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Annual Report and Accounts 2007

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COMPANIES HOUSE

The Medical Protection Society is the leading provider of comprehensive professional indemnity and expert advice to doctors, dentists and health professionals around the world

We are a mutual, not-for-profit organisation offering more than 250,000 members help with legal and ethical problems that arise from their professional practice. This includes clinical negligence claims, complaints, medical council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal-accident inquiries

Fairness is at the heart of how we conduct our business. We actively protect and promote the interests of members and the wider profession. Equally, we believe that patients who have suffered harm from negligent treatment should receive fair compensation. We promote safer practice by running risk management and education programmes to reduce avoidable harm

MPS is not an insurance company. The benefits of membership are discretionary – this allows us the flexibility to provide help and support even in unusual circumstances

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Chairman's statement

Nicholas Davies Chairman of the Council

It has been an eventful year for MPS. Dr John Hickey stepped down as Chief Executive at the end of September, after holding that office for five years. During this time, he steered us towards the commanding position we hold today, both in the UK and many other countries around the world. Members will have read my tribute to his achievements in last year's report.

Provision of indemnity and professional advice to doctors and dentists is a highly specialised market and, fortunately, I doubt if anyone knows this market, and MPS itself, better than his successor, Tony Mason. As a senior partner of Lane Clark & Peacock, he has provided us with actuarial advice for nearly 25 years. Significantly, during this time he has also advised the NHS Litigation Authority and various overseas indemnity organisations. He has been in pole position to observe at first hand the fortunes of various providers and, on more than one occasion, the serious misfortunes of others. His view of MPS, therefore, comes from the broadest of perspectives, and members round the world can be confident we will continue to provide the first-class service they have enjoyed in the past.

The Chief Executive's report outlines the themes he wishes to emphasise and I would like to comment on two of these. Firstly, security: our membership numbers continue to grow and now exceed a quarter of a million. It is obvious that financial security is fundamental if we are to meet their expectations. During the last half of 2007, the consequences of unwise mortgage lending in the USA have profoundly affected economies around the world. As I write, there are fears of recession and turbulence in all the major stock markets. Investments held on your behalf by MPS are not immune from these influences. I would stress however that members can be reassured that our financial state not only remains healthy, but has actually strengthened over the last year. Details can be found in the Finance Director's report, but in summary our strong membership base, the economy of scale this allows, a cautious investment strategy and a fairly level incidence of claims has resulted in a year-end balance sheet showing total assets less current liabilities of £1,091m, a 17.8% rise on 2006. These assets comfortably exceed the best estimate of all present and future expenditure that may arise from both claims for negligence and other claims. Over recent years, the latter category - which includes support for members at regulatory body hearings - has formed an increasing proportion of our expenditure.

Secondly, Tony Mason has also expressed an intention for MPS to be at the professional heart of medicine and dentistry. It is, therefore, right for MPS to strengthen its long-standing interest in promoting the highest standards of practice. In January 2007, we acquired the Cognitive Institute, established in Australia in 1998 by Dr Mark O'Brien, a general medical practitioner, to train all clinicians to recognise and contain the risks inherent in their

practice. Over the ten years since its foundation, it has expanded to New Zealand and Singapore and is widely respected. Now one of the world's largest specialist organisations of this nature, more than 12,000 people will attend 500 workshops this year, hosted by an impressive faculty of doctors. Their emphasis is on improving communication, insight, leadership and motivation, and a more skilful handling of the difficult interactions with patients and colleagues that we all encounter from time to time.

In each country where MPS operates, there are many organisations to provide opportunities for doctors and dentists to update and improve their practice. Our distinctive expertise can surely complement this. Lessons learnt from supporting doctors and dentists confronted with disciplinary tribunals and negligence claims should be more widely shared with the professions. This ambition fits well with that of the Cognitive Institute. The acquisition is a significant step for MPS. We are confident that our experience can mesh with their skills and workshops to promote our joint values and further contain risk.

The importance of this is plain to see. Better communication with patients and an apology when things go wrong reduce the chance of legal action. This has been a common refrain for many years. In England, the NHS Litigation Authority has recently stressed its importance. However, our experience suggests it has proved less easy to put into practice. When a patient complains about treatment, or seeks redress through the courts for alleged harm, a breakdown in trust or communication often amplifies any perception of inadequate clinical skills. Cognitive Institute concentrates on exactly these important areas and there is evidence to support the efficacy of their training. For example, in South Australia, members of the local medical protection organisation were offered a modest discount on subscriptions if they agreed to attend a particular course. A majority of members took advantage of this offer and subsequently encountered a lower incidence of negligence claims. In contrast, claims against the minority who declined the offer continued to rise.

There were two other retirements of note during 2007. Lord Turnberg was our President for ten years and gave wise and measured advice, much valued by Council. In his place we have changed from a physician to a surgeon, and extend the warmest of welcomes to Sir Peter Morris FRS. John Leighton Williams provided the special slant on strategy that only comes from a distinguished QC but sadly came to the end of his term on Council last June. Over the last year, we have welcomed two new Council members, Lord Bradley and Ian Croxford QC. I believe MPS remains well-positioned to meet future challenges.

Nicholas Davies
Chairman of the Council

Chief Executive's report

Tony Mason, Chief Executive

This is my first report since taking over the reins from Dr John Hickey last year and over the last six months I have been learning what an enormous privilege it is to have the responsibility for running MPS. I say this for two reasons.

First, the success of my predecessors in transforming MPS into the world's leading mutual indemnifier for doctors and dentists is an extraordinary achievement. During 2007, we not only exceeded 250,000 members around the world but our total assets available to meet reported claims grew by £165m to nearly £1.1bn. This means that, after providing for the expected value of these reported claims, we now have £747m available to meet those adverse clinical incidents that had already occurred by the end of 2007, but had not yet been reported to MPS. Within that sum, we have also built up a considerable contingency margin, to ensure that we can deal with any unexpected deterioration in future claims experience, due to changes in legislation or other inflationary pressures.

My second reason for feeling so privileged is the knowledge that I am leading a mutual organisation that has been protecting the interests of its members, and the reputation of the medical and dental professions, for over 115 years. We have no shareholders to whom we pay an annual dividend, and we are not an insurance company embroiled in regulation and relying on the small print of its policies. I am very conscious that MPS is owned by, and the assets belong to, the members.

During my tenure as Chief Executive my aim is to ensure that we deliver what our members actually want. The four cornerstones of our strategy are Security, Quality, Fairness and being at the Heart of the Profession.

Security means that we should always have sufficient assets to meet our promises to members, and continue to provide the best indemnity protection available. That indemnity cover is one that protects you from any adverse incidents that arise while you are a member, even though the claim may not be reported until after you have ceased membership of MPS. Thus, subject to the fair and considered exercise of discretion by the Council, this will always give you peace of mind and ensure that patients are fairly and appropriately compensated.

Providing the highest Quality of service to our members is essential. I have already seen how committed the staff at MPS are to serving the membership to the best of their ability, and we need to continue to recruit dedicated individuals to ensure that we are able to match this commitment as we grow. Providing a high quality service not only means having experienced and empathetic doctors, dentists and lawyers who will go that extra mile when helping our members, but also ensuring that we invest in the latest technologies to provide you with easy access to us, and rapid responses to any queries you may have.

Fairness is a concept that is particularly important to me. The word can be applied to many things in the way we operate, but to be truly seen as a 'fair' organisation it must pervade all that we do and be entrenched in our culture. Fairness covers the way we set subscription rates, with no overt cross-subsidies between different countries, and specialty groups. It means not charging more than we need to - it is your money! Fairness also involves the way we handle claims, showing respect and understanding to our members and in having an ethical framework for dealing with patients and other outside parties, including our suppliers.

