

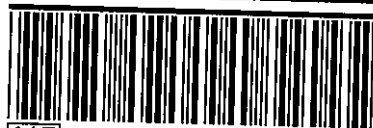


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THE  
MDU

# Annual Report and Accounts

*For the year ended 31 December 1996*



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COMPANIES HOUSE 28/06/97

THE MEDICAL DEFENCE UNION LIMITED



# Report of the Chairman

**1996** HAS BEEN A YEAR of consolidation and building for the future. Of particular importance have been the development of The MDU's captive insurance company in Guernsey and the reorganisation of our operation in Australia, both of which will contribute significantly to greater strength in future years. In spite of a 31 per cent increase in indemnity and legal costs, the surplus of assets over the estimated costs of future settlements is at similar levels to last year. I draw members' attention to the Chief Executive's Operating and Financial Review on p2.

The level of activity in The MDU has expanded during the year. Civil litigation again rose by about 15 per cent. Demand for advisory services and help with disciplinary and registration problems continues to increase. In the UK alone our 24-hour telephone advice service saw a growth of 10 per cent to over 20,000 calls.

Membership worldwide has seen a significant increase in doctors and dentists and in the UK a substantial rise in the recruitment of practice nurses, practice managers and physiotherapists. It is pleasing to report that some of these new members have been attracted solely by The MDU's advisory and telephone support services. Expansion of The MDU's activities has meant a heavier workload and I am pleased to place on record your Board's acknowledgement and thanks for all the hard work undertaken by The MDU staff, worldwide. Their dedication to the provision of service and the control of costs has contributed significantly to the increased strength of the company.

The reorganisation in Australia which started in 1995 now nears completion. In spite of the very competitive environment our membership has increased and we are in a strong position to manage the changes which will almost certainly occur within the industry in the next few years. During the year Professor Doug Tracy retired. He had been Chairman of the Australian Cases Committee from its inception and latterly was Chairman of the Regional Advisory Committee. He made an outstanding contribution to The MDU in

Australia. His successor is Mr Tom Hugh, a consultant surgeon at St Vincent's Hospital, Sydney.

In Ireland membership continues to increase and in addition The MDU was asked by the Department of Health to continue to run the scheme for Non-Consultant Hospital Doctors in 1996/97.

The MDU has strengthened its commitment to membership services in South Africa by appointing two doctors to provide advisory services and to act as the first point of call for members seeking assistance.

At the Annual General Meeting, Dr Chris Earl, Vice-Chairman, retired. On behalf of the Board, I would like to pay tribute to Dr Earl for the important part he played in helping to shape The MDU during the 1990s. He has been succeeded as Vice-Chairman by Mr Joe Smith, a Board member and former Treasurer. Mr Barry Sherlock retired from the Board during the year. His extensive experience of the insurance industry enabled him to make an invaluable contribution to the Board's discussions. In his place the Board has welcomed Mr Roger Corley, formerly Chief Executive of Clerical Medical.

This is the last time I shall be introducing the *Annual Report* since I shall retire at this year's Annual General Meeting. It has been an unusual privilege for me to have been able, for four years, to help The MDU reorganise and adapt to change. Rising litigation and the changing financial, legal and professional environment will continue to challenge The MDU as they will other defence organisations. I believe The MDU is now well placed to respond to these challenges. Whatever happens we must ensure that your company remains dedicated to the interests of practitioners of all the branches of the medical, dental and the allied professions.

**DR IAN KELSEY FRY**

CHAIRMAN OF THE BOARD OF MANAGEMENT  
PRESIDENT OF THE MDU

# Operating and Financial Review



'Service to members  
is the core of our  
business, and we seek  
continually to improve  
levels of service...'

THE GENERAL INCREASE in the demand for assistance, both advisory and indemnity related, in an increasingly price conscious and competitive world produces many challenges for your company. Service to members is the core of our business, and we seek continually to improve levels of service while containing costs in line with inflation. As the membership grows and broadens, activity in our various departments increases and becomes more complex. The need to respond speedily and accurately has been met by using high calibre, well-trained staff assisted by the latest technology. File audit and membership surveys have been introduced in Professional Services and have led to improved efficiency and responsiveness to the needs of individual members.

