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THE MEDICAL PROTECTION SOCIETY

ANNUAL ACCOUNTS

31ST DECEMBER 1992

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THE MEDICAL PROTECTION SOCIETY

Members of the Council

H Baderman BSc MB BS FRCP JP
Professor J Bonnar MD FRCOG
J J Bradley MB FRCP FRCPsych
Professor Sir Paul Bramble DDS MB ChB FDS FRCS FRACDS
Professor A G M Campbell MB ChB FRCPEd
D.G.A. Eadie MB MS FRCS
R Myles Gibson ERD TD MD FRCSEng FRCSEd
R. Gray FCA
M J Healy MB BS MRCP DOBstRCOG
D. St.J. McGee MA *Chief Executive (ex officio)*
Margaret Seward BDS MDS MCCD FDSRCS
C. Stewart Munro
W. McN Styles MB BChir DOBstRCOG FRCPG
T H Taylor MB BS FFARCS
A.R. Tyrrell QC
D.J. Youngman BA

Secretary to Council

R N Palmer LLB MB BS DOBstRCOG Barrister

Professional Advisers Solicitors

Messrs Le Brasseurs
Drury House, 34-43 Russell Street, London WC2B 5HA.

Auditors

Messrs Robson Rhodes,
Chartered Accountants,
186 City Road, London EC1V 2NU.

Bankers

Barclays Bank PLC,
Barclays Business Centre,
212 Regent Street Branch,
P.O. Box 4BP,
London W1A 4BP.

Actuaries

Messrs Lane Clark & Peacock
30 Old Burlington Street, London W1X 1LB.

Investment Managers

Schroder Investment Management Limited,
33 Gutter Lane,
London EC2V 8AS.

Insurance Brokers

NOREX Insurance Brokers Ltd.,
NOREX Court, 195 Marsh Wall, London E14 9SG.

Chief Executive's Report

The Medical Protection Society has, in its centenary year, continued to strengthen its financial position.

Net assets, as shown on the balance sheet, have increased by forty-one per cent from £49.6m at the end of 1991 to £70.1m at the end of 1992. This £20.5m increase is largely attributable to a £16.9m surplus of income over expenditure.

The remaining £3.6m of the £20.5m increase results from the upward revaluation of investments. Altogether this £20.5m represents a healthy addition to the reserves we must accrue to meet the future liabilities and charges we accept on behalf of members.

Costs and damages rose from £10.3m in 1991 to £10.8m in 1992, as did legal expenses, which increased from £7.1m to £7.6m.

The sixteen per cent increase in the Medical Protection Society's contingent liability from £55m in 1991 to £64m in 1992 was more than outweighed by the forty-one per cent increase in net assets reported above.

I am especially pleased to report that membership has grown substantially.

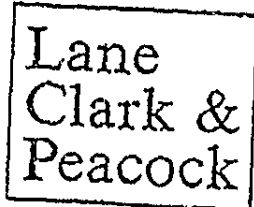
As I reported last year we have continued to strive to reach a mutually acceptable solution to the difficulties that arose out of the cessation of the schemes of co-operation with the Medical Defence Association of Victoria and the Medical Defence Association of Western Australia. We remain firm in our resolution to defend our position, having taken legal advice including the opinion of leading counsel both in Australia and in England.

In summary the centenary year of 1992 was most satisfactory for the Medical Protection Society. Our financial position has continued to strengthen and we remain well placed to meet successfully the challenges of the future.

D St J McGee
Chief Executive

31 March 1993





Actuaries

30 Old Burlington Street
London W1X 1LB

Telephone: 071-439 2266

Fax: 071-439 0183

International Office at:
39a Southgate Street
Winchester
Hampshire SO23 9EH

Mr D St J McGee
The Medical Protection Society
50 Hallam Street
London
W1N 6DE

29th March 1993

Dear Sir

We have reviewed the position of the Society based upon reported cases as at 31st December 1992 and our main conclusions are as below.

Review of 1992

1992 proved to be a fully satisfactory year for the Society with claims experience around the world mostly in line with expectations. Even so, claim settlements continue to rise, at a significantly higher rate than price or earnings inflation, and subscriptions will need to be set in future to reflect these increases.

During 1992 there was a substantial surplus on the income and expenditure account which together with the effect of the revaluation of investments resulted in a 41% increase in the Society's assets. This compares with a 16% increase in the Society's estimated contingent liabilities over the period. The Society made a sound advance over the year.