The final element of the strategy is for MPS to be at the Heart of the Profession. By this, I mean ensuring that we carry on lobbying hard to protect the interests of the medical and dental professions on issues that affect MPS. It is vital that we continue to ensure that politicians and civil servants around the world understand the impact of the rising costs of claims for clinical negligence, particularly for awards involving brain-damaged babies. In most years, there seems to be a new crisis involving obstetrics in one of the countries in which MPS operates, and I am keen to see us working closely with governments to find solutions for dealing with this issue. I am also planning to extend considerably the educational services provided by us. This is an exciting new development and I discuss some of the ideas later in my report - but, for several of the new key initiatives, it must for the moment be 'watch this space'.

Turning to the main issues that MPS faced last year, perhaps the one with the biggest financial impact was the unsuccessful appeal in London by the NHS Litigation Authority in the Thompson case. Confirmation of the earlier judgement means that, in future, any periodical payments that are awarded are likely to be increased each year, in line with an earnings index rather than the retail prices index. This will have a major inflationary impact on large claims involving substantial care costs, and MPS has made appropriate additions to its reserves to allow for this.

Also in the UK, we actively lobbied for changes to the Health and Social Care Bill, particularly the proposals to reform the regulation of doctors and dentists. We highlighted our concerns over plans to weaken the standard of proof by which doctors are held to account at the GMC as well as our opposition to plans for enhancing regulation at a local level. We met MPs and peers from all political parties, held events at the three main party conferences and organised a parliamentary reception. We have secured assurances from the GMC on how the standard of proof will be applied and there appears to be some movement in the government's position on the way regulatory hearings will be achieved.

On a separate note, MPS served on a number of Department of Health working groups, engaged with a range of stakeholders and gave evidence to a Welsh Assembly Committee investigating redress for NHS patients in Wales.

I mentioned earlier the problems with awards for brain-damaged babies and these are beginning to become a real issue in some of the West Indian islands, particularly Cayman, where we have, unfortunately, had to impose substantial increases in obstetric subscriptions due to the continuing bad experience. We are well aware of the difficulties this produces for our members and the provision of obstetric services, and we will continue to have a dialogue with the government to see what can be done to avoid a major crisis.

The good news for our consultant members with private practice in Ireland was the announcement by the Department of Health & Children in January, following an extensive review in 2007, that they would not be increasing the level of the indemnity cap until 2011. This means that any claims arising from private practice not already indemnified by the Clinical Indemnity Scheme in Ireland will be met by the government, to the extent that they exceed €0.5m for obstetrics and neurosurgery and €1m for other specialties. As a result, MPS is able to keep its subscriptions at an affordable level for doctors in Ireland, and this is a good example of how working closely with government can achieve satisfactory results for our membership.

In Malaysia, legislation is to be enacted shortly that will require all doctors practising there to have indemnity. We have had fruitful discussions with government and believe MPS will be well-placed to meet any new requirements for our existing members.

John Hickey mentioned last year the acquisition by MPS of the Cognitive Institute, which was completed in January 2007. The Cognitive Institute has established a powerful reputation with doctors and hospitals throughout Australia, through its highly respected workshops, seminars and one-on-one training. In conjunction with MPS Risk Consulting, our existing training and risk consultancy arm, we are planning that Cognitive Institute will extend our educational services through many of the countries in which MPS operates. Workshops and seminars are planned for Singapore, New Zealand, South Africa, Ireland and the UK in 2008, with further countries added as soon as we are able to resource the demand.

Finally, some of you may wonder why an actuary has been appointed as Chief Executive of MPS and what skills I bring to my new role. I must start by saying that I am no stranger to MPS, as I have moved from a firm of actuaries, Lane Clark & Peacock (LCP), where MPS was my main client for the last 24 of my 27 years there. Over that time, I developed as a specialist in clinical negligence and spoke at conferences around the world, advised governments and built up a portfolio of nine clients whom I advised on medical negligence matters. My past training also involved ten years as Managing Director of LCP and, latterly, a period as Chairman of its Board. However, to my mind these are not my most important attributes. What I have is an enormous respect for the traditions and ethos of MPS, and a passionate belief that the form of indemnity that it provides is by far the best

for our members. I will fight to keep all that is best, whilst ensuring that MPS operates in a secure and professional way - and I will not hesitate to bring its considerable resources and expertise to bear, in championing the cause of the healthcare professions, wherever we have a relevant role to play.

Meeting all the objectives that I want to achieve will be challenging, but I am working alongside an exceptional management team and I am confident that MPS will remain strong and successful. It is an exciting time to have joined MPS and I expect the next 12 months to be both stimulating and enjoyable.

Tony Mason
Chief Executive

THE MEDICAL PROTECTION SOCIETY LIMITED

NON STATUTORY INFORMATION (GRAPHS) NOT REQUIRED BY COMPANIES HOUSE

Finance Director's report

Simon Kayll, Finance Director

The one common theme reported by members in surveys and other interactions is the need for 'peace of mind', the reassurance that MPS will be around to assist members when they need help. The Chief Executive refers to this in his report, when identifying Security as one of the four cornerstones of our strategy

The nature of MPS's business is that, by paying a subscription in 2007, members can apply at any time in the future for assistance with an incident which took place in 2007, which can be many years later. In 2007 MPS settled a claim for £2.2m, for an incident which occurred in 1983, 24 years previously. This is an extreme example, but there is on average a seven-year delay between an incident and final resolution.

This type of indemnity is known as 'claims incurred' indemnity or 'occurrence-based' indemnity. MPS believes that this type of indemnity is by far the best for members and their patients as, unlike alternative indemnity models as provided by most insurance companies, it means that, subject to the fair and considered exercise of discretion by the Council, a member paying the correct subscription will be indemnified and their patient will be compensated.

Assurances like this need to be backed with the appropriate financial strength, to ensure that MPS can live up to its promises to members. So, whilst many members will not give a second thought to the financial security of their indemnifier, it is of crucial importance.

MPS recognises this importance and I am pleased to report that 2007 has seen a further improvement in MPS's financial strength.

As explained above, subscriptions received in 2007 will not be used to pay claims and costs from incidents arising from 2007 until, on average, 2014. Such delays create significant uncertainty: how many claims will arise from 2007, how much will they cost to settle, how will the funds invested to meet these claims perform, will there be any future legislative changes that will increase future settlement costs, above current expectations? These factors and more can influence the costs that MPS will have to pay in the future. Whilst much is done to try and control these risks, they cannot be eliminated - and the ultimate protection is to hold extra funds to offset these risks.

The level of extra funds to be held is determined, in consultation with our actuaries, by what Council considers necessary balancing the need for financial security with what is competitive and affordable for members.

Financial Strength

At the end of 2007, MPS's assets, before allowing for the estimated cost of reported claim obligations and any pension asset/liability, were £1,091m (2006: £926m) - an increase of £165m or 17.8%, which compares to an increase of £127m, or 15.9%, in 2006. These assets exist to meet claim obligations on behalf of members. The claim obligations fall into two parts: obligations for claims that have already been reported and obligations for claims, where an adverse incident has already occurred, but where the claim has not yet been reported. However, these unreported claims will, subject to discretion, become future obligations for MPS.

The value of reported claim obligations at the end of 2007 was £346m (2006: £329m), an increase of £17m in the year, or 5.2%, which compares to an increase of £36m, or 12.4%, in 2006. It is pleasing to report that the growth in assets has exceeded that of the reported claim obligations, so improving the financial strength of MPS and, indeed, the growth in reported claim liabilities was somewhat lower than in 2006.

The value of the assets, after allowing for reported claim obligations, is £747m (2006: £596m), an increase of £151m in the year (2006: £90m). These assets are held to meet the unreported claim obligations, and £747m is more than sufficient to cover these claim obligations, together with a margin to mitigate the volatility associated with estimating the value of such obligations.

The assets available to meet unreported claims at the end of 2007 represent 216% of the value of the reported claims, up from 181% in 2006. Another indicator of the improved financial position at the end of 2007, compared to 2006.

The increase in assets in the year of £151m, after allowing for reported claim obligations, is generated from income received less costs paid (trading), the increase in the value, net of tax, of the investments held to meet claims costs, and the change in the funding position of MPS's defined benefit staff pension scheme. Trading has contributed £98m (2006: £49m), the net of tax investment return has contributed £50m (2006: £41m) and the change in the funding position of the pension scheme has contributed £3m (2006: £0.1m deficit).

