

THE MEDICAL PROTECTION SOCIETY

ANNUAL REPORT and ACCOUNTS

1999



CHIEF EXECUTIVE'S REPORT

At the end of another successful year for the Society, members' funds available to meet future liabilities and charges had increased from £142 million at the end of 1998 to £186 million.

We are confident that this amount, which is calculated after providing for all known liabilities, should be sufficient to meet in full all future potential claims incurred but not reported ("IBNR"). Nevertheless it is your Council's intention to continue to build up these reserves to the levels of prudential margins required under insurance conventions in order to protect members from any possibility of a call for additional funding under Article 5.

The improvement in reserves is attributable largely to the strong trading performance reflected in the Income and Expenditure Account. Increased numbers of members contributed to a rise in subscription income and, after prudent provision in 1998 for escalating claims liabilities (especially in respect of high value claims in U.K. and Ireland), these liabilities showed a welcome stabilisation in 1999. However, there is currently a threat of further significant escalation in levels of damages for personal injuries which is referred to later in this report.

Although advisory, legal and administration costs have inevitably increased with the rising demands for the Society's services, the increase has been mitigated by the development of enhanced internal legal resources at a cost significantly less than that of outside law firms in the U.K.

During the year the Medical Defence Union reached a decision to withdraw from some territories outside the U.K. and Ireland and the Society reached an agreement with the Medical Defence Union to facilitate the transfer of their members, totalling more than 12,000 in New Zealand, Singapore, Malaysia and South Africa to the Society with appropriate financial arrangements to underwrite those members' past liabilities. The great majority of those members have joined the Society thereby reinforcing our position in those territories and your Council remains fully committed to maintaining the Society's international presence.

The Society took advantage of the high level of the U.K. stockmarket during the year to reduce further our equity investments which now account for only some 20% of the total investment portfolio. Returns on index linked gilts have been unattractive during this period but we have retained large amounts of cash deposits and our total investment return of 9% has contributed to the Society's strengthened financial position and we are not highly exposed to the possible - some might say probable - collapse of the extraordinary recent boom in telecom and internet stocks.

Fears of Year 2000 problems with computer systems, which were mentioned in last year's report, proved unfounded and the Society was afflicted with only trivial problems which were promptly remedied. Our attention in this area is now directed to development of our IT systems, encompassing in particular enhancement of our web site and development of facilities to enable members, who can already access the Society by e-mail, to resolve membership queries and apply for or renew membership "on line" through the internet.

The health professions are under challenge in all parts of the world – nowhere more so than in the U.K. where the medical profession particularly is beleaguered by the public and the media on the one hand and by government on the other hand, – the further major changes in the structure for the delivery of primary care being a prime example. This situation, combined with the ever-increasing burden of regulatory, revalidation and disciplinary processes throughout the world, creates an escalating demand on the Society's advisory and representation services which endeavour to provide "peace of mind" to members in a turbulent environment.

In addition, we are now confronted in the U.K. by the prospect of a further sudden escalation in damages for personal injury. Early in 1999 the Law Commission recommended that general or "non-economic" damages for personal injury – such as damages for "pain and suffering" – should be increased by factors of 1.5 to 2 times and the Court of Appeal is currently considering appeals in nine personal injury cases on this single issue.

At the same time there is pressure to reduce further the discount rate applied to the calculation of pecuniary or special damages for future recurring losses which, as reported last year, was reduced by a House of Lords decision in July 1998 from 4.5% to 3% leading to a sharp escalation in awards on high claims.

The economic and social effects of changes of this kind are enormous and the Society has been working actively with both the Association of British Insurers and the National Health Service Litigation Authority to ensure that their potential impact is brought home to the Courts as well as to the government and other interested parties. Whilst the Society has always stated that patients who have been negligently injured should be fairly compensated, every £1 expended in this way reduces by £1 the funds available for improved health care and it should be noted that the value of pending claims in the NHS hospital sector alone were estimated at £2.8 billion at the end of 1998.

The Society continues to adhere to the policy that, whilst the size and strength of an international mutual fund enables unforeseen liabilities to be smoothed in the short term, in the longer term the professions in each territory must bear the cost of their own liabilities. If the changes referred to above are fulfilled, it is unavoidable that the U.K. profession will have to bear the cost – no indemnifier, insurance company or other, can escape that.