Subscription Policy

In advising the Society on possible subscriptions rates we have taken account of its current stated objective to implement subscriptions which will fully cover the cost of incidents occurring during the subscription year, even though these may not be reported, and finally settled, for many years. If such objective is maintained in future years, we would expect the Society to remain able to meet those liabilities as they fall due.

Yours faithfully

Lane Clark & Peacock

D W Peacock C R C Hawker R J N Young Susan M Wilton G W Orwood Price M R Slack Alan Bradley Roger R Heard A M Newman
Fiona J Morrison A D Mason I R H Scott FIAA A P Cunningham ASA P D G Tompkins Petra A Simmons N J R Curry Karen Goldschmidt
Consultant B J Clark

FELLOWS OF THE INSTITUTE OF ACTUARIES

The firm is regulated by the Institute of Actuaries in the conduct of its UK investment business.

Chief Executive David Ellis FCIIS FCII FInstD



REPORT OF THE COUNCIL

The Council presents its report and accounts for the year ended 31 December 1992.

PRINCIPAL ACTIVITIES

The Society's business is to protect, support and safeguard the character and interests of medical and dental practitioners. The Society is non-profit making and does not pay a dividend.

REVIEW OF THE BUSINESS

The results for the year are stated in detail on pages 2 to 12.

The review of the business appears in the Chief Executive's Report above.

FIXED ASSETS

The movement in the fixed asset account is set out in Note 9. Freehold and long leasehold properties are included at their open market value at 31 December 1988.

MEMBERS OF THE COUNCIL

The names of the present members of the Council of the Society, all of whom served throughout the year, are set out above.

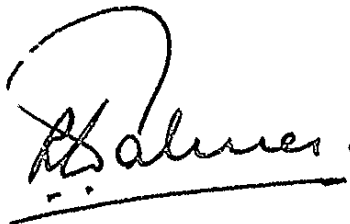
INDEMNITY FOR MEMBERS OF THE COUNCIL

During the year the Society has purchased and maintained policies of insurance for the members of the Council against the financial consequences of actions brought against them for acts or omissions in the performance of their duties as members of the Council.

AUDITORS

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.

By order of the Council
R.N. Palmer
Secretary
Date: 31st March 1993.



The Medical Protection Society Limited

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
Year ended 31 December 1992

	Notes	1992	1991
		£'000	£'000
Income			
Members' subscriptions and other income		<u>41,229</u>	<u>33,930</u>
Expenditure			
Costs and damages (including cost of insurance)		10,832	10,285
Insurance recoveries		(73)	(316)
Legal expenses		7,583	7,141
Medical and dental advisory services	3	5,210	4,793
Administration expenses	3	5,644	5,262
Exchange adjustments		<u>(1,403)</u>	<u>76</u>
		<u>27,793</u>	<u>27,241</u>
Excess of Income over Expenditure		13,436	6,689
Income from Investments	4	2,601	2,830
Realised gains from disposal of Investments		<u>1,586</u>	<u>783</u>
Surplus on ordinary activities before taxation		17,623	10,302
Tax on income and realised gains from Investments	5	<u>(745)</u>	<u>(1,065)</u>
Surplus representing the contribution for the year available to meet future liabilities and charges	14	<u><u>16,878</u></u>	<u><u>9,237</u></u>

The notes on pages 5 to 11 form part of these accounts.

The Medical Protection Society Limited

CONSOLIDATED AND COMPANY BALANCE SHEETS
At 31 December 1992

	Notes	1992	1991	1992	1991
		Group	Group	Company	Company
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9	4,958	5,609	4,958	5,609
Investments	10	46,241	34,140	46,241	34,140
		<u>51,199</u>	<u>39,749</u>	<u>51,199</u>	<u>39,749</u>
Current assets					
Debtors	12	7,684	6,725	7,634	6,723
Bank deposit accounts		18,100	7,600	18,100	7,600
Cash at bank and in hand		2,252	1,044	2,243	1,034
		<u>28,036</u>	<u>15,369</u>	<u>27,977</u>	<u>15,357</u>
Creditors:					
<i>amounts falling due within one year</i>	13	(9,103)	(5,489)	(9,040)	(5,473)
Net current assets		<u>18,933</u>	<u>9,880</u>	<u>18,937</u>	<u>9,884</u>
Net assets		<u>70,132</u>	<u>49,629</u>	<u>70,136</u>	<u>49,633</u>
Accumulated funds					
Income and expenditure	14	57,762	40,884	57,766	40,888
Revaluation reserve		12,370	8,745	12,370	8,745
Fund available to meet future liabilities and charges	15	<u>70,132</u>	<u>49,629</u>	<u>70,136</u>	<u>49,633</u>

The notes on pages 5 to 11 form part of these accounts.