Financial Performance

The trading surplus of income over costs of £98m (2006: £49m) represents a 42.1% margin on subscription and other income - an improvement on the 23% margin in 2006. This clearly shows the extra money being set aside to meet the obligations from unreported claims.

Finance Director's report

Subscription and other income

Subscription and other income rose by £18m (2006 £28m), or 8.3%, to £232m for the full year. This increase is a combination of both rate increases and increases in the number of members.

The increase of £18m is an increase of £1m in the income from subsidiary companies and a £17m (7.3%) increase in subscription income. There has been strong growth in member numbers, particularly in New Zealand, Hong Kong, United Kingdom and Ireland over the year, which, together with rate increases, would indicate an overall increase in subscription income well in excess of 7.3%. The relatively small increase in subscription income is because exchange rate movements between 2006 and 2007 mean that the value of subscription income, particularly from South Africa, Hong Kong and Ireland, is, in sterling terms, lower on average in 2007 than 2006.

Claims costs and associated legal costs

The value of £100.5m (2006 £115.4m) for claims costs and associated legal costs represents the total amount of money paid in the year by way of claim settlements and legal costs, both internal and external, as well as the change in value during the year of all reported claims collectively termed incurred claims costs.

The change in value of reported claims in the year was £14.4m (2006 £38.4m). In addition, the payments for settlements and legal costs were £86.1m (2006 £77m). The timing of payments is unpredictable and it is not possible to deduce anything from the difference between 2006 and 2007 in payments or the change in value of reported claims. We have seen a decline in the frequency of claims in many countries over the last few years, but this cannot continue forever and indeed we think claim frequencies are beginning to level off. However, the good news of declining claim frequencies is tempered by a continued increase in the value of settlements, again a trend seen in many countries. Thus whilst it is pleasing to report a fall in the annual incurred claims costs, with an increasing membership, expectations of increasing settlements and a levelling off of claim frequencies, it is expected that 2007 results are a blip on the continuing upward trend.

Advisory and associated legal costs

These costs represent the internal and external expenditure of supporting members with claims other than for negligence, together with the change in value of the outstanding provision for such claims. The internal expenditure relates to the employment by MPS of doctors, dentists and lawyers to provide assistance with these claims. Much of this cost relates to assistance with matters before members' regulatory councils.

The costs have risen by £9.6m to £32.4m. This is an exceptionally large increase which is partly the result of significant costs in 2007 associated with a couple of long running cases and partly an underlying trend, in which the £1m fall in costs seen in

2006 was a blip. This trend is indicative of the increasing intensity of regulation and scrutiny of the medical and dental professions and, in particular, the increasing length and complexity of the process of regulation and scrutiny. This is particularly true in the UK and Ireland, where procedural challenges have been necessary to ensure fair and proportionate regulatory and inquiry processes for all members.

Administration expenses

These are the costs incurred in running the business, apart from the delivery of the indemnity and advisory services. This covers office accommodation, marketing, finance, services to members and IT, to identify a few. Costs have risen by £0.4m (3.7%) to £12.6m (2006 £12.2m), which is a modest increase considering wage and price inflation over the year and a 4% increase in member numbers. As can be seen from note eight to the accounts, staff numbers increased from 279 to 304, an increase of 25, or 9%. This contrasts with the 3.7% increase in administration costs and indicates that much of the investment in staff over the year has been focused on doctors, dentists and lawyers, those engaged in the direct provision of service to members and accounted for either in claims costs or advisory costs.

(Profit)/loss on exchange movements

This year and last year have seen significant sums identified as either a profit or loss on exchange movements. This year, it is a profit of £11.2m and last year it was a loss of £15.5m.

MPS is a UK-resident company and thus reports its financial results in sterling, which necessitates the translation of foreign currency assets and liabilities into sterling at the year end. The difference on exchange rate movements, whether a profit or a loss, arise between the value of the asset or liability - translated into sterling at the exchange rate ruling at the start of the year or on the date it is first accounted for - and translation into sterling at the exchange rate ruling at the end of the year.

Where a foreign currency weakens against sterling (ie, it takes more of the foreign currency to buy £1), this means that foreign currency assets and liabilities will decrease in sterling value, which constitutes a loss on exchange movements for assets and a gain on exchange movements for liabilities. The reverse is true where a currency strengthens against sterling.

MPS is exposed to foreign currency liabilities, in respect of non-UK claims arising from members outside the UK. However, to avoid the risk that exchange movements might have an uncontrolled impact on the balance sheet, MPS holds matching amounts of foreign currency assets, thus nullifying the net impact across the liabilities and assets of any exchange movements.

As this is the case, it may seem strange that the profit due to exchange movements is £11.2m for the year. This is due to two factors. Firstly, the exchange movement on the majority of the foreign assets held to match claims is accounted for through this

line on the Income and Expenditure account, whereas the corresponding movement in the claim liabilities is accounted for within claims costs and associated legal costs. Secondly, MPS holds assets to meet both its reported and unreported claim obligations and these are shown on the balance sheet - but only the value of the reported claims are held on the balance sheet, as the unreported claims are not held to be a liability until discretion has been exercised. Thus, there is a mismatch as to the amount of exchange movement that is shown in the accounts for the assets and the claim obligations.

Investments

By value, the largest single line in the accounts is investments and the year end value was £1,015m (2006 £834m), an increase of £181m, or 21.7% (2006 £97m).

These investments are held to meet the cost of future claims, and it is a crucial part of MPS's financial security that these assets are invested to achieve a suitable return - but this needs to be achieved without an unacceptable level of risk of loss. In addition, as already mentioned, these investments need to be held in a number of different currencies to match the claim obligations. The majority of assets are held in bonds, where there is very little risk of loss, but some funds are held in a diverse range of return-seeking assets to help achieve a return for the fund. The greater the return achieved by the fund, the less needs to be raised by subscriptions.

Of the £181m increase in value of investments, £118m was due to the investment of new money received from subscriptions, after allowing for the payment of all costs, £20m was from the receipt of interest and dividends (before tax) from invested assets, and £43m was from the capital increase in invested assets. Some of the £26m income from investments shown in the Income and Expenditure account relates to income from cash deposits and other short-term investments, not accounted for in the investment line on the Balance Sheet.

The return achieved by the portfolio during the year was 5.6% (2006 3.1%). This has been achieved by a strong performance in sterling terms, in both bonds and equities.

Conclusion

In return for paying an annual subscription, which in many cases is a substantial sum of money, members place a significant trust in MPS. You trust that we will be around and in a financial position to respond fully to all future requests for assistance, no matter when in the future they are made.

To live up to this trust, MPS needs to ensure that it manages the business in a responsible manner, identifying and responding to risk (see pages 13 to 15), setting appropriate financial targets and pricing in keeping with these targets, and managing the investments for maximum return commensurate with acceptable levels of risk.

The past year has seen another significant increase in the financial strength of MPS and this shows that we take the trust that members place in MPS seriously, and manage the business in response to that trust. Members should be assured that MPS will be around and in a position to respond to their requests for assistance in the future.

