT INCOME		
Franked investment income	2,716	2,063
Unfranked investment income	6,730	6,244
	9,446	8,307
Loan and bank interest	1,432	2,270
	10,878	10,577
	1997	1996
	£'000	£'000
(b) NET RESULT OF INSURANCE BUSINESS		
Gross written premiums	3,107	-
Unearned premium transferred to technical provisions	(2,274)	-
Net written premiums	833	-
Outward reinsurance premiums	(784)	-
Earned premiums, net of reinsurance	49	-
Gross provision for claims	(713)	-
Reinsurers' share	692	-
Claims incurred, net of reinsurance	(21)	-
Investment income	55	-
Direct overheads	(148)	-
NET RESULT FROM INSURANCE BUSINESS	(65)	-
	£'000	£'000
3. INDEMNITY, LEGAL AND REINSURANCE COSTS		
Indemnity payments	48,380	39,096
Legal costs	18,262	15,335
Reinsurance costs	21,060	1,714
	87,702	56,145
	£'000	£'000
4. SURPLUS BEFORE TAXATION		
(a) Surplus before taxation has been arrived at after charging/(crediting) the following:		
Depreciation (Note 6)	1,338	1,165
(Profit)/loss on disposal of fixed assets	(52)	8
Auditors' remuneration	65	58
- as auditors	155	160
- for non-audit work	(42)	(85)
Rent received		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

	1997	1996
(b) Directors' remuneration:	£'000	£'000
Fees	206	206
Other emoluments (including pension contributions)	514	435
Compensation for loss of office	-	82
	720	723
Emoluments (excluding pension contributions) of the highest paid director	144	138
At 31 December 1997 the accrued pension rights of the highest paid director were £44,038 (1996 £38,040)		
(c) Staff costs charged in arriving at the surplus for the year before taxation are:	£'000	£'000
Salaries	7,788	6,931
Social security costs	527	511
Other pension and related costs	1,040	1,134
	9,355	8,576
	Number	Number
Average number of employees in the year	241	230
5. TAXATION	£'000	£'000
Corporation tax for the year at 31 per cent (1996: 33 per cent) on income and capital gains from investments	4,188	4,384
Tax credits on franked investment income	462	385
Adjustment in respect of previous years	-	(114)
	4,650	4,655

The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be £5,628,000 (1996: £4,120,000) for the Group and £3,463,000 (1996: £3,366,000) for the Company. The potential tax liability on the revaluation of certain leasehold properties is estimated to be £600,000 (1996: £650,000) for both the Group and Company.

The tax charge has been reduced by £876,000 which arises from a change in the basis of taxation for exchange gains/losses on foreign investments.

NOTES TO THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997

6. FIXED ASSETS – TANGIBLE
Group and Company

	Freehold Property	Leasehold Properties	Motor Vehicles	Office Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost/valuation					
At 1 January 1997	1,707	9,632	897	6,086	18,322
Additions	-	139	155	710	1,004
Disposals	-	(25)	(216)	(393)	(634)
At 31 December 1997	1,707	9,746	836	6,403	18,692
Cost	1,707	6,474	836	6,403	15,420
Valuation in 1987	-	3,272	-	-	3,272
	1,707	9,746	836	6,403	18,692
Depreciation					
At 1 January 1997	550	2,997	389	4,697	8,633
Provided in year	33	475	163	667	1,338
Disposals	-	(4)	(184)	(386)	(574)
At 31 December 1997	583	3,468	368	4,978	9,397
Net book amount					
At 31 December 1997	1,124	6,278	468	1,425	9,295
At 31 December 1996	1,157	6,635	508	1,389	9,689

Certain leasehold properties were professionally valued in 1987, on an existing use basis. The directors consider at regular intervals the applicability of leasehold valuations incorporated in the financial statements with the aforementioned properties being subsequently valued in 1997. No material difference existed between the two valuation dates, as such the financial statements incorporate results of the 1987 valuation. On an historic cost basis, leasehold properties at valuation would have been included as follows:

	1997	1996
	£'000	£'000
Cost	2,900	2,808
Depreciation	381	345
	2,519	2,463
Leasehold properties at net book value comprise:		
Properties with over 50 years to run	6,172	6,541
Properties with under 50 years to run	106	94
	6,278	6,635