John Jennery Bradley - Chairman of Council

31st March 1993



The Medical Protection Society Limited

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 1992

	1992	1991
	£'000	£'000
Net cash inflow from operating activities	<u>17,116</u>	<u>(4,779)</u>
Returns on Investments		
Interest received	1,205	2,169
Dividends received	1,362	1,332
Other receipts	34	79
Interest paid to HCCHS fund	<u>-</u>	<u>(750)</u>
Net cash inflow from returns on Investments	<u>2,601</u>	<u>2,830</u>
Tax paid	<u>(1,103)</u>	<u>(1,033)</u>
Investing activities		
Payments to acquire fixed assets		
-Tangible Assets	(401)	(1,163)
- Investments	<u>(29,618)</u>	<u>(12,067)</u>
	<u>(30,019)</u>	<u>(13,230)</u>
Receipts from sale of fixed assets		
-Tangible Assets	23	70
- Investments	<u>22,730</u>	<u>6,375</u>
	<u>22,753</u>	<u>6,445</u>
Net cash outflow from investing activities	<u>(7,266)</u>	<u>(6,785)</u>
Increase in cash and cash equivalents	<u>11,348</u>	<u>(9,767)</u>
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	13,436	6,689
Depreciation charges	1,027	362
Increase in debtors	(959)	(1,028)
Increase/(decrease) in creditors	3,612	(10,802)
Net cash inflow from operating activities	<u>17,116</u>	<u>(4,779)</u>

Analysis of the balances of cash and cash equivalents as shown in the balance sheets

	1992	1991	Movement
	£'000	£'000	£'000
Bank deposits	18,100	7,600	10,500
Cash at bank and in hand	2,252	1,044	1,208
Bank overdraft	(449)	(89)	(360)
	<u>19,903</u>	<u>8,555</u>	<u>11,348</u>

The notes on pages 5 to 11 form part of these accounts.

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

1 Basis of preparation of the accounts

The accounts are prepared in accordance with applicable accounting standards and the constitution of the Society as summarised below.

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 surplus 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." Such discretionary powers differentiate the Society from insurance companies. Provision is not therefore made in the accounts for future costs and damages arising on claims which have been reported to the Society but have not been settled but the amount of such outstanding claims has been estimated and details are set out in Note 15. The Society has not estimated the amount of claims arising from incidents which have occurred by the balance sheet date but for which no notification of a claim has been received.

It is the Society's policy to set a subscription level such that each year the income derived will meet the cost of incidents, in claims and damages, occurring during that year. The calculation of the subscription income necessary is carried out in consultation with the Society's actuaries. The Council is advised that the application of this policy will generate sufficient funds to meet claims as and when they fall due. The Society also has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

2 Accounting Policies

(a) Convention

The accounts include investments, freehold and long leasehold 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 accounts comprise a consolidation of the accounts of the parent company and all its trading subsidiary undertakings. 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 is apportioned between accounting periods to the extent that it is matched by expenditure within those accounting periods.

Pursuant to Schedule 4 para 55 (5) of the Companies Act 1985 no geographical analysis of subscription income is shown.

(d) Depreciation

Depreciation is not provided in respect of freehold land. On other assets it is provided in equal annual instalments over their anticipated useful lives. The rates of depreciation are as follows:

- Freehold property	- 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% per annum

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

2 Accounting Policies

(e) Translation of foreign currency transactions

Debts paid and subscriptions received in foreign currencies are translated to their sterling equivalent at the date of payment or receipt. Current assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31st December.

(f) Dividends and interest receivable

Dividends are brought into account when received. Interest receivable is brought into account on an accruals basis.

(g) Investments

Listed investments are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. On disposal the net proceeds are compared with original cost and the profit or loss credited or charged to the income and expenditure account.

(h) Costs and Damages

Provision is made in the accounts for all costs and damages paid in the financial period.

(i) Taxation

Provision is made in the accounts for taxation on investment income received 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 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.

The Society contributes to the scheme an amount equal to the regular cost of pensions as calculated by a qualified actuary based on a constant percentage of current pensionable payroll. The regular pension costs so calculated are charged to the income and expenditure account.

Triennial valuations of the pension scheme are performed by the actuary using the projected unit method. These valuations may reveal a surplus or deficit, which the Society then eliminates by temporarily varying its contributions to the scheme.