Simon Kayll
Finance Director

Members of the Council & Committees

President

Sir Peter Morris AC FRS FRCS
FMedSci³

Vice-Presidents

Ireland

Professor John Bonnar
MA MD FRCP FRCOG

Israel

Professor Shmuel Penchas
MSc MD DIC

New Zealand

Professor Sir John Scott KBE
MD FRCP FRACP FRSNZ BMedSc

West Indies

Dr Brian Charles BSc(Hons)
MB BS MSc DM

Chairman of the Council

Nicholas Davies MA DM(Oxon)
MRCP FRCR

Chief Executive

John Hickey MB BS FRCA FFLM
(Retired 30 September 2007)

Tony Mason BSocSc FIA
(Appointed 16 October 2007)

Members of the Council

Frank Attwood BSc(Econ) FCA
FRSA ACIS MAE^{1 2 4 5}

The Lord Bradley PC BA(Hons)
MPhil (Appointed 11 July 2007)

Ian Croxford QC LLB
(Appointed 14 November 2007)

Nicholas Davies MA DM(Oxon)
MRCP FRCR Chairman^{2 3 4 5}

Mark Dinwoodie MA(Cantab) MB
BS DGM DRCOG DCH DFFP FRCGP
T(GP) MMed(Dundee)^{1 3}

Mary Favier MB BCh MRCGP
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Kathryn Harley BDS MSc
FDSRCS(Edin) FDSRCS(Eng)
FDSRCS(Glas) FFGDP(UK)²

Taj Hassan MD FCEM MRCP DA
FRCSed^{1 4}

John Hickey MB BS FRCA FFLM
Chief Executive (ex officio)^{3 4 5}
(Retired 30 September 2007)

Leela Kapila OBE MB BS FRCS
FRCPCH(Hon)^{1 3}

Simon Kayll BA(Hons) FCA MBA^{4 5}

Kevin Lewis BDS LDSRCS
FDSRCS(Eng)

Professor Sir Ravinder Maini
FRS BA MB BChir FRCP FRCPE
Hon DSc(Glasgow) FMedSci^{1 3}

Tony Mason BSocSc FIA
Chief Executive (ex officio)^{3 4 5}
(Appointed 16 October 2007)

The Lady Vallance JP MA MSc
PhD^{1 3}

John Leighton Williams QC MA
LLB^{2 4} (Retired 13 June 2007)

Richard Youell JP MA^{2 4}

- 1 Members of the Audit Committee
- 2 Members of the Remuneration Committee
- 3 Members of the Nominations Committee
- 4 Members of the Board of MPI (London) Limited
- 5 Members of the Board of MPS Risk Solutions Limited

Frank Attwood

Frank Attwood was appointed to Council as a non-executive director of MPS in June 2004. He is a Fellow of the Institute of Chartered Accountants in England and Wales and was formerly a partner in RSM Robson Rhodes LLP. He is a member of the International Ethics Standards Board of the International Federation of Accountants. His professional experience covers insurance entities, charities and other regulated companies.

Keith Bradley

Keith Bradley joined Council as a non-executive director of MPS in July 2007 and submits himself for formal election by the membership at the Annual General Meeting in June 2008. He is a member of the House of Lords, is a non-executive director of the Chester Hospital NHS Foundation Trust, Chair of Manchester Salford and Trafford Lift Company and acts as a special advisor to the University of Manchester. He was formerly member of Parliament for Manchester Withington (1987 to 2005), served as a Government Minister and a member of the Health Select Committee.

Ian Croxford

Ian Croxford joined Council as a non-executive director of MPS in November 2007 and submits himself for formal election by the membership at the Annual General Meeting in June 2008. He is a barrister, being called to the Bar in 1976 (Gray's Inn), was appointed a QC in 1993, became a Bencher at Gray's Inn in 2001 and was appointed as a Deputy High Court Judge (Chancery Division) in 2007. Ian's professional practice is mainly substantial commercial and professional negligence (non-medical) litigation. He has since 1990, served as a Governor of Westcliff High School for Boys and became Chairman of Governors in 1995.

Nicholas Davies

Nick Davies was elected to Council as a non-executive director of MPS in May 2001 and was appointed Chairman of Council in 2003. He has been a member of the Claims Advisory Committee since 1996. He is a consultant anaesthetist at the Southampton University Hospitals NHS Trust and was the Clinical Services Director for Anaesthesia, Theatres and Intensive Care from 1994 to 1997, and 2001 to 2003. He was also an examiner for FRCA, Royal College of Anaesthetists from 1991 to 2003.

Mark Dinwoodie

Mark Dinwoodie was elected to Council as a non-executive director of MPS in June 2005. Since 1993 he has been a GP Principal in a practice in Bath. He is also a GP trainer, and a GP with special interest in Cardiology, Bath and North-East Somerset PCT. He also acts as an Associate Consultant for MPS Risk Consulting Limited in the delivery of certain educational and risk management workshops.

Mary Favier

Mary Favier was elected to Council as a non-executive director of MPS in June 2005. She works as a GP principal and partner in a practice in Cork. She is Chair of Education for the Irish College of General Practitioners, is Continuing Medical Education tutor for the Post Graduate Medical and Dental Board and is Educational Officer for Cork City Faculty of the Irish College of General Practitioners. Mary is also a member of the educational board of Forum, ICGP general practice magazine, a member of the editorial board of health information consumer website and visiting lecturer in the family medicine training programme in Bahrain. In addition, she is also a member of the leadership training workshop for CME small group leaders.

Kathryn Harley

Kathy Harley was appointed to Council in July 2006 as an ex officio non-executive director of MPS following her appointment as Chair of Dental Protection Ltd (DPL). She has been a member of the Dental Protection Board and Advisory Committee for Dental Claims since 2000. Kathy is a Consultant and Honorary Clinical Senior Lecturer in Paediatric Dentistry at the Edinburgh Dental Institute where she is Clinical Lead for Paediatric Dentistry. She is a Board Member and currently Senior Vice Dean of the Faculty of Dental Surgery, The Royal College of Surgeons of England.

Taj Hassan

Taj Hassan was elected to Council as a non-executive director of MPS in June 2006. He has been a member of the MPS Claims Advisory Committee since 2004 and is a consultant in Emergency Medicine at Leeds General Infirmary, Leeds Teaching Hospitals NHS Trust. He has been a Council Member of the College of Emergency Medicine (CEM) since 2004 and has been Chairman of the eLearning Strategy Group at CEM since 2005. In addition, he has been examiner for Fellowship of CEM since 2005.

Leela Kapila

Leela Kapila was elected to Council as a non-executive director in June 2003. Until 2002 she was a consultant paediatric surgeon at the University and City Hospitals, Nottingham. She was visiting professor at a number of international hospitals and a Council member of the Royal College of Surgeons from 1992 to 2004. She was Chairman of the Children's Surgical Forum at the Royal College of Surgeons and Senior Vice-President of the Royal College of Surgeons from 2003 to 2004.

Simon Kayll

Simon Kayll was elected to Council as an executive director in June 2003. He is a fellow of the Chartered Institute of Accountants in England and Wales. He joined MPS in February 1994 as Chief Accountant and was successively appointed as Financial Controller and finally Finance Director in January 1999. He was also appointed Company Secretary for MPS and most of its subsidiary companies in March 2000. His current responsibilities include finance, investment management, reinsurance, internal audit, marketing, membership and oversight of MPS Risk Solutions Limited.

Kevin Lewis

Kevin Lewis was elected to Council as an executive director in June 2003. He is formerly a general dental practitioner and was a member of the original Board of Dental Protection Limited from 1989 to 1992, before being appointed as a dentolegal adviser with Dental Protection in 1992. He was subsequently appointed Dental Director of MPS in 1998. His responsibilities include the delivery of all aspects of dentolegal services to members as well as marketing Dental Protection. He has been an Associate Editor of 'Dental Practice' since 1981, was a member of GDC steering group on Recertification and has been Vice President of the British Association for Dental Therapists and a Council Member of the British Society for Restorative Dentistry.

Members of the Council & Committees

Ravinder Maini

Tiny Maini was elected to Council as a non-executive director of MPS in May 2001. He is Emeritus Professor of Rheumatology at the Kennedy Institute of Rheumatology Division, Imperial College, London and was Honorary Consultant Physician at the Charing Cross Hospital, Hammersmith Hospitals Trust, London until the end of 2007. Between 1990 and 2002 he was Head of The Kennedy Institute of Rheumatology Division and Rheumatology Department Charing Cross Hospital and has held a number of posts on National/International Committees representing Rheumatology. He has served on editorial boards, has been a co-recipient of International prizes for research and received a Knighthood in 2003 for services to Rheumatology.