I am pleased to report that a further increase of in-house medical, legal and insurance expertise, both in the United Kingdom and

Australia, has reinforced the improvement in claims control reported last year.

Additionally our investment in management information systems has enabled our risk management teams to publish a variety of reports, drawing on our own unique data, for the benefit of individual membership groups. This process, which continues, is an important service for members, increasing patient safety which in turn should reduce potential claim exposure.

Tort reform and 'changing the system' continue to be much talked about in many jurisdictions. Your company continues to contribute to such debates, bringing our unparalleled experience to bear in the best interests of the profession, for example, Ireland, where the Department of Health's review of professional indemnity continues and The MDU is providing relevant information from its own data.

## Financial Review

The MDU continually strives to improve its overall funding position with significant advances having been made in recent years. The reported results for 1996 show reserves of £267m compared with the estimated cost of settlement for indemnity cases notified of £248m. Despite the upward pressure on claims-related costs in the current year the long-term trends are in line with those anticipated.

## Income

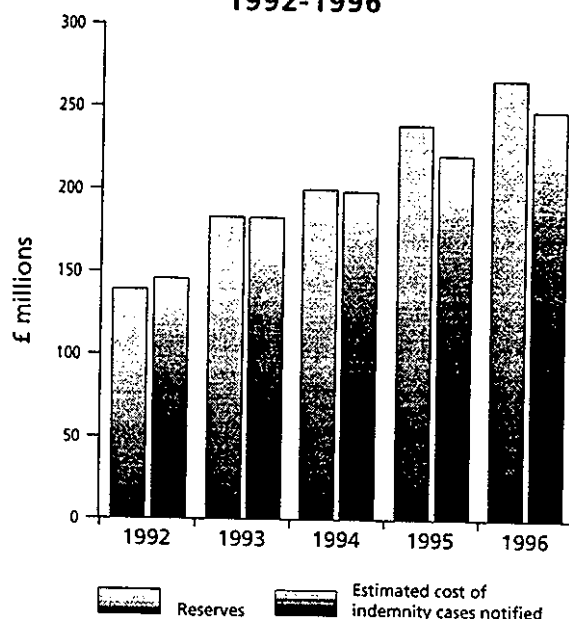
Subscription income for the year ended 31 December 1996 was £89.2m (1995 - £77.9m), an increase of approximately 15 per cent. The Group results include investment income of £10.6m (1995 - £9.7m).

## Expenditure

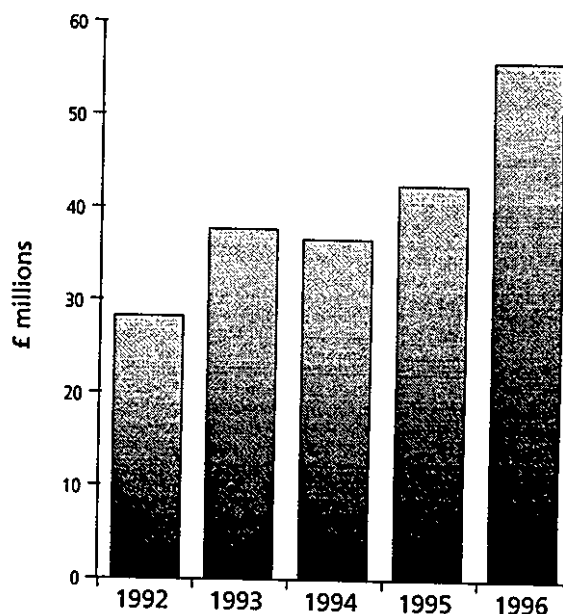
The adverse trend in litigation has contributed to the reported growth in claims-related expenditure. In 1996, some £56m (1995 - £43m) was paid out on behalf of The MDU's members. This represents a significant increase on the previous year though the average increase over the last five years is consistent with the assumptions adopted in determining subscriptions.