Notwithstanding these problems, your Society is in good heart and in the strongest financial position ever. Our staff, who are to be thanked once more for their work and loyalty during the year, are ready to assist you, our members, in whatever way we can and to adapt our advisory and indemnity services to new situations which are emerging throughout the world.

John Youngman
Chief Executive

Members of the Council

President Sir Leslie Turnberg *Kt MD FRCP*

Chairman of the Council Paul Miller MA MSc DPhil FRCP

Chief Executive John Youngman BA

Vice-Presidents

Israel Professor Shmuel Penchas MD MSc DIC

New Zealand Professor Sir John Scott *KBE BMedSc MD FRCP FRACP FRSNZ*

West Indies Raymond Massay BSc MB BS MRCP(UK)

Ireland Professor John Bonnar MA MD FRCOG

Members of the Council

Meredyth Bell *MBE BDS MFDGP(UK) RCS*

The Lord Colwyn *CBE BDS LDSRCS*

Alan Crouch MB ChB FRCGP DObstRCOG

* Martin Gairdner BA FCA

Professor Jack Hardcastle MA MChir FRCS FRCP

Professor Richard Hobbs MB ChB FRCGP

Mary King MB BCh BAO FRCPI

* Paul Miller MA MSc DPhil FRCP *Chairman*

* Brian Mouatt *CBE BDS MGDSRCS*

* Keith Parsons MB ChB FRCSEd FRCS

* Susan Sellers MD FRCOG

Robert Seward MA Barrister

John Leighton Williams QC MA LLB

John Youngman BA *Chief Executive (ex officio)*

* Members of the Audit Committee

REPORT OF THE COUNCIL

The Council, which for the purposes of the Companies Acts is the Board of Directors, presents its report and accounts for the year ended 31 December 1999.

Principal activity

The Society is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by the Society's Memorandum of Association. Members are not entitled to dividends or other distributions, and the balance on the income and expenditure account is retained by the Society to set against future liabilities.

One of the objects of the Society is to grant indemnity to members in respect of claims and demands which may result in the payment of costs and damages. The Articles of Association set down in paragraph 28 that 'the grant of indemnity shall be entirely in the discretion of the Council who shall have power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same.'

Review of the business

The results for the year are stated in detail on pages 7 to 21.

The review of the business appears in the Chief Executive's report on pages 1 to 2.

Donations

Charitable donations made by the Society during the year amounted to £6,000. No political donations were made during the year.

Members of the Council

The names of the members of the Council of the Society who served during the year are set out on page 3.

Corporate Governance

Although it is only listed companies which are required to comply with the Combined Code on Corporate Governance, the Society complies with the principles of the code where it is considered relevant to the Society's business and constitution. During the year, the requirements of the Combined Code on Corporate Governance were added to with the publication in September of the Turnbull report on internal controls. The Society believes that its internal controls comply with the vast majority of the requirements listed in the report and is undertaking a detailed evaluation of these requirements. This will be completed in the early part of 2000 and any areas of deficiency will be fully addressed by the middle of 2000.

Auditors

The auditors changed their name to RSM Robson Rhodes on 18 October 1999 and accordingly have signed the audit report using their new name.

RSM Robson Rhodes have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

Statement of the Council's responsibility for the financial statements

Company Law requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and the Group and of the surplus or deficit of the Society and the Group for that period. In preparing those financial statements, the Council has:

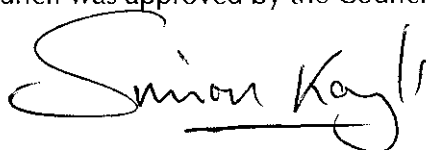
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared the financial statements on the going concern basis.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and the Group and to enable it to ensure that the financial statements comply with the Companies Act 1985. It is also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approval

The report of the Council was approved by the Council on 5 April 2000 and signed on its behalf by;

Simon Kayll
Company Secretary
33 Cavendish Square,
London, W1M 0PS

A handwritten signature in black ink, appearing to read 'Simon Kayll', with a horizontal line underneath the name.

REPORT OF THE AUDITORS TO THE MEMBERS OF THE MEDICAL PROTECTION SOCIETY

We have audited the financial statements on pages 7 to 21 which have been prepared on the basis of the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

As described on page 5, the Council is 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 issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society'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 mis-statement, 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 Society and the Group at 31 December 1999 and of the net contribution for the year available to meet future liabilities and charges of the Group for the year then ended and have been prepared in accordance with the Companies Act 1985.