Tony Mason

Tony Mason joined Council as Chief Executive of MPS in October 2007. He is a Fellow of the Institute of Actuaries. Before joining MPS, he was a partner at Lane Clark & Peacock LLP (LCP), a firm of consulting actuaries. He was appointed a partner in 1985, was appointed Managing Partner in 1997 and Chairman in 2006. He specialised in all matters concerning professional indemnity cover arising from clinical negligence, including the NHS in England and Scotland, MPS and several Australian organisations. Prior to his appointment as Chief Executive, he was an actuarial adviser to MPS for more than 20 years.

Elizabeth Vallance

Elizabeth Vallance joined Council as a non-executive director of MPS in February 2005 and was elected by the membership at the Annual General Meeting in June 2005. She is a member of the board, and senior independent director, of Charter Pan-European Trust plc, Chairman of the Council of the Institute of Education, University of London and a Fellow of Queen Mary, London. She is also Chairman of ICAN, the children's communication charity and Vice-Chairman of the Health Foundation and was formerly the Chairman of St George's Healthcare NHS Trust and of the Advisory Committee on Clinical Excellence Awards. She is also a magistrate on the Inner London Bench and was appointed High Sheriff of Greater London for 2008 to 2009.

Richard Youell

Richard Youell was elected to Council as a non-executive director of MPS in June 2003. He is a commercial arbitrator specialising in insurance disputes and spent most of his working life as a Lloyd's underwriter, from which he is now retired. He is also a non-executive director of Britannia Steam Ship Insurance Association Limited and Tindall Riley (Britannia) Limited.

MPS also has a President, Sir Peter Morris. This position is not a director of the board under the terms of the Companies Act, but the President is elected by the membership and is entitled to, and does, attend Council meetings, partaking fully in the discussions.

Peter Morris

Peter Morris was elected President in June 2007. He is Nuffield Professor of Surgery Emeritus and former Chairman of the Department of Surgery and Director of the Transplant Centre, University of Oxford. He was, from 2001 to 2004, President of the Royal College of Surgeons of England. He is also Director of the Centre for Evidence in Transplantation at the Royal College of Surgeons and the University of London and Honorary Professor, Chairman of the British Heart Foundation, Fellow of the Royal Society and the Academy of Medical Sciences, Foreign Member of both the Institute of Medicine of the National Academy of Sciences and the American Philosophical Society.

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Report of the Council

The Council, which for the purposes of the Companies Acts is the Board of Directors, presents its annual report for the year ended 31 December 2007

Business review and principal activity

Principal activity

MPS is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners and other healthcare professionals. 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 MPS's Memorandum of Association.

One of MPS's objects is to grant indemnity to members in respect of claims and demands arising from their professional practice, which may result in the payment of costs and damages. The Articles of Association set down in paragraph 40 state that 'the grant of an indemnity shall be entirely in the discretion of the Council who shall have the 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'.

In addition to the principal activity of the holding company, the group has three principal trading subsidiaries, MPS Risk Solutions Limited, MPS Risk Consulting Limited and Cognitive Consulting Group Pty Limited. MPS Risk Solutions Limited is a general insurance company, regulated by the Financial Services Authority, which provides professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. MPS Risk Consulting Limited provides education and risk management consultancy to individuals and corporations in the healthcare sector. In January 2007, MPS acquired the entire share capital of Cognitive Consulting Group Pty Limited, a company registered in Australia which trades under the name of Cognitive Institute. The company provides education and training in communication skills and risk management to medical practitioners. There is a further major subsidiary, MPI (London) Limited (MPI), which holds the invested assets on behalf of MPS. MPI has a separate board (see page 8) and the board is responsible for agreeing an appropriate investment strategy, having regard to the development of liabilities and risk, which is then approved by MPS Council and subsequently implemented by MPI. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity. MPI board is responsible for overseeing the investment performance of the third party managers.

Business purpose

MPS exists to serve its members. MPS aims to ensure that it remains a strong viable entity to meet its current and future commitments to members and that it continues to provide much-needed services to members for years to come.

In providing services to members, subject to discretion and the scope of the benefits of membership, MPS will meet the costs of assisting members provided that the request stems from an incident that occurred at a time when the member was paying an appropriate subscription.

This means that if a member seeks advice or an indemnity relating to an incident in 2007, providing the member was paying an appropriate subscription during 2007 and assistance is granted when the application is made, then MPS will pay all reasonable costs related to that incident. These costs may include representation at a regulatory council, assistance with disciplinary proceedings and full indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident before costs are incurred and the issues are resolved. Applying for the benefits of membership years after the adverse incident, subject only to having paid the appropriate subscription for the period of the adverse incident, is known as claims-incurred cover.

Principal risks and risk management

All businesses face risks of one kind or another and prudent management of the business requires identification, quantification, management and mitigation of these risks. MPS is no exception. The identification and mitigation of the key risks are detailed below and the process of the management of risk is detailed in the section on Internal Controls below.

The principal risks facing MPS and their mitigation are

■ Reserving risk

MPS provides an indemnity to members for the costs and damages associated with claims of negligence and the costs associated with other claims. For MPS to provide this support on a claims-incurred basis means that at any time there are, as a result of past adverse incidents, claims that have already been reported and potential claims that have not yet been reported (unreported claims). Subject to discretion, MPS will be responsible for all of these claims.

For MPS to be responsible for paying these claims, it needs to be able to assess the value of these claims and ensure that it has sufficient assets to meet the expected total costs.

The value of these claims is estimated by MPS and there is a risk that the eventual payments exceed the sums provided for the settlement of the claims. The uncertainty around estimating the value of all claims is greater for unreported claims, than for those that have been reported. For unreported claims, the uncertainties include the number and severity of claims arising, how long it is likely to take from the date of the adverse incident to the making of a claim and how many may be large claims. The uncertainties for the reported claims are a little narrower, but still considerable.

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In addition to the variation inherent in the claims, there are also external factors, mainly changes in legislation which can have a profound impact on claim estimates. MPS has seen a number of changes in legislation in the UK over the last ten years, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodicals and the reduction in discount rates.

The likelihood of variation in the total outcome from the expected estimate diminishes with the increasing size of the portfolio. In addition, the geographical diversity of the portfolio also helps to reduce the overall variation of expected returns. A larger more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

Mitigation

Maintaining a large geographically diverse portfolio of risk is a key step in helping to reduce the variation of outcome around the expected mean. Further steps are around ensuring the quality of the expected outcome in the first place and this relies heavily on the accuracy of data used and the quality of analysis in determining the expected outcome. MPS uses the skill and on-going training to maintain the skill of its internal staff to determine accurate estimates for individual claims. It also has many checks and balances in its internal systems to review and monitor these estimates to achieve a high degree of consistency. MPS uses the experience of its consulting actuary, Lane Clark & Peacock LLP, to use the internal individual claim estimates and membership data to arrive at a statistical reserve of the likely cost of all claims.

■ Underwriting risk

MPS charges a subscription based on the expected claims of those members paying the subscription. There is a risk that the resulting claims from those members will turn out to exceed the expectations contained within the subscriptions and thus MPS will not have collected sufficient subscription income.

Mitigation

Again the skill of staff and advisers is important as are the quality of internal systems. In addition, MPS carefully reviews all applications and makes an assessment on those risks that it is willing to accept. MPS also runs an internal programme to identify individual members who appear to represent a higher than normal risk and tries to work with them to reduce their risk. MPS also purchases insurance for the risk that claims experience will be worse than was allowed for when setting subscriptions.

■ Market risk

Subscriptions collected in any one year are invested until they are needed to pay the costs arising from the year in which the

subscriptions were received. The greater the return MPS can achieve from investments, the less it would theoretically need to charge in subscriptions. However, the greater the investment return, the greater the risk of significant fluctuations in the value of MPS's assets and thus the return from investments. Not only is such volatility damaging to the strength of the balance sheet, but it also makes planning for the longer term more difficult if there is uncertainty over the expected levels of investment returns.