The costs associated with the provision of services to members have remained comparable to the prior year while improving Advisory and Risk Management services.

**Figure 1. Reserves and estimated cost of indemnity cases notified 1992-1996**



**Figure 2. Indemnity and legal payments 1992-1996**



## Group Developments

MDU Insurance Limited, our wholly owned Captive Insurance Company has completed its first trading year. The MDU as a Group has derived significant benefits during the year by having direct access to the global reinsurance market. We have continued to develop our reinsurance programmes, which will alleviate upward pressure on subscriptions arising from any catastrophic losses. A further benefit is the development of strategic alliances with major reinsurers in markets where The MDU may wish to continue to represent members while reinsuring the underlying risk.

In December 1996, The MDU established a wholly-owned investment company, MDU Investments Limited, to manage the Group's portfolio of gilts and bonds. This reflects our continuing policy of managing the financial resources of The MDU in a way that contributes to our dual objective of minimising the upward pressure on subscriptions while improving the Group funding position.

*Dr Michael Saunders*

**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 1996.

## 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.

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 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 17, set out the financial results of the year's activities.

The group's total reserves have increased from £239m at 31 December 1995 to £267m at 31 December 1996.

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.

## Directors

The following served as directors in 1996:

I Kelsey Fry*	(Chairman)
J C Smith*	(Vice-Chairman)
P C Ball	
Hedley E Berry	
E M Cooke	

C C Evans	
M M Gallivan	
Baroness Hooper*	
W S L La Frenais	
D E Markham*	
R J Maxwell*	
D E Poswillo	
M T Saunders*	
Sir Roland Smith*	
C M Tomkins	
C J Earl	(retired 18.6.96)
R D Corley*	(appointed 18.6.96)
A H M Nebel	(appointed 18.6.96, resigned 30.9.96)
E B O Sherlock*	(retired 31.7.96)

\* being members of the Remuneration Committee.

Mr Roger D Corley, *CBE FIA FRSA*, was appointed to The MDU Board of Management on 18 June 1996. Mr Corley joined Clerical Medical in 1956 and was as a Director from 1975 to 1996, becoming Chief Executive in 1982. He retired from that post in 1995. He has served as President of the Institute of Actuaries, and Master of the Worshipful Company of Actuaries and is a Vice-President of the International Actuarial Association. He is also a Director of the British Heart Foundation and Chairman of St Andrew's Group plc.

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

P C Ball
C C Evans
M M Gallivan
W S L La Frenais

### **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. No bonus scheme or other long-term incentive plan for directors operated during the year.
- 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.

### **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*

**N J BOWMAN**  
COMPANY SECRETARY  
25 March 1997

# CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

		1996		1995	
	Notes	£'000	£'000	£'000	£'000
MEMBERS' SUBSCRIPTIONS			89,244		77,936
LESS:					
MEDICAL AND DENTAL ADVISORY SERVICES		11,065		10,860	
INDEMNITY AND LEGAL COSTS	2	56,145		42,755	
ADMINISTRATIVE COSTS		7,473		7,470	
			74,683		61,085
SURPLUS OF MEMBERS' SUBSCRIPTIONS OVER EXPENDITURE	3		14,561		16,851
INVESTMENT INCOME	4	10,577		9,659	
REALISED LOSSES AND GAINS FROM DISPOSAL OF INVESTMENTS		(466)		1,845	
OTHER INCOME		128		338	
			10,239		11,842
SURPLUS BEFORE TAXATION			24,800		28,693
TAXATION	5		4,655		3,729
SURPLUS AFTER TAXATION TRANSFERRED TO ACCUMULATED FUND	11		20,145		24,964

All amounts relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED  
GAINS AND LOSSES FOR THE YEAR ENDED  
31 DECEMBER 1996

	1996	1995
	£'000	£'000
SURPLUS AFTER TAXATION	20,145	24,964
UNREALISED SURPLUS ON REVALUATION OF INVESTMENTS	7,445	14,096
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	27,590	39,060