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

	1997	1996
7. CAPITAL COMMITMENTS	£'000	£'000
Capital expenditure contracted for but not provided for in these accounts for Group and Company	179	-

8. FIXED ASSETS - INVESTMENTS Group	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 1997:	£'000	£'000	£'000	£'000
At valuation	248,568	377	-	248,945
At cost	-	-	10,092	10,092
	248,568	377	10,092	259,037
Additions at cost	190,523	-	6,870	197,393
Disposals	(196,751)	(88)	-	(196,839)
Revaluation movement (Note 11)	13,328	(74)	-	13,254
At 31 December 1997	255,668	215	16,962	272,845

Company	Shares in subsidiary undertakings	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 1997:	£'000	£'000	£'000	£'000	£'000
At valuation	-	79,369	377	-	79,746
At cost	5,000	-	-	8,961	13,961
	5,000	79,369	377	8,961	93,707
Transfer from subsidiary undertaking	-	20,000	-	-	20,000
Additions at cost	1,172	34,001	-	-	35,173
Disposals	-	(32,120)	(88)	(984)	(33,192)
Revaluation movement (Note 11)	-	6,027	(74)	-	5,953
At 31 December 1997	6,172	107,277	215	7,977	121,641

Listed and unlisted investments are stated at valuation. Cash held for investment and investments in subsidiary undertakings are stated at cost. The listed investments are all listed on recognised stock exchanges. On an historic cost basis, investments would have been included as follows:

	1997		1996
	Group £'000	Company £'000	Group £'000
Listed investments	230,266	92,508	230,596
Unlisted investments	94	94	181
	230,360	92,602	230,777
			66,145

The Company holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the Company's accounts: MDU Insurance Limited, an insurance company, incorporated in Guernsey; MDU Investments Limited, an investment company, incorporated in England; and MDU Australia Insurance Company Pty Limited, an insurance company, incorporated in Australia. The Directors of the Company consider that disclosure of dormant subsidiary undertakings would result in a statement of excessive length and have therefore, as permitted under Schedule 5 of The Companies Act 1985, dispensed with the requirement.

NOTES TO THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1997

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
9. DEBTORS				
Subscriptions in transit	2,160	2,160	1,292	1,292
Amounts owed by subsidiary undertakings	-	96,968	-	141,770
Other debtors	271	271	109	110
Prepayments and accrued income	357	348	770	642
	2,788	99,747	2,171	143,814
10.(a) CREDITORS - Falling due within one year:				
Administrative creditors	2,853	2,501	3,054	3,007
Taxation and social security	3,293	3,351	3,247	3,242
Other creditors	4,750	4,750	-	-
Deferred income	666	666	-	-
	11,562	11,268	6,301	6,249
(b) INSURANCE TECHNICAL PROVISIONS				
All insurance technical provisions relate to group				£'000
At 1 January 1997				-
Provision for unearned premium				2,274
Gross provision for claims				(713)
Reinsurers' share of provision of outstanding claims				692
At 31 December 1997				2,295
11. RESERVES				
Group	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1997	2,507	18,168	246,202	266,877
Movement on revaluation of investments (Note 8)	-	13,254	-	13,254
Transfer of realised gains	-	(5,899)	5,899	-
Excess of expenditure over income for the year	-	-	(2,427)	(2,427)
At 31 December 1997	2,507	25,523	249,674	277,704
Company	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1997	2,507	13,601	227,120	243,228
Movement on revaluation of investments (Note 8)	-	5,953	-	5,953
Transfer of realised gains	-	(4,664)	4,664	-
Excess of expenditure over income for the year	-	-	(26,452)	(26,452)
At 31 December 1997	2,507	14,890	205,332	222,729

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

12. PENSION COSTS

The MDU provides a defined benefit pension scheme for its employees in the UK, the assets of which are held under trust separately from those of The MDU. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method. The assumptions which have the most significant effect on the pension cost are that the rate of return on investments will average 8.5 per cent per annum, that salary increases will average 6 per cent per annum, that present and future pensions will increase at 4.5 per cent per annum, and that future dividend growth will average 4.0 per cent per annum.