Mitigation

MPS has adopted a prudent investment strategy that carefully identifies the levels of risk and return acceptable in its portfolio of assets. External professional advice is regularly sought and investment performance is subject to detailed review in conjunction with advisers. Wherever practical, risks arising from currency fluctuation and investment liquidity are minimised.

The risk of asset value volatility is addressed in a number of ways. Firstly the majority of assets are held in bonds and short-term money market funds, which have a relatively low level of volatility, secondly there is considerable diversity of the assets held primarily to achieve an investment return. The equity element of these assets are held in four different portfolios, each investing in different geographic areas and equities are augmented by other return seeking assets which reduce volatility, because returns from these assets are less than perfectly correlated with the returns from equities.

■ Currency risk

MPS holds assets to meet claims liabilities. The claim liabilities are in a number of different currencies. If the assets are held in different currencies, then there is a risk that relative movements in exchange rates will alter the relative value of assets to liabilities. Sometimes this might be beneficial, sometimes not. This is a risk that is outside of the scope of MPS's business and skill and should be removed as much as is possible.

Mitigation

MPS ensures that all major non-sterling claim liabilities are fully matched with assets to the same value in the same currency. This is fully complied with for Euro and Rand claim liabilities. For currencies where the liabilities are smaller, it is not practical to operate a local currency designated investment portfolio, so MPS uses US dollar denominated assets to act as a proxy match for such liabilities. Many of these currencies are closely linked to the US dollar anyway.

■ Liquidity risk

Liquidity risk is the risk that there will be insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to make the payment or the

need to terminate an illiquid investment at an inopportune time, which could be costly

Mitigation

In managing liquidity risk, MPS needs to balance the ability to gain an investment return on its assets and the ability to have sufficient funds to pay liabilities as they fall due. MPS operates a sophisticated system through major clearing banks to ensure that funds are available on a daily basis when required, but otherwise are invested in pooled money market funds. In addition to this, the invested assets include a short-term money market portfolio with an average weighted maturity of a maximum of 12 months, which provides additional liquidity if needed.

■ Credit risk

Credit risk is the risk that someone who owes money to MPS will fail to pay. MPS has little risk from a failure to pay subscriptions by members, because if payments are not made, no services will be provided. MPS's main credit risk arises from either a failure of its insurers or from a failure of some of the counterparties involved in derivative financial instruments as part of MPS's investment portfolio.

Specific comment on this risk in relation to derivative financial instruments is provided on page 21.

Mitigation

MPS has a stated policy on the acceptable risk profile for its insurers. This policy states the need to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties.

■ Interest rate/inflation risk

MPS's exposure to interest rates is referred to in the section on investment risk and reserving risk, but this section spells it out in more detail. MPS holds about 70% of its invested assets in bonds and bond prices move inversely to changes in interest rates, thus an increase in interest rates will cause a fall in the price of bonds. The impact on MPS's liabilities is more complicated. The main influence on the cost of large claims (in the UK) is that element to reflect compensation for future costs or losses, these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to a discount factor. The discount factors might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor. However, with the introduction in 2005 of periodical payments as an alternative to lump sum settlements or structured settlements, compensation can be provided as a regular monthly payment for the life of the

claimant, and these payments are to be indexed according to retail price index. Since the determination of the Appeal in the Thompsonstone case, it is increasingly likely that for settlements subject to periodicals, the cost of future care will be subject to indexation by a wage measure and not the retail price index.

Mitigation

Interest rate exposure for bond assets is mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements and secondly by holding a predominance of index linked bonds, so that interest rate rises due to increasing inflation are allowed for in the rebasing of the capital value and coupon amount and additional mitigation is provided by the ability to reduce the tax charge as a result of indexation. MPS's response to the risk inherent in periodicals is firstly to ensure that it has an appropriate investment make up to closely match the liabilities and secondly to ensure that it has sufficient assets to allow a margin in case of unexpected changes in interest and inflation rates.

Specific comment on this risk in relation to derivative financial instruments is provided on page 21.

■ Operational risk

Any organisation will be exposed to operational risk, that is to say the risk that a failure in its operations may incur an additional cost. Examples for MPS might include costs associated with a major failure of IT systems, fraud, fire in one of the offices or theft of its assets.

Mitigation

MPS has done much to ensure that it has IT back up systems and contingency plans in the event of failures or disasters, such that there will be minimal disruption to its business. It also spends time reviewing and testing its internal business systems, to ensure that they are sufficiently robust to ensure accuracy of data on which business decisions are based, and to prevent fraud and theft.

Financial targets

Despite the risk mitigation identified above, it is impossible to eliminate risk. Consequently, MPS needs to ensure that it has the financial resources to cope with the remaining unmitigated risk so that it can provide members with the assurance they need that MPS will be in a position to respond to their requests for assistance no matter when these are made.

To this end, MPS has set financial targets that will ensure that its assets exceed the estimated value of both its reported and unreported claim obligations, to protect against the risk that claims may, for many reasons, when eventually settled, cost more than anticipated, this is known as reserving risk. The financial targets have been set such that even if these values were, within

Report of the Council

certain parameters, to be higher than expected, or, again within certain parameters, the value of invested assets was to be lower than expected, which is known as market risk, then MPS would still have sufficient funds to meet all its obligations. More detail is provided on the financial targets in both the Chief Executive's and Finance Director's reports on pages 2 to 7

Financial performance for the year

Good progress has been made during the year in reaching the required financial targets. More detail of the financial performance for the year is provided within the Finance Director's report on pages 5 to 7

Key markets

MPS operates in a number of different international markets. This international perspective allows many members to practice around the world and still enjoy the benefits of MPS membership. It also allows MPS to use its wide and diverse experience for the benefit of all its members.

MPS's principal markets are

Bermuda	New Zealand
Hong Kong	Singapore
Ireland	South Africa
Kenya	United Kingdom
Malaysia	West Indies

In addition, MPS is able to provide the benefits of membership in many other countries (except USA and Canada) and if members intend to work abroad, they should contact their membership administrator to see if continued membership of MPS is possible.

MPS has a very strong position in all of the above key markets.

Member numbers

The business aim is to grow membership in a controlled manner without increasing the overall risk exposure of the organisation. The increase in member numbers in 2007 was 3.8%, giving a total membership at 31 December 2007 of 255,151. MPS experienced growth in all of its main markets listed above, except Kenya, but growth in member numbers was particularly strong in the United Kingdom, Ireland, South Africa, Hong Kong, New Zealand and Malaysia.

In addition to the growth in member numbers, internal measurements also show that the risk profile of the membership improved in all areas.

Staff and the provision of services

Staff are a vital ingredient in providing the service to members. MPS does much to ensure effective recruitment of staff, appropriate training once recruited and the provision of appropriate management, reward and working conditions to help ensure retention of a skilled resource.

MPS continues to invest considerable time to help senior staff with managing performance, to ensure consistency of management across the organisation and to ensure that managers feel supported in taking the decisions necessary for the business. In addition, much has been done to improve internal communication, so that staff are more aware of their contribution to the success of MPS and more aware of issues within the business.

Future developments

The Chief Executive's report (see page 2) refers to developments in promoting four strategic cornerstones, being security, fairness, quality and being at the heart of the profession. It is MPS's intention over the coming years to increase the spend on education and risk management for the benefit of members.

MPS has done much over the years to attract and retain members. It has been very successful in this, by providing an excellent service at competitive prices. This has resulted in a strong membership base in all of MPS's main geographical areas of operation. MPS is keenly aware that members demand a high level of service and that there is always actual or threatened competition in the market so subscriptions need to be competitive. Thus, the main focus of MPS's efforts in the future will continue to be the provision of exceptionally high quality medico and dentolegal advice and support for members seeking MPS's assistance; in addition, MPS will continue to set subscription rates that are commensurate with the risk and the need to attain the necessary financial targets.