NOTE OF HISTORICAL COST  
GAINS AND LOSSES

	£'000	£'000
REPORTED SURPLUS BEFORE TAXATION	24,800	28,693
REALISATION OF INVESTMENT GAINS OF PREVIOUS YEARS	16,843	3,090
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	41,678	31,818
HISTORICAL COST SURPLUS AFTER TAXATION	37,023	28,089



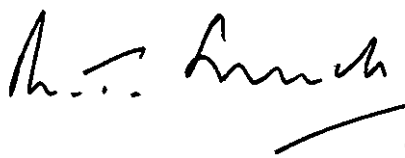
# CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 1996

		1996		1995	
	Notes	Group £'000	Company £'000	Group £'000	Company £'000
<b>FIXED ASSETS</b>					
Tangible assets	6	9,689	9,689	9,420	9,420
Investments	8	259,037	93,707	225,770	207,001
		268,726	103,396	235,190	216,421
<b>CURRENT ASSETS</b>					
Debtors	9	2,171	143,814	1,332	19,999
Deposits at banks		2,281	2,267	7,331	7,324
		4,452	146,081	8,663	27,323
Creditors – amounts falling due within one year	10	6,301	6,249	3,954	3,941
NET CURRENT (LIABILITIES) / ASSETS		(1,849)	139,832	4,709	23,382
TOTAL ASSETS LESS CURRENT LIABILITIES		266,877	243,228	239,899	239,803
PROVISION FOR LIABILITIES AND CHARGES	10	–	–	612	612
NET ASSETS		266,877	243,228	239,287	239,191
<b>RESERVES</b>					
	11				
Property revaluation reserve		2,507	2,507	2,507	2,507
Investment revaluation reserve		18,168	13,601	27,566	27,566
Accumulated fund		246,202	227,120	209,214	209,118
TOTAL RESERVES		266,877	243,228	239,287	239,191

Approved by the Board of Management on 25 March 1997



**I Kelsey Fry**  
CHAIRMAN



**MT Saunders**  
CHIEF EXECUTIVE

CONSOLIDATED CASH FLOW  
STATEMENT FOR THE YEAR ENDED  
31 DECEMBER 1996

		1996	1995
	Notes	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	1	15,642	18,413
RETURNS ON INVESTMENTS			
Interest received		2,270	2,136
Investment income		6,608	5,646
CASH INFLOW FROM INVESTMENTS		8,878	7,782
NET CASH INFLOW FROM OPERATING ACTIVITIES AND RETURNS ON INVESTMENTS		24,520	26,195
CORPORATION TAX PAID		(1,977)	(1,363)
INVESTING ACTIVITIES			
Purchases of fixed assets		(1,521)	(888)
Sales of fixed assets		78	94
Purchases of investments		(332,023)	(106,390)
Sales of investments		305,873	85,423
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(27,593)	(21,761)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	3	(5,050)	3,071

# NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1996

	1996	1995
	£'000	£'000
<b>1. RECONCILIATION OF SURPLUS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		
Surplus before taxation	24,800	28,693
Investment income	(10,577)	(9,659)
Realised losses/(gains) from disposal of investments	466	(1,845)
Loss/(profit) on disposal of fixed assets	8	(1)
Depreciation	1,165	1,078
Increase in debtors	(844)	(195)
Increase in creditors	624	342
Net cash inflow from operating activities	15,642	18,413
<b>2. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR</b>		
Balance at 1 January 1996	7,331	4,260
Net cash (outflow)/inflow	(5,050)	3,071
Balance at 31 December 1996	2,281	7,331
<b>3. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET</b>		
	Change in year £'000	1996 £'000
Deposits at banks	(5,050)	7,331

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

## 1. ACCOUNTING POLICIES

### (a) Format of the financial statements

The consolidated income and expenditure account differs from the formats as prescribed by the Companies Act 1985. The departure has been adopted in order to give a better understanding of the financial statements.