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

3 Medical and dental advisory services and administration expenses

	1992 £'000	1991 £'000
Charged under this classification are:		
Auditors remuneration - Audit fees	45	47
- Fees for other services	27	96
Emoluments and expenses of members of Council	317	280
Depreciation on fixed assets	1,027	362
	<u>1,027</u>	<u>362</u>

4 Income from investments

	1992 £'000	1991 £'000
Dividends: listed investments		
- franked	1,180	1,084
- unfranked	182	248
Bank interest	1,205	2,169
Rental income	22	24
Other income	12	55
	<u>2,601</u>	<u>3,580</u>
Attributable to HCHS fund	-	(750)
	<u>2,601</u>	<u>2,830</u>

Under the HCHS indemnity scheme, the Society agreed with the Department of Health to create a fund, known as the HCHS fund, as a contribution to the liability being accepted by the NHS health departments as at 31 December 1989. The fund is made available to health authorities to help meet the costs and damages of medical or dental negligence cases. The balance of the HCHS fund was transferred to the Department of Health with effect from 31 December 1991. The Society continues to manage that fund on behalf of the Department of Health, but the assets of the fund amounting to £6.7 million are kept entirely separate from the assets of the Society.

5 Tax on income and realised gains from investments

	1992 £'000	1991 £'000
Tax on franked income	300	271
Corporation tax at 33% on income (1991 33.25%)	450	812
Overseas tax payable	16	11
Overseas tax recoverable	(16)	(11)
Prior year adjustment	(5)	(18)
	<u>745</u>	<u>1,065</u>

No provision has been made for taxation of approximately £1.3 million (1991 £.5 million), which would arise should the Society's investments and freehold properties be sold at the market value included in the balance sheet.

6 Emoluments of members of Council

	1992 £'000	1991 £'000
Chairman	22	22
Highest Paid Director (1991 - 10 months)	137	110

The emoluments of other members of Council fell in the following ranges:

	1992	1991
£5,001 - £10,000	8	8
£10,001 - £15,000	5	5
£15,001 - £20,000	1	1

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

7 Employees' remuneration

The average number of people employed by the Society during the year was 126 (1991 -139)

Costs in respect of these employees:

	1992 £'000	1991 £'000
Wages and salaries	2,959	3,348
Social security costs	300	318
Pension costs	463	483
	<u>3,722</u>	<u>4,149</u>

8 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 1990 using the projected unit method. It was assumed that investment returns would be 9 1/2% pa, that increase in earnings would average 7 1/2% pa and that pensions would increase at the rate of 5 1/2% pa.

The valuation showed that the market value of the Fund's assets was £3.7 million and that the actuarial value of those assets represented approximately 110% of the value of the benefits that had accrued to members after allowing for expected future increase in earnings.

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

9 Tangible assets : Group and company

	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings, and office equipment £'000	Motor cars £'000	Total £'000
Cost or valuation					
At 1 January 1992	4,016	392	2,305	422	7,135
Additions	12	-	272	117	401
Disposals	-	-	-	(83)	(83)
At 31 December 1992	<u>4,028</u>	<u>392</u>	<u>2,577</u>	<u>456</u>	<u>7,453</u>
Depreciation					
At 1 January 1992	170	90	1,103	163	1,526
Provided in year	73	26	826	102	1,027
Released on disposals	-	-	-	(58)	(58)
At 31 December 1992	<u>243</u>	<u>116</u>	<u>1,929</u>	<u>207</u>	<u>2,495</u>
Net book values					
At 31 December 1991	<u>3,846</u>	<u>302</u>	<u>1,202</u>	<u>259</u>	<u>5,609</u>
At 31 December 1992	<u>3,785</u>	<u>276</u>	<u>648</u>	<u>249</u>	<u>4,958</u>

All the leasehold property held at 31 December 1992 are short leaseholds .

The revaluation of freehold and long leasehold property was performed at 31 December, 1988 by Messrs Stanley Hicks & Sons, Chartered Surveyors, on the basis of their open market value. The freehold of the long leasehold property was acquired in 1991.

If the land and buildings had not been revalued they would have been stated in the accounts at the following amounts:-

	Freehold Property £'000
Cost	895
Depreciation	(43)
At 31 December 1992	<u>852</u>
At 31 December 1991	<u>858</u>

Capital commitments

Capital expenditure approved but not contracted for amounted to £3.5 million (1991 £3.5 million).
Capital expenditure approved and contracted for amounted to £200,000 (1991 £856,000).