In January 2007 MPS group, through MPS Risk Consulting Limited, acquired Cognitive Consulting Group Pty Limited (CCG), a company based in Australia and also operating in New Zealand and Singapore, that is a world leader in the provision of risk management and communication skills training to healthcare professionals. In acquiring CCG, MPS aims to build on the range of courses already available and to provide these courses to MPS members around the world firstly, to help reduce the risk of claims and complaints incurred by members, secondly some special courses will be specifically targeted at those members that make an above average demand on MPS resources to try and mitigate this cost and thirdly, to provide such courses to non-members to enhance the reputation and recognition of MPS.

MPS Risk Solutions Limited (MPSRs) has developed and will continue to develop its client base within the market of corporate providers of healthcare services, by providing competitive insurance cover for malpractice, professional indemnity and where appropriate public and product liability risks.

Donations

Charitable donations made by MPS during the year amounted to £14,000. £3,000 in favour of the Daniel Turnberg Trust, £1,000 in favour of the Royal Medical Benevolent Fund, and £10,000 in favour of the Charities Aid Foundation in lieu of fees waived by a

Director of MPI (London) Limited. No political donations were made during the year (2006 £nil)

Employees

During the year MPS continued to provide employees with relevant information and seek their views on matters of common concern through the Staff Consultative Group, staff briefings and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting MPS's trading position and of any significant organisational changes. MPS also seeks regular feedback from its employees and a number of different mechanisms exist for this, including a company wide staff survey that is conducted every two years.

In 2005, MPS decided to adapt the existing Staff Consultative Group in order to comply with the requirements of the Information and Consultation of Employees Regulations 2005.

MPS has also sponsored the establishment of a group of staff to investigate ways that MPS can be more energy efficient and reduce waste. This group has sought advice from external consultants and will be reporting its ideas and recommendations for consideration in 2008.

It is the policy of MPS to support the employment of disabled persons where possible, both in recruitment and by retention of employees who become disabled whilst in the employment of MPS, as well as generally through training and career development.

Members of the Council

The names of the members of the Council of MPS who served during the year are set out on page 8.

Corporate Governance

The Listing Rules of the Financial Services Authority require listed companies to disclose how they have applied the principles set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance and whether they have complied with its provisions throughout the period. Although not listed, MPS complies with the Combined Code where it is considered relevant to its business and constitution. The following is, where relevant, a statement in accordance with the Code.

Council

The Council consists of a non-executive Chairman, a Chief Executive, two further executive members and eleven other non-executive members. MPS's constitution requires that the majority of Council members are doctors or dentists and that the Chairman is a doctor or dentist.

Of the non-executives (including the Chairman), seven are doctors or dentists and five are not. All the non-executives are

considered to be independent. The five non-executives who are not a doctor or dentist, have no financial interest in MPS other than their fees as members of Council. The seven non-executives who are a doctor or dentist, have varying financial interests in MPS, but these are not felt sufficient to compromise their independence. They receive fees as members of the Council and in addition, two received fees for acting as expert witnesses on behalf of MPS members, one received fees for providing risk management services to members and six had personal membership with MPS.

MPS has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the business. The Council considers that the non-executive members of the Council as a group are of a sufficient calibre and number to bring strength and independence to the Council and does not propose to nominate any one non-executive to be a senior independent member of the Council. In stating this, the Council recognises that this is not in accordance with the relevant provision of the Combined Code.

The normal retirement age for executive members of the Council is 65, a change made in 2006, prior to which normal retirement age was 60. Transition provisions have been made for those within 10 years of retirement at the date of the change. The same legislation prompted a review of the retirement requirements for non-executives and in 2007, members voted at the Annual General Meeting to change the Articles of Association, to remove any upper age limit for non-executive directors. All Council members, except for the Chief Executive and the Chairman of Dental Protection Limited, are subject to election by members at the first opportunity after their appointment by the Council and to re-election (excepting the Chief Executive and the Chairman of Dental Protection Limited) at general meetings at least every three years. The Chief Executive is appointed by the Council and can be removed by the Council. The Council recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the Combined Code, but believes that it does not compromise the independence or integrity of the Council. The Chairman of Dental Protection Limited is a member of Council ex officio, and is elected to the post by the Board of Dental Protection Limited. Directors of Dental Protection Limited are elected by the shareholder of the company, which is MPS and thus the Council of MPS has the ability to appoint and remove directors of Dental Protection Limited. Non-executive members of the Council are limited to an eight year term.

The Council met formally nine times during the year (ten times in 2006). Because of the change in Chief Executive during the year, Council did not have its usual annual day long meeting to specifically consider strategy. Such a meeting was held in February 2008. The attendance record of members of the Council at the nine meetings (ten meetings in 2006) is shown in the table on the next page.

Report of the Council

The Council has a schedule of matters specifically reserved to it for decision, including strategy, financial policy and major acquisitions and disposals. All Council members have access to the advice and services of the Company Secretary and procedures exist for any member of the Council to take independent advice at MPS's expense.

Non-executive members of the Council met once during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman and executive if they wish - this was not thought necessary during 2007.

Sub-Committees of the Council

The Council has a Nominations, Remuneration and Audit Committee, the members of which are listed on page 8.

The Nominations Committee is chaired by the Chairman of the Council and keeps under review the composition of the Council and makes recommendations concerning all new appointments of non-executive members.

The Remuneration Committee is chaired by the Chairman of the Council and is responsible for making recommendations to the Council concerning matters relating to remuneration policy. See Remuneration Report below.

The Audit Committee is chaired by a non-executive member of the Council, Frank Attwood, (a former audit partner of an international firm of Chartered Accountants) and met twice in the year. MPS's external auditors, Chairman, Chief Executive, Finance Director, Financial Controller and Internal Audit and Compliance Officer also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. Other senior managers attend.

Council attendance record

Member of Council	Appointed/ Retired	No. of meetings attended	
		2007	2006
Frank Attwood		8	9
Keith Bradley	Appointed 11 July 2007	4	N/A
Ian Croxford	Appointed 14 November 2007	2	N/A
Nicholas Davies		8	9
Mark Dinwoodie		9	10
Mary Favier		8	10
Kathryn Harley	Appointed 14 June 2006	9	6
Taj Hassan	Appointed 14 June 2006	7	4
John Hickey	Retired 30 September 2007	7	10
Leela Kapila		9	10
Simon Kayll		9	9
Kevin Lewis		8	8
Ravinder Maini		7	7
Tony Mason	Appointed 16 October 2007	2	N/A
Brian Mouatt	Retired 14 June 2006	N/A	5
Elizabeth Vallance		8	8
John Leighton Williams	Retired 13 June 2007	4	8
Richard Youell		9	10

for specific agenda items as required. The Audit Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews prior to publication the annual financial statements and the other information included in the Annual Report. The Audit Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit Committee is shown in the table below. The Committee meets in March and November.

The Audit Committee is responsible for ensuring the continued independence of the external auditors. The Committee has a written policy on this, which includes requiring the auditors to make a statement on their continued independence, placing limits on the amount of non-audit work undertaken by the auditors and having a policy covering the commissioning of non-audit services from the auditors.

Several members of the Council are members of the Board of MPI (London) Limited, which manages MPS's investment portfolio, and of the Board of MPS Risk Solutions Limited, which provides general insurance contracts to corporate healthcare providers. Both Boards are chaired by the Chairman of the Council and the members are listed on page 8.

The Role of the Council

The Council's principal focus is the overall strategic direction, development and control of the MPS group. In addition, it is also ultimately responsible for the exercising of discretion in response to requests for assistance. In practice, this is delegated on a daily basis to the executive management and employees. However, the Council is specifically involved in exercising discretion in potentially controversial, expensive or unusual requests for assistance.

In support of the overall strategy, the Council approves the group's values, strategic plans, annual budget and overall system of risk identification, management and internal controls. The Council also has control of the group's operating and financial performance.

The Council agrees the group's corporate governance framework, as part of which it has empowered the main management committee, the Executive Committee, who are responsible for day to day operations.

The roles of the Chairman and Chief Executive are written down and the Chairman, together with the Chief Executive and the Secretary, are responsible for ensuring that the Council is kept fully informed and is consulted on issues that are reserved to it and that decisions are made in a timely manner.