### (b) Basis of accounting

The financial statements have been prepared under the historic cost convention, as modified by the revaluation of investments and certain leasehold properties and in accordance with applicable accounting standards.

In accordance with the discretionary nature of The MDU's indemnity obligations, 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.

### (c) 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. In the company financial statements investments in subsidiary undertakings are carried at cost.

### (d) 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.

### (e) 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.

### (f) 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.

### (g) Investments

Listed and unlisted investments held at 31 December are stated at the mid-market 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.

### (h) Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions denominated in foreign currency are recorded at the rates of exchange ruling at the date of transactions. The resulting exchange differences are dealt with in the determination of the surplus for the financial year.

### (i) Deferred taxation

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

### (j) 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.

### (k) 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

	1996	1995
	£'000	£'000
2. INDEMNITY AND LEGAL COSTS		
Indemnity payments (including reinsurance)	40,810	29,362
Legal costs	15,335	13,393
	56,145	42,755
3. SURPLUS OF MEMBERS' SUBSCRIPTIONS OVER EXPENDITURE		
(a) Surplus of members' subscriptions over expenditure for the year before taxation has been arrived at after charging/(crediting) the following:		
Depreciation (Note 6)	1,165	1,078
Loss/(profit) on disposal of fixed assets	8	(1)
Auditors' remuneration – as auditors	58	54
– for non-audit work	160	175
Operating lease charges	–	13
(b) Directors' remuneration:		
Fees	222	200
Other emoluments (including pension contributions)	435	397
Compensation for loss of office	82	–
	739	597
Chairman's fees	36	34
Emoluments (excluding pension contributions) of the highest paid director	138	120
The emoluments (excluding pension contributions) of the other directors fell within the following ranges:		
	Number	Number
£ Nil – £ 5,000	–	1
£ 5,001 – £ 10,000	6	8
£ 10,001 – £ 15,000	2	–
£ 15,001 – £ 20,000	3	2
£ 20,001 – £ 25,000	3	3
£ 30,001 – £ 35,000	1	1
£ 35,001 – £ 40,000	1	–
£ 40,001 – £ 45,000	–	1
£ 65,001 – £ 70,000	–	1
£ 90,001 – £ 95,000	1	–
£ 95,001 – £100,000	–	1
£105,001 – £110,000	1	–

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

	1996	1995
	£'000	£'000
(c) Staff costs charged in arriving at the surplus of members' subscriptions over expenditure for the year before taxation are:		
Salaries	6,931	6,766
Social security costs	511	457
Other pension and related costs	1,134	1,016
	8,576	8,239
	Number	Number
Average number of employees in the year	230	203
	£'000	£'000
4. INVESTMENT INCOME		
Franked investment income	2,063	1,565
Unfranked investment income	6,244	5,958
	8,307	7,523
Loan and bank interest	2,270	2,136
	10,577	9,659
5. TAXATION		
Corporation tax for the year at 33 per cent (1995: 33 per cent) on income and capital gains from investments	4,384	3,529
Tax credits on franked investment income	385	276
Adjustment in respect of previous years	(114)	(76)
	4,655	3,729

The potential liability on unrealised gains arising on the revaluation of investments is estimated to be £4,120,000 (1995: £5,913,000) for the Group and £3,366,000 (1995: £5,913,000) for the Company. The potential liability on the revaluation of certain leasehold properties is estimated to be £650,000 (1995: £660,000) for both the Group and Company.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

## 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 1996	1,707	9,331	910	5,301	17,249
Additions	–	301	129	1,091	1,521
Disposals	–	–	(142)	(306)	(448)
At 31 December 1996	1,707	9,632	897	6,086	18,322
Cost	1,707	6,360	897	6,086	15,050
Valuation in 1987	–	3,272	–	–	3,272
	1,707	9,632	897	6,086	18,322
Depreciation					
At 1 January 1996	518	2,563	281	4,467	7,829
Provided in year	32	434	180	519	1,165
Disposals	–	–	(72)	(289)	(361)
At 31 December 1996	550	2,997	389	4,697	8,633
Net book amount					
At 31 December 1996	1,157	6,635	508	1,389	9,689
At 31 December 1995	1,189	6,768	629	834	9,420