RSM ROBSON RHODES
Chartered Accountants
Registered Auditor
40 Great George Street
Leeds, LS1 3DQ
5 April 2000



ANNUAL REPORT & ACCOUNTS 1999

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
Year ended 31 December 1999

	Notes	1999 £'000	Restated 1998 £'000
Income :			
Members' subscriptions and other income		<u>98,620</u>	<u>83,486</u>
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	16	60,884	69,288
Insurance recoveries		(2,582)	(7,400)
Advisory costs and associated legal costs	3	9,765	8,755
Administration expenses	3	6,503	5,827
(Profit)/loss on exchange movements		(581)	1,084
		<u>73,989</u>	<u>77,554</u>
Excess of income over expenditure		24,631	5,932
Income from investments	4	9,544	9,413
Realised gains from disposal of investments	5	3,654	12,736
		<u>37,829</u>	<u>28,081</u>
Contribution from ordinary activities before taxation		37,829	28,081
Tax on investment income and gains	6	(2,937)	(5,844)
Net contribution for the year available to meet future liabilities and charges	18	34,892	22,237

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

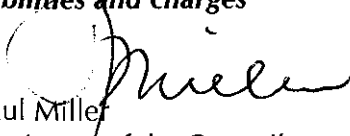
	Notes	1999 £'000	Restated 1998 £'000
Net contribution for the financial year		34,892	22,237
Surplus on revaluation of investments		9,315	17,039
Surplus on revaluation of fixed assets		1,620	-
Tax charge on investment gains	6	(1,938)	(9,154)
Total recognised gains		<u>43,889</u>	<u>30,122</u>

NOTE OF HISTORICAL COST INCOME AND EXPENDITURE

	Notes	1999 £'000	Restated 1998 £'000
Reported net contribution before tax		37,829	28,081
Realisation of valuation gains of previous years	17	<u>13,885</u>	<u>25,568</u>
Historical cost net contribution before tax		<u>51,714</u>	<u>53,649</u>
Historical cost net contribution retained after tax		<u>48,777</u>	<u>47,805</u>

CONSOLIDATED AND COMPANY BALANCE SHEETS
At 31 December 1999

	Notes	1999	1998	1999	1998
		Group	Group	Company	Company
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10	8,027	6,424	7,992	6,376
Investments	11	294,294	273,770	20,001	20,001
		302,321	280,194	27,993	26,377
Current assets					
Debtors	13	11,182	8,914	201,256	154,508
Bank deposit accounts		46,092	24,129	17,511	24,106
Cash at bank and in hand		1,080	865	1,071	852
		58,354	33,908	219,838	179,466
Creditors: amounts falling due within one year	14	(24,901)	(36,606)	(21,690)	(22,365)
Net current assets/(liabilities)		33,453	(2,698)	198,148	157,101
Total assets less current liabilities		335,774	277,496	226,141	183,478
Creditors: amounts falling due after more than one year	15	-	(4,649)	-	(4,649)
Provision for liabilities and charges	16	(149,880)	(130,842)	(149,880)	(130,842)
Net assets		185,894	142,005	76,261	47,987
Accumulated funds	17				
Revaluation reserve		44,011	46,961	1,620	-
Income and expenditure		141,883	95,044	74,641	47,987
Funds available to meet future liabilities and charges	18	185,894	142,005	76,261	47,987


 Paul Miller
 Chairman of the Council

5 April 2000

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 1999

	Notes	1999 £'000	Restated 1998 £'000
<i>Cash flow from operating activities</i>	19	37,876	22,943
<i>Returns on investments</i>	20	9,544	8,928
<i>Tax</i>		(15,941)	(3,932)
<i>Capital expenditure and financial investment</i>	21	(25,978)	27,233
<i>Net cash outflow from disposal of operations</i>		(1,653)	(24,529)
<i>Net cash outflow from management of liquid resources (comprising bank deposits and investment deposits)</i>		(3,633)	(31,496)
<i>Increase/(decrease) in cash in the period</i>		<u>215</u>	<u>(853)</u>