The funding of the UK scheme is based on regular triennial actuarial valuations. The most recent actuarial valuation was as at 1 April 1997 when the market value of the scheme's assets was £25.2m. This showed that the actuarial value of the assets represented 114 per cent of the value of the benefits which had accrued to members, after allowing for future increases in salaries. The UK pension cost for 1997 was £994,000 (1996 - £1,088,000). In Australia, where a defined contribution scheme is operated, contributions during the year were £46,000 (1996: £46,000).

13. INDEMNITY CASES - MUTUAL BUSINESS - GROUP AND COMPANY

The outstanding cost of settlement and related plaintiff costs for reported indemnity cases notified as at 31 December 1997 is estimated on the advice of the consulting actuaries to be £262m (1996: £248m) for the Group which includes £228m (1996: £232m) for the Company. The actuaries have taken account of the fact that cases are settled over a number of years and the estimates have been discounted to allow for future investment returns and are stated net of estimated recoveries under insurance and reinsurance policies.

14. MEMBERS' LIABILITY

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

15. RELATED PARTY TRANSACTIONS

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

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 - 18 which have been prepared under the accounting policies set out on pages 11 - 12.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1997 and the Group deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PANNELL KERR FORSTER

CHARTERED ACCOUNTANTS, REGISTERED
AUDITORS
(London - 24 March 1998)

NOTICE IS HEREBY GIVEN THAT THE

ANNUAL GENERAL MEETING* OF THE MEDICAL DEFENCE UNION LIMITED

(A COMPANY LIMITED BY GUARANTEE)

WILL BE HELD AT

ROYAL COLLEGE OF PHYSICIANS
11 ST ANDREWS PLACE REGENTS PARK LONDON NW1 4LE
ON TUESDAY 16 JUNE 1998 AT 2PM
FOR THE FOLLOWING PURPOSES:

	Resolution No.		Resolution No.
To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 1997.	1	To invite the Board of Management to appoint as members of the Council of The MDU for 1998-1999 the following:	10
		J Adgey MD MB BCh BAO FRCP	
		A R Aitkenhead BSc MD FRCA	
		M Anderson FRCOG	
		P C Ball BDS BSc DDS DGDPUK	
To elect the following members of the Board of Management, who are due to retire under Article 56:		J E Banatvala MA MD FRCP FRCPath DCH DPH	
M J Gifford	2	P R F Bell MD FRCS FRCSEd	
		Hedley E Berry MB BS FRCS	
C D Marsden	3	E M Cooke OBE BSc MD FRCPath FRCP	
		J Cunningham BDS FDSRCS(Ed)	
P R Williams	4	C C Evans MD FRCP	
		A Fitzgerald O'Connor MB ChB FRCS	
To elect members of the Board of Management appointed under Article 56, recommended under Article 53(b)(i) or nominated under Article 53(b)(ii) after the date of the notice for the 1998 Annual General Meeting.	5	J C Frankland BSc MB ChB FRCGP DOBstRCOG	
		J S Garfield MChir FRCP FRCS	
		R L Hargrove MB BS FRCA	
		R W Hiles MB ChB FRCS FRCSEd	
		Sir David Hull MB ChB FRCP	
		J G Kennedy BDS BSc MDS PhD FDSRCPs	
		W S L La Frenais MB ChB DOBstRCOG	
		D E Markham MB ChB FRCS	
		C D Marsden MB BS FRCP MRCPsych FRS DSc	
		H G Morgan MD FRCP FRCPath DPM	
		P J Mulligan MB ChB FRCS FRCSEd	
		C O'Herlihy MD FRCPI FRCOG FRACOG	
		R K Prasad MB MS FRCSEd MRCP	
		R C G Russell MS FRCS	
		P J Holmes Sellors LVO MA BM BCh FRCS	
		J C Smith OBE MS FRCS	
		G Strube MB BS MRCS LRCP DCH	
		E M Symonds MD FRCOG	
		R H Vickers MA BM BCh FRCS	
		R M Watson MDS FDSRCS	
To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:			
Hedley E Berry	6		
E M Cooke	7		
Baroness Hooper	8		
C M Tomkins	9		
Dr R J Maxwell retires by rotation and does not offer himself for re-election			

* This meeting is being held at the Royal College of Physicians, by kind permission of the Treasurer