Certain leasehold properties were professionally valued in 1987, on an existing use basis. The directors consider at regular intervals the applicability of valuations incorporated in the financial statements with the aforementioned properties being subsequently valued in 1992. 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:

	1996	1995
	£'000	£'000
Cost	2,808	2,747
Depreciation	345	310
	2,463	2,437
Leasehold properties at net book value comprise:		
Properties with over 50 years to run	6,541	6,654
Properties with under 50 years to run	94	114
	6,635	6,768

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

	1996	1995
<b>7. CAPITAL COMMITMENTS</b>	£'000	£'000
Capital expenditure contracted for but not provided for in these accounts for Group and Company	–	384

<b>8. FIXED ASSETS – INVESTMENTS</b>				
Group	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 1996:	£'000	£'000	£'000	£'000
At valuation	171,043	385	–	171,428
At cost	–	–	54,342	54,342
	171,043	385	54,342	225,770
Additions at cost	332,161	–	–	332,161
Disposals	(262,055)	(34)	(44,250)	(306,339)
Revaluation movement (Note 11)	7,419	26	–	7,445
At 31 December 1996	248,568	377	10,092	259,037

Company	Shares in subsidiary undertakings	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 1996:	£'000	£'000	£'000	£'000	£'000
At valuation	–	171,043	385	–	171,428
At cost	5,000	–	–	30,573	35,573
	5,000	171,043	385	30,573	207,001
Transfer to subsidiary undertaking	–	(118,420)	–	(1,968)	(120,388)
Additions at cost	–	265,870	–	–	265,870
Disposals	–	(243,220)	(34)	(19,644)	(262,898)
Revaluation movement (Note 11)	–	4,096	26	–	4,122
At 31 December 1996	5,000	79,369	377	8,961	93,707

Listed and unlisted investments are stated at valuation. Cash held for investment is 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:

	1996		1995
	Group £'000	Company £'000	Group £'000
Listed investments	230,596	65,964	143,647
Unlisted investments	181	181	215
	230,777	66,145	143,862

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 and MDU Investments Limited, an investment company, incorporated in England.

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 1996

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
9. DEBTORS				
Subscriptions in transit	1,292	1,292	668	668
Other debtors	109	110	196	196
Prepayments and accrued income	770	642	468	291
Amounts owed by subsidiary undertakings	-	141,770	-	18,844
	2,171	143,814	1,332	19,999
10. CREDITORS - Falling due within one year:				
Administrative creditors	3,054	3,007	1,793	1,780
Taxation and social security	3,247	3,242	2,161	2,161
	6,301	6,249	3,954	3,941
PROVISION FOR LIABILITIES AND CHARGES				
Group and Company	Provision for Pensions			
	£'000			
At 1 January 1996	612			
Release to income and expenditure account of provision no longer required	(612)			
At 31 December 1996	-			
11. RESERVES				
Group	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1996	2,507	27,566	209,214	239,287
Movement on revaluation of investments (Note 8)	-	7,445	-	7,445
Transfer of realised gains	-	(16,843)	16,843	-
Excess of income over expenditure for the year	-	-	20,145	20,145
At 31 December 1996	2,507	18,168	246,202	266,877
Company	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 1996	2,507	27,566	209,118	239,191
Movement on revaluation of investments (Note 8)	-	4,122	-	4,122
Transfer of realised gains	-	(18,087)	18,087	-
Excess of income over expenditure for the year	-	-	(85)	(85)
At 31 December 1996	2,507	13,601	227,120	243,228

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

## 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 9 per cent per annum, that salary increases will average 7 per cent per annum, that present and future pensions will increase at 5 per cent per annum, and that future dividend growth will average 4.5 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 1994 when the market value of the scheme's assets was £17.8m. This showed that the actuarial value of the assets represented 105 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 1996 was £1,038,000 (1995 - £924,000) after allowing

for spreading the surplus revealed by the April 1994 valuation over the average remaining service life of scheme members, estimated as 10 years.