Analysis of changes in net funds

	At 1/1/1999 £'000	Cash flow movement £'000	At 31/12/1999 £'000
Cash at bank and in hand	865	215	1,080
Bank deposit accounts	24,129	21,963	46,092
Cash with investment managers	43,254	(18,330)	24,924
Net funds	<u>68,248</u>	<u>3,848</u>	<u>72,096</u>

Reconciliation of net cash flow to movement in net funds

	1999 £'000	1998 £'000
Increase/(decrease) in cash	215	(853)
Cash flow from increase in net liquid resources	<u>3,633</u>	<u>31,496</u>
	<u>3,848</u>	<u>30,643</u>
Net funds at 1 January	<u>68,248</u>	<u>37,605</u>
Net funds at 31 December	<u>72,096</u>	<u>68,248</u>

NOTES TO THE ACCOUNTS

1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and the constitution of the Society. The Society has adopted Financial Reporting Standard 16 in its financial statements and as a result there have been some reclassifications in the income and expenditure account and in the statement of total recognised gains and losses. These are explained in more detail in notes 2(f) and 6.

2 Accounting policies

(a) Convention

The financial statements include investments and freehold property at valuation but in all other respects have been prepared in accordance with the historical cost convention. The principal accounting policies adopted by the Society within that convention are set out below.

(b) Consolidation

The Group financial statements comprise a consolidation of the financial statements of the parent company (the "Company") and all its subsidiary undertakings (together, the "Group") as at 31 December. In accordance with the exemptions given by Section 230 of the Companies Act 1985, the company does not publish its own income and expenditure account.

(c) Subscriptions

Subscription income comprises amounts due during the year, apportioned to accounting periods on a time basis. No geographical analysis of subscription income is shown because, in the opinion of Council, it is not in the interests of the Group so to do.

(d) Depreciation

Depreciation is provided in equal annual instalments on the cost (or valuation where appropriate) of tangible fixed assets over their anticipated useful lives. The rates of depreciation are as follows:

Freehold buildings	- 2% per annum
Leasehold properties	- over life of leases
Furniture and fittings	- 5% per annum
Office equipment	- 15% per annum
Motor vehicles	- 25% per annum
Computers	- 20% or 25% per annum

(e) Translation of foreign currency transactions

Income and expenditure in foreign currencies are translated to their sterling equivalent at the rate ruling at the transaction date. Current assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December or at a rate fixed in advance by way of a forward exchange contract. Any gain or loss is taken to the income and expenditure account.

(f) Dividends and interest receivable

Dividends are brought into account when received. Interest receivable is brought into account on an accruals basis. In accordance with Financial Reporting Standard 16, the accounting policy for dividend income has changed. It is now recorded net of tax credits. Under the previous accounting standard such investment income was shown gross of tax credits and the tax included in the tax charge. The change in policy has no effect on the net contribution for the year available to meet future liabilities and charges. The effect of this change in policy is to reduce both investment income and the tax charge by £69,000 (1998: £534,000).

Notes to the Accounts

(g) Investments

Listed investments (which include cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with Financial Reporting Standard 3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.

(h) Costs and damages

Provision is made at discounted future settlement values for estimated future costs and damages, legal costs and claims handling costs expected to arise from claims that have been notified to the Society by 31 December in respect of which Council has exercised or is expected to exercise its discretion to provide indemnity. The estimate of these costs is stated before deducting estimated recoveries from insurers, which are disclosed separately.

No provision is made for claims that may arise from incidents incurred before 31 December but not reported to the Society at that date.

(i) Tax

Provision is made in the financial statements for tax on investment and trading income received and receivable in the year and on capital gains on investments disposed of during the year. Provision is made for tax deferred because of timing differences between the treatment of items for tax and accounting purposes, except to the extent that there is reasonable probability that such deferred tax will not become payable in the foreseeable future.

(j) Pensions

The Society operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of the finances of the Society. Pension costs are assessed in accordance with the advice of an independent qualified actuary. Costs include the regular cost of providing benefits which it is intended should remain a substantially level percentage of current and expected future earnings of the employees covered. Variations from the regular costs are spread evenly through the income and expenditure account over the average remaining service lives of current employees.

(k) Leasing

Rentals under operating leases are charged on a straight-line basis over the lease term.