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

10 Investments - Group and Company

	1992	1991
	£'000	£'000
Valuation at 1 January	34,140	25,574
Additions	29,618	12,067
Disposals	(23,337)	(6,517)
Surplus on revaluation of listed investments	5,820	3,016
At 31 December	<u>46,241</u>	<u>34,140</u>
Investments at 31 December 1992 comprise:		
General fund:		
- Listed on U.K. Stock Exchange	46,128	34,038
- Other	113	102
	<u>46,241</u>	<u>34,140</u>
Historical cost of listed investments	<u>36,737</u>	<u>28,253</u>

11 Investment in subsidiary undertakings

The following subsidiary undertakings are wholly owned by The Medical Protection Society Limited:-

<u>Name</u>	<u>Country of incorporation or registration</u>	<u>Nature of business</u>
Dental Protection Limited	England	To manage the advisory and administrative affairs of the dental division of the Society
Medical Claims Management Services Limited	England	To provide management services and advice to Health Authorities in respect of medical and dental negligence or malpractice claims.
Medical Protection (Europe) Limited	England	To manage the advisory and administrative affairs of the European division of the Society
Medical Protection Society of New South Wales Limited	Australia	To manage the advisory and administrative affairs of the medical division of the Society in New South Wales in Australia.
M P I (London) Limited	England	Dormant
M P Properties Limited	England	Dormant
Hallam Medical Claims Management Services Limited	England	Dormant

The following subsidiary undertaking is wholly owned by Medical Protection (Europe) Limited :-

<u>Name</u>	<u>Country of registration</u>	<u>Nature of business</u>
Medical Protection GMBH	Germany	To manage the administrative affairs of the German operation of Medical Protection (Europe) Limited

12 Debtors

	1992	1991	1992	1991
	£'000	£'000	£'000	£'000
	Group	Group	Company	Company
Subscriptions owing	6,755	4,740	6,755	4,740
Trade debtors	78	82	-	48
Amounts owed by subsidiary undertakings	-	-	42	105
Investment debtors	19	374	19	374
Other debtors	687	814	673	741
Prepayments	145	715	145	715
	<u>7,684</u>	<u>6,725</u>	<u>7,634</u>	<u>6,723</u>

The Medical Protection Society Limited

NOTES TO THE ACCOUNTS

13 Creditors: amounts falling due within one year

	1992 £'000	1991 £'000	1992 £'000	1991 £'000
	Group	Group	Company	Company
Bank overdraft	449	89	432	89
Corporation tax	387	745	387	745
Other taxes and social security	116	118	114	113
Deferred income	4,923	3,656	4,923	3,656
Other creditors and accruals	3,228	881	3,184	870
	<u>9,103</u>	<u>5,489</u>	<u>9,040</u>	<u>5,473</u>

14 Movement on reserves - Group

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated funds £'000
At 1 January 1992	8,745	40,884	49,629
Surplus on revaluation of listed Investments	5,820	-	5,820
Released on disposal of Investments	(2,195)	-	(2,195)
Surplus for the year after taxation	-	16,878	16,878
At 31 December 1992	<u>12,370</u>	<u>57,762</u>	<u>70,132</u>

Movement on reserves - Company

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated funds £'000
At 1 January 1992	8,745	40,888	49,633
Surplus on revaluation of listed Investments	5,820	-	5,820
Released on disposal of Investments	(2,195)	-	(2,195)
Surplus for the year after taxation	-	16,878	16,878
At 31 December 1992	<u>12,370</u>	<u>57,766</u>	<u>70,136</u>

15 Future liabilities and charges

The estimate of the contingent liability to the Society for damages and legal costs in respect of all claims notified by 31 December 1992 and after estimated recoveries from underwriters is £64 million (1991 £55 million).

16 Guarantee

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

15-04-93

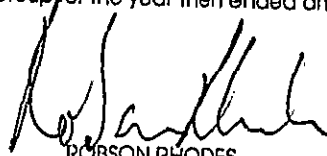
**REPORT OF THE AUDITORS TO THE MEMBERS OF
THE MEDICAL PROTECTION SOCIETY LIMITED**

We have audited the accounts set out on pages 2 to 11 in accordance with Auditing Standards.

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 1992 and of the surplus and cash flow statement of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

186 City Road
London EC1V 2NU

31st March 1993



ROBSON RHODES
Registered Auditor
Chartered Accountants