In Australia, where a defined contribution scheme is operated, contributions during the year were £96,000 (1995: £92,000).

## 13. ACCUMULATED FUND-INDEMNITY CASES - GROUP AND COMPANY

The outstanding cost of settlement for reported indemnity cases notified as at 31 December 1996 is estimated on the advice of the consulting actuaries to be £248m (1995: £221m) for the Group which includes £232m (1995: £221m) 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.

# AUDITOR'S REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on page 11.

## 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.

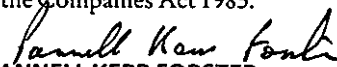
## BASIS OF OPINION

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 1996 and the group surplus 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 - 25 March 1997

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 24 JUNE 1997 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 1996.	1	P C Ball BDS BSc DDS DGD(P)(UK) J E Banatvala MA MD FRCP FRCPath DCH DPH P R F Bell MD FRCS FRCSEd Hedley E Berry MB BS FRCS E M Cooke OBE BSc MD FRCPath FRCP C C Evans MD FRCP A Fitzgerald O'Connor MB ChB FRCS	
To elect R D Corley, who is due to retire under Article 56, to the Board of Management.	2	J C Frankland BSc MB ChB FRCGP DOBSTRCOG J S Garfield MChir FRCP FRCS R L Hargrove MB BS FRCA C R Hemming RGN DNCert PWT PN R W Hiles MB ChB FRCS FRCSEd Sir David Hull MB ChB FRCP W S L La Frenais MB ChB DOBSTRCOG D E Markham 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 1997 Annual General Meeting.	3	C D Marsden MB BS FRCP MRCPsych FRS DSc H G Morgan MD FRCP FRCPsych DPM P J Mulligan MB ChB FRCS FRCSGlas C O'Herlihy MD FRCPI FRCOG FRACOG R K Prasad MB MS FRCSGlas 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 P R Williams MA MB BChirCamb MRCP	
To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:			
P C Ball	4		
C C Evans	5		
M M Gallivan	6		
W S L La Frenais	7		
To invite the Board of Management to appoint as members of the Council of The MDU for 1997-1998 the following:	8		
J Adgey MD MB BCh BAO FRCP A R Aitkenhead BSc MD FRCA M Anderson FRCOG			

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

	Resolution No.
To re-appoint Messrs Pannell Kerr Forster as auditors and to authorise the Board of Management to determine the remuneration of the auditors.	9
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> .	10
That the <i>Memorandum and Articles of Association</i> of The MDU be amended as follows:	

### Memorandum

Clause 3(v) line 2: delete 'charges and expenses of any proceedings' and insert 'charges, expenses and damages of any person in any proceedings'.

Line 10: after 'member' insert 'or any group or category of such persons'.

### Articles of Association

Clause 2: delete the present definition of 'Member' and insert 'means, where the context admits, a person accepted and continuing as such in accordance with Articles 4-14 and, subject to the Articles, includes an associate member'.

Clause 4 line 10: after 'subscriptions' insert 'and/or that the period of any membership is to be for a fixed period of time or is to terminate automatically upon the occurrence of any event'.

after 'groups' insert '(including of associate members)'.

Clause 9 line 6: after 'MDU' insert '(with a note, if appropriate, that the member or members is an associate member or are associate members)'.

Clause 11 line 1: after 'discretion' insert '(a)'.

Line 6: after 'MDU' insert '(b) to terminate the membership of any member by not less than 14 days' notice given at any time and, in such circumstances, a

due proportion of that member's subscription (if any), reflecting the period from the date of such termination until the expiry date, shall forthwith be refunded to that member by The MDU'.