Notes to the Accounts

	1999 £'000	1998 £'000
3 Advisory costs and administration expenses		
Included under this classification are:		
Operating lease rentals - Land and buildings	431	324
- Motor vehicles	164	193
Auditors' remuneration - Audit fees	47	43
- Fees for other services	38	62
Loss on disposal of tangible fixed assets	34	19
Depreciation of fixed assets	<u>639</u>	<u>574</u>

	1999 £'000	Restated 1998 £'000
4 Income from investments		
Dividends: listed investments		
- franked	1,833	2,963
- unfranked	4,162	3,619
Bank interest	<u>3,549</u>	<u>2,831</u>
	<u>9,544</u>	<u>9,413</u>

5 Realised gains from disposal of investments

During the year the Society continued with the change in its investment policy that it started last year to achieve an improved match between its assets and liabilities and to protect the Society's funds from the volatility of equity markets. This resulted in a further sale of a third of the equity portfolio, giving rise to an exceptional realised gain. The proceeds were reinvested in index-linked gilts and cash deposits.

Notes to the Accounts

	1999	Restated
	£'000	1998 £'000
6 Tax on income and gains from investments		
Tax on income and gains included in the income and expenditure account for the year		
UK corporation tax:		
Current tax on income for the year at 30.25% (1998: 31%)	2,937	5,509
Double taxation relief	(68)	(39)
	2,869	5,470
Foreign tax:		
Current tax on income for the year	68	374
Tax on investment income and gains	2,937	5,844
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax:		
Current tax on income for the year at 30.25% (1998: 31%)	2,044	9,125
Adjustment in respect of prior years	(106)	29
Tax on other gains included in the statement of total recognised gains and losses for the year	1,938	9,154

As indicated in note 1 the Society has adopted Financial Reporting Standard 16. Accordingly the tax attributable to gains previously reported in the statement of total recognised gains and losses is now also recognised in that statement. Previously all the taxation charge was reported in the income and expenditure account. The disclosure of the taxation charge for 1998 has been restated to reflect Financial Reporting Standard 16.

Unprovided deferred taxation

No provision has been made for tax of approximately £10m (1998: £10m), which would arise should the Society's equity investments and freehold property be sold at the market values at which they are included in the balance sheet.

Notes to the Accounts

	1999 £'000	1998 £'000
7 Emoluments of members of the Council		
Aggregate amount of emoluments paid to members of Council	351	297
Chairman	28	25
Highest paid director		
Chief Executive: emoluments and taxable benefits	125	116
accrued annual pension	10	8

One member of Council is a member of the Society's defined benefit pension scheme.

The standard remuneration for all other non-executive members of Council was £12,500 per annum, with additional remuneration of up to £10,000 per annum for members who are also chairmen of subsidiary companies or sub committees.

8 Employees

The average number of people employed by the Society during the year was 170 (1998: 160).

Costs in respect of these employees:	1999 £'000	1998 £'000
Wages and salaries	5,599	5,167
Social security costs	489	438
Pension costs	855	871
	<u>6,943</u>	<u>6,476</u>

9 Pensions

The Society operates a pension scheme providing benefits based on final pensionable earnings. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations. The most recent valuation was carried out as at 31 December 1996 using the projected unit method. It was assumed that investment returns would be 7.75% pa, that increase in earnings would average 6% pa and that pensions would increase at the rate of 4% pa.

The valuation showed that the market value of the fund's assets was £10.3 million and that the actuarial value of those assets represented approximately 103% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

A new review of the pension scheme as at 31 December 1999 is taking place.

*Notes to the Accounts***10 Tangible fixed assets: group**

	Freehold property	Leasehold property	Computers, furniture, fittings and office equipment	Motor cars	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January 1999	4,130	652	5,432	30	10,244
Additions	-	-	684	-	684
Disposals	-	-	(413)	(30)	(443)
Revaluation	1,220	-	-	-	1,220
At 31 December 1999	5,350	652	5,703	-	11,705
Depreciation					
At 1 January 1999	331	177	3,282	30	3,820
Provided in year	69	60	510	-	639
Released on disposals	-	-	(351)	(30)	(381)
Released on revaluation	(400)	-	-	-	(400)
At 31 December 1999	-	237	3,441	-	3,678
Net book values					
At 31 December 1999	5,350	415	2,262	-	8,027
At 31 December 1998	3,799	475	2,150	-	6,424