	Resolution No.
P R Williams MA MB BChir Camb MRCP J S Wyatt FRCP FRCPCH	
To re-appoint Messrs Pannell Kerr Forster as auditors and to authorise the Board of Management to determine the remuneration of the auditors.	11
To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution, relating to the company's <i>Memorandum and Articles of Association</i> .	12
That the <i>Memorandum and Articles of Association</i> of The MDU be amended as follows:	

Memorandum

Clause 3(xii): delete in its entirety and insert: "To carry on any business whatsoever which can in the opinion of the Board of Management of The MDU be conveniently, advantageously or profitably carried on by The MDU either in connection with or ancillary to any of the other objects of The MDU herein set forth or otherwise in the interests of The MDU or its members."

Clause 3(xiii): insert the following additional clause, numbered 3(xiii), after clause 3(xii) and re-number subsequent clauses accordingly: "To sell, improve, manage, develop, turn to account, exchange, let on rent, grant royalty, share of profits or otherwise, grant licences, easements or other rights in or over, and in any other manner deal with or dispose of the undertaking and/or any of the property or assets for the time being of The MDU for such consideration as the Board of Management may think fit."

Articles of Association

Clause 61: delete "the Mental Health (Scotland) Act 1960; or" and insert "the Mental Health (Scotland) Act 1984, or, in Northern Ireland, an application for admission under the Mental Health (Northern Ireland) Order 1986; or".

By Order of the Board of Management

N J Bowman

N J BOWMAN

COMPANY SECRETARY

24 March 1998

REGISTERED OFFICE:

3 Devonshire Place London W1N 2EA

NOTES:

- (1) Every member is entitled to attend and vote or may appoint a proxy who must be a member of The MDU. The proxy form is enclosed with this *Annual Report*. To be effective it must be deposited at the registered office not later than 2pm on 14 June 1998.
- (2) Mr M J Gifford, DipM MCIM, was appointed to The MDU Board of Management on 24 June 1997. Mr Gifford joined The MDU in September 1991 and was appointed commercial director in November 1996. Previously he was a management consultant with Price Waterhouse in London.
- (3) Professor C D Marsden, MB BS FRCP MRCPsych FRS DSc, was appointed to The MDU Board of Management on 26 August 1997. He is Professor of Neurology at The Institute of Neurology, University of London.
- (4) Dr P R Williams, MA MB BChir Camb MRCP, was appointed to The MDU Board of Management on 26 August 1997. He is currently a partner in general practice in Oxford and also a course organiser for general practice, John Radcliffe Hospital, Oxford.
- (5) Mr Hedley E Berry MB BS FRCS, was appointed to The MDU Board of Management in 1992. He is a consultant surgeon in London and has been an MDU Council member since 1982.
- (6) Dr E M Cooke, OBE BSc MD FRCPsych FRCP, was appointed to The MDU Board of Management in 1995 and has served on the Council of The MDU since 1980. Dr Cooke retired as Deputy Director of the Public Health Laboratory Service in 1995.
- (7) Baroness Hooper BA (LAW), a solicitor, entered politics as MEP for Liverpool in 1979 and was made a Life Peer in 1985. She was appointed to The MDU Board of Management in 1993. She has held ministerial posts as Parliamentary Under-Secretary of State in the Department of Education and Science, the Department of Energy and (1989-1992) the Department of Health. She was a member of the Parliamentary Delegation to the Council of Europe.
- (8) Dr C M Tomkins MB ChB (Hons) FRCS was appointed to The MDU Board of Management as Professional Services Director in 1995. Dr Tomkins joined The MDU as a medico-legal adviser in 1985 and was appointed head of Claims Handling in 1993. She spent her clinical years training in ophthalmology.
- (9) References to clause numbers in the special resolution are taken from the printed form of the *Memorandum and Articles of Association* of The MDU prepared following the 1997 AGM. Copies may be obtained upon application to the Company Secretary. A version of the *Memorandum and Articles of Association* showing the changes proposed is available by arrangement with the Company Secretary and a copy will be available at the meeting.
- (10) The proposed changes to the *Memorandum and Articles of Association* are mainly for the following purposes:
 - (i) To update references to legislation
 - (ii) To ensure that The MDU has the flexibility needed to keep pace with the way it carries on business. The Chief Executive refers to this in the Operating and Financial Review.

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