Clause 12: after line 16 insert '(d) Any member who becomes the object of bankruptcy or insolvency proceedings or enters or proposes to enter into a voluntary arrangement with creditors or, being a corporate member, is placed in liquidation or receivership (whether in respect of the whole or part of its assets) or applies for the appointment of an administrator (including in any jurisdiction matters having a similar effect) shall unless the Board of Management otherwise determines ipso facto forthwith cease to be a member of The MDU'.

Clause 22 line 5: after 'all members' insert 'other than associate members'.

Clause 34 line 1: after 'member' insert 'other than an associate member'.

Line 4: after 'member' insert 'other than an associate member'.

Clause 47(1): insert at the beginning 'Save insofar as the Board of Management may otherwise determine'.

Line 4: after 'arose' insert 'or proceedings were served or, whether before or after the adoption of this proviso in its present form, the matter was notified to The MDU by or on behalf of such member, applicant for election to membership, former member or deceased member'.

By Order of the Board of Management

*N J Bowman*

**N J BOWMAN**

COMPANY SECRETARY

25 March 1997

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 22 June 1997.
- (2) Mr Roger D Corley CBE FIA FRSA, was appointed to The MDU Board of Management on 18 June 1996. Mr Corley joined Clerical Medical in 1956 and was a Director from 1975 to 1996, becoming Chief Executive in 1982. He retired from that post in 1995. He has served as President of the Institute of Actuaries, and Master of the Worshipful Company of Actuaries and is a Vice-President of the International Actuarial Association. He is also a Director of the British Heart Foundation and Chairman of St Andrew's Group plc.
- (3) Dr P C Ball BDS BSc DDS DGD(UK), is a general dental practitioner in Tamworth. He was appointed to the Board and as Chairman of The MDU Dental Committee on 20 July 1993. Dr Ball qualified in Birmingham. He is currently Deputy Regional Director of Postgraduate Dental Education in the West Midlands Region. He is also a former member of the General Dental Council and the Council and Representative Board of The British Dental Association.
- (4) Dr C C Evans MD FRCP, is a consultant physician in General and Respiratory Medicine in Liverpool. He joined the Council in 1984 and was appointed to the Board in 1992. Dr Evans is the co-author of *Chamberlains Symptoms and Signs in Clinical Medicine* and is a Senior Examiner and past Censor of the Royal College of Physicians. He is Chairman of the Mersey Specialist Training and Educational Committee for Medicine.
- (5) Mr M M Gallivan BA(Hons) FCMA MBA, is the Finance Director. He joined The MDU in January 1993 as General Manager of the Finance Division. He was appointed to the Board on 20 July 1993. Mr Gallivan is an accountant and was formerly employed for six-and-a-half years by NIG Skandia, the UK general insurance subsidiary of Skandia Insurance. Mr Gallivan gained an MBA at Bradford University Management Centre in 1990.
- (6) Dr W S L La Frenais MB ChB DOBSTRCOG, is a GP in Runcorn, Cheshire. He joined The MDU Council in 1991 and was appointed to the Board on 1 November 1993. Dr La Frenais is a graduate of Liverpool University and has been a GP principal since 1966. For many years he has been a member of the Cheshire LMC and has been actively involved in FHSA Medical Service Committee hearings.
- (7) References to line numbers in the special resolution are taken from the printed form of the *Memorandum and Articles of Association* of The MDU prepared following the 1996 AGM. Copies may be obtained from The MDU 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 for inspection at the meeting.
- (8) The proposed changes to the *Memorandum and Articles of Association* are mainly for the following purposes:
  - (i) To introduce 'associate membership' as a new class of membership. Associate members will enjoy benefits of membership but will not receive the annual report and accounts or notice of General Meetings.
  - (ii) To enable The MDU to terminate membership before the end of the subscription year, and to refund a proportion of the subscription.
  - (iii) To enhance the discretion of The Board of Management.
  - (iv) To ensure that The MDU has the flexibility needed to keep pace with the way it carries on its business.
  - (v) To provide for automatic termination (unless the Board otherwise determines) of membership on bankruptcy or insolvency of a member.

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