Tangible fixed assets: company

Cost or valuation					
At 1 January 1999	4,130	652	5,352	30	10,164
Additions	-	-	679	-	679
Disposals	-	-	(380)	(30)	(410)
Revaluation	1,220	-	-	-	1,220
At 31 December 1999	5,350	652	5,651	-	11,653
Depreciation					
At 1 January 1999	331	177	3,250	30	3,788
Provided in year	69	60	505	-	634
Released on disposals	-	-	(331)	(30)	(361)
Released on revaluation	(400)	-	-	-	(400)
At 31 December 1999	-	237	3,424	-	3,661
Net book values					
At 31 December 1999	5,350	415	2,227	-	7,992
At 31 December 1998	3,799	475	2,102	-	6,376

Notes to the Accounts

All the leasehold properties held at 31 December 1999 are short leaseholds.

Assets included at valuation

The freehold property was revalued on 31 December 1999 on the basis of the Existing Use Value including notional directly attributable acquisition costs. The valuation was independent and external and was carried out by DTZ Debenham Thorpe, Chartered Surveyors in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors.

If the freehold property had not been revalued it would have been included in the balance sheet at the following amount:

	£'000
Cost	4,130
Depreciation	(400)
At 31 December 1999	3,730
At 31 December 1998	3,799

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (1998: £ nil).

	1999	1998	1999	1998
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
11 Investments				
Valuation or cost at 1 January	273,770	236,531	20,001	20,001
Additions	67,600	105,658	-	-
Disposals at carrying value	(38,624)	(120,591)	-	-
Movement in cash and brokers' balances	(17,767)	35,133	-	-
Surplus on revaluation of listed investments	9,315	17,039	-	-
At 31 December	294,294	273,770	20,001	20,001
Investments comprise:				
Listed on UK Stock Exchange:				
- Equities	67,671	84,680	-	-
- Index-linked gilts	199,878	145,291	-	-
Listed on other overseas Stock Exchanges	1,591	878	-	-
Shares in group undertakings	-	-	20,001	20,001
Cash	24,924	43,254	-	-
Brokers' balances	230	(333)	-	-
	294,294	273,770	20,001	20,001
Historical cost of investments	251,903	226,809	20,001	20,001

*Notes to the Accounts***12 Investment in subsidiary undertakings**

The Medical Protection Society has the following direct interests in subsidiary undertakings:

<i>Name</i>	<i>Parent and group interest in ordinary shares and voting rights</i>	<i>Country of incorporation or registration</i>	<i>Nature of business</i>
Dental Protection Limited	100%	England	To manage the advisory and administrative affairs of the dental division of the Society.
Medical Claims Management Services Limited	100%	England	To provide risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations.
M P I (London) Limited	100%	England	To manage the investment portfolio.
Hallam Medical Training Services Limited	70%	England	Dormant.

All the above subsidiaries operate in their country of incorporation or registration.

During the year the Society disposed of its interests in Medical Protection (Europe) Limited. There have been no material effects on either the Society's activities or cash flow arising from this disposal.

13 Debtors

	1999 Group £'000	1998 Group £'000	1999 Company £'000	1998 Company £'000
Trade debtors	1,670	758	1,640	741
Recoverable insurance claims	7,737	7,137	7,737	7,137
Amounts owed by subsidiary undertakings	-	-	190,108	146,015
Other debtors	307	564	307	160
Prepayments	1,468	455	1,464	455
	11,182	8,914	201,256	154,508

Of the £7.7m of recoverable insurance claims shown above £4.6m is receivable after more than one year.

14 Creditors: amounts falling due within one year

	1999 Group £'000	1998 Group £'000	1999 Company £'000	1998 Company £'000
Corporation tax	3,413	14,479	407	375
Other taxes and social security	220	196	218	194
Deferred income	9,921	10,060	9,921	10,060
Other creditors and accruals	11,347	11,871	11,144	11,736
	24,901	36,606	21,690	22,365

Notes to the Accounts

	1999 Group £'000	1998 Group £'000	1999 Company £'000	1998 Company £'000
15 Creditors: amounts falling due after more than one year				
Other creditors and accruals	-	4,649	-	4,649
	<u>-</u>	<u>4,649</u>	<u>-</u>	<u>4,649</u>

	Known claims £'000	Claims handling £'000	Total £'000
16 Provision for liabilities and charges: group and company			
At 1 January 1999	126,460	4,382	130,842
Movements in the year			
Charged to the income and expenditure account	57,647	3,237	60,884
Paid	(39,142)	(2,704)	(41,846)
At 31 December 1999	<u>144,965</u>	<u>4,915</u>	<u>149,880</u>

The known claims provision is the discounted ultimate settlement values for damages and legal costs in respect of all claims notified by 31 December. The claims handling provision is the estimated internal cost of managing these claims to conclusion.

The timing of individual claim payments is uncertain, as they are the subject of litigation.

The known claims provision is stated before insurance recoveries of £7.6m that are estimated to be recoverable from the Society's insurers, (note 13).

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
17 Movement on reserves: group			
At 1 January 1999	46,961	95,044	142,005
Surplus on revaluation of listed investments	9,315	-	9,315
Realised on disposal of investments	(13,885)	13,885	-
Surplus on revaluation of fixed assets	1,620	-	1,620
Tax charge on investment gains	-	(1,938)	(1,938)
Net contribution for the year after tax	-	34,892	34,892
At 31 December 1999	<u>44,011</u>	<u>141,883</u>	<u>185,894</u>
Movement on reserves: company			
At 1 January 1999	-	47,987	47,987
Surplus on revaluation of fixed assets	1,620	-	1,620
Net contribution for the year after taxation	-	26,554	26,554
Tax adjustment in respect of prior years	-	100	100
At 31 December 1999	<u>1,620</u>	<u>74,641</u>	<u>76,261</u>

Notes to the Accounts

	1999 £'000	Restated 1998 £'000
18 Reconciliation of movements in funds available to meet future liabilities		
Net contribution for the financial year	34,892	22,237
Other recognised gains relating to the year	10,935	17,039
Tax charge on investment gains	(1,938)	(9,154)
Total recognised gains	43,889	30,122
Opening funds available to meet future liabilities	142,005	111,883
Closing funds available to meet future liabilities	185,894	142,005
19 Reconciliation of excess of income over expenditure to operating cash flows	1999 £'000	1998 £'000
Excess of income over expenditure	24,631	5,932
Depreciation charges	639	574
Loss on disposal of tangible fixed assets	34	19
Increase in claims reserve	19,038	22,004
Increase in debtors	(2,498)	(5,892)
(Decrease)/increase in creditors	(3,968)	306
Net cash inflow from operating activities	37,876	22,943
20 Returns on investment and servicing of finance	1999 £'000	Restated 1998 £'000
Interest received	3,549	2,831
Dividends received	5,995	6,097
Net cash inflow from returns on investments and servicing of finance	9,544	8,928
21 Capital expenditure and financial investment	1999 £'000	1998 £'000
Purchase of tangible fixed assets	(684)	(931)
Purchase of investments	(67,600)	(105,173)
Proceeds from sale of tangible fixed assets	28	10
Proceeds from sale of investments	42,278	133,327
Net cash (outflow)/inflow from capital expenditure and financial investment	(25,978)	27,233

Notes to the Accounts

	1999 Group £'000	1998 Group £'000	1999 Company £'000	1998 Company £'000
22 Commitments				
Operating lease commitments				
Land and buildings, leases expiring: Greater than five years	614	614	614	614
Motor vehicles, leases expiring:				
Within one year	4	9	4	8
Two to five years	16	16	15	15
	20	25	19	23

The Society has guaranteed that its subsidiaries have adequate resources to meet their liabilities as they fall due.

23 Potential claims incurred but not yet reported (IBNR)

Incidents up to 31 December may give rise to claims of which the Society presently has no knowledge. These potential claims, which do not constitute a contingent liability, as recognition of the liability is dependent on Council exercising its discretion, will to the extent to which Council exercises that discretion, become the Society's responsibility under the occurrence basis of cover the Society provides. The surplus on the balance sheet at 31 December 1999 is sufficient to cover the IBNR liabilities based on an actuarial assessment of these liabilities prepared by an independent firm of consulting actuaries and detailed in a report prepared in accordance with the Guidance Note "General Insurance Business: Actuarial Reports, (GN12)" published by the Faculty of Actuaries and Institute of Actuaries.

24 Obligations of Members

The Society has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

25 Guarantee

The Society is limited by guarantee of up to £1 per member.

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