Newly appointed members of the Council are given an induction appropriate to their level of previous experience.

Audit Committee attendance record

Member of Council	Appointed/ Retired	No. of meetings attended	
		2007	2006
Frank Attwood		2	2
Nicholas Davies	Retired 1 January 2007	N/A	2
Mark Dinwoodie	Appointed 14 June 2006	2	1
Taj Hassan	Appointed 13 June 2007	1	N/A
Leela Kapila		2	2
Ravinder Maini		2	2
Elizabeth Vallance		2	2

Report of the Council

Board Evaluation

The Council undertakes an annual evaluation of its performance based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the 2007 evaluation were presented to the Council by the Chairman in its February 2008 meeting and resulting actions were approved by the Council.

Internal Control

The Council has overall responsibility for MPS's system of internal controls and for reviewing its effectiveness whilst the role of management is to implement the Council's policies on risk and control. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing the significant risks faced by MPS in line with recommendations in the original and updated Turnbull report. This has been in place for the full financial year and up to the date of approval of the annual report.

The process involves the undertaking of regular reviews at departmental and corporate level. From these reviews, management identifies the key risks, and determines their likely significance based on the probability of the risk occurring and its likely impact on MPS if it were to do so. Management then determines what action can cost-effectively be taken.

The Council has delegated the function of monitoring the effectiveness of the system of internal control and of the risk management process to the Audit Committee. The Chairman of the Audit Committee reports outcomes of its meetings to the Council and the Council receives the minutes of all its meetings.

In fulfilling its responsibilities to the Council, the Audit Committee

- Discusses with the external auditors their audit approach, and agrees any particular aspect of internal control or risk management to be reviewed by them beyond their statutory responsibilities
- Discusses with independent consulting actuaries their approach to statistical reserving of reported claims and potential claims that have yet to be reported
- Considers the results of the external auditors' work with them and with management
- Initiates as necessary and considers reports from management on systems of internal control and on the effectiveness of risk management

- Reports the results of its works, with any necessary recommendations, to the Council and ensures that actions required by the Council are implemented. One such report is made at the year-end before producing this statement.

MPS has an internal audit and compliance officer whose responsibilities include internal audit. Internal audit is concerned with providing assurance over a wide range of issues, including financial, corporate and operational risks. The internal audit and compliance officer works closely with the external auditors and also attends the Audit Committee meetings. The Audit Committee is responsible for monitoring and reviewing the internal audit function undertaken by the internal audit and compliance officer. The Audit Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the internal audit and compliance officer about his work at each committee meeting.

Remuneration report

The Remuneration Committee is responsible for recommending to the Council fees for members of the Council, Committees and directors of subsidiaries as well as deciding the remuneration of senior staff and receiving recommendations from the Chief Executive for the remuneration of other employees. In framing its policy, the Remuneration Committee aims to attract and retain senior staff to run MPS successfully without making excessive payments. MPS does not provide any regular bonuses, incentive schemes or performance related payments to any staff or non-executive members of the Council. Because MPS is not a listed company, this report is not required to comply with the rules on Remuneration Reports.

Details of the Council Members' remuneration are included at note 7 to the accounts.

Relations with members

The provisions of the Combined Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that MPS has with its members. However, the general tenor of the provisions is applicable to MPS and MPS values its dialogue with members. The Council also uses the Annual General Meeting to communicate financial performance with members and encourages their participation. Members of the Audit, Nomination and Remuneration committees will be present at the Annual General Meeting to respond to any relevant questions if necessary.

The notice for the Annual General Meeting is sent to members at least 20 working days before the meeting date.

Derivative financial instruments

During the year MPS's investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses of these contracts are included in note 5 under other investment income. These instruments were held to take advantage of short term changes in bond market prices. During the year this was achieved by entering into a number of contracts, which involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future. The table below shows contracts that were entered into during the year.

Risk characteristics of derivative financial instruments

Interest rate risk

Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative. For an asset such as a bond the risk is calculated by multiplying the dirty price (the price of the bond plus accrued interest) of the bond by its modified duration. The bond future risk is then calculated by multiplying the bond risk by a conversion factor used in the pricing of the contract. The bond risk and future risk are then compared to determine the number of futures contracts that need to be held.

Credit Risk

Credit risk encompasses all forms of counterparty risk. MPS manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Credit risk is further managed by all such derivative contracts being of short term duration.

Going concern

Members of the Council consider that MPS has adequate resources to continue in operation for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. Members of the Council have satisfied themselves that MPS is in a sound financial position.

Auditors

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 6 July 2007 creating a casual vacancy which the Council has filled by appointing Grant Thornton.

A resolution to reappoint Grant Thornton as auditors of the company will be proposed at the forthcoming annual general meeting.

Derivative contracts

Currency	Contract type	Currency	Contract type
GBP	Long Gilt future	CHF	3 month bond future
GBP	90 day sterling future	JPY	10 year bond future (TSE)
GBP	3 month Libor option	JPY	10 year bond future (LIF)
GBP	Interest rate swap	JPY	3 month Euroyen TFX
CAD	10 year bond future	SEK	Interest rate swap
CAD	Bank Acceptance Note	EUR	30 year Euro BUXL future
AUD	3 year bond future	EUR	Bobl future
AUD	10 year bond future	EUR	Schatz future
AUD	Bank Bill	EUR	Schatz option
NOK	Interest rate swap	EUR	3 month Euribor option
USD	2 year note future (CBT)	EUR	10 year Euro swapnote
USD	10 year note future	EUR	Euro-bund future
USD	10 year future option	EUR	Euro-bund option
USD	90 day Eurodollar future	EUR	Interest rate swap
USD	1 year Eurodollar option	ZAR	Bond future

Report of the Council

Statement of the Council's responsibility for the Financial Statements

The Council is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company Law requires the Council to prepare financial statements for each financial year. Under the law the Council are required to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of MPS and the Group and of the surplus or deficit of the Group for that period. In preparing these financial statements, the Council is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of MPS 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 MPS and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This Annual report is available on MPS's web site. The maintenance and integrity of MPS's web site is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

Disclosure of information to auditors

At the date of making this report, each of the Members of The Council, as set out on page 8, confirm the following:

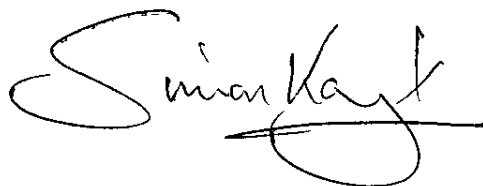
- so far as each Council Member is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and

- the Council Members each have taken all the steps that they ought to have taken as a Council Member in order to make themselves aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Approval

This report was approved by the Council on 9 April 2008 and signed on its behalf by

Simon Kayll
Company Secretary
33 Cavendish Square
London
W1G 0PS



Independent auditors' report

to the members of The Medical Protection Society Limited

We have audited the group and company financial statements (the 'financial statements') of The Medical Protection Society Limited for the year ended 31 December 2007 which comprise the principal accounting policies, the group income and expenditure account, the group and company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses and notes 1 and 3 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to MPS's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to MPS's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than MPS and MPS's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and auditors

The Council's responsibility for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) is set out in the Statement of the Council's Responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Council's report is consistent with the financial statements. The information given in the Council's report includes specific information presented in the Chief Executive's report and the Finance Director's report that is cross-referenced from the financial performance for the year section in the Council's report.

In addition, we report to you if, in our opinion, the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Council members' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Report, the Finance Director's Report and the Report of the Council. We consider the implications for our report if we become aware of any apparent

misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 group's and MPS'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and MPS's affairs as at 31 December 2007 and of the net contribution available to meet future liabilities and charges of the group for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Council's report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Leeds, England
9 April 2008

Consolidated income & expenditure account

for year ended 31 December 2007

Notes	2007 £'000	2006 £'000 Restated
Income		
Members' subscriptions and other income	232,142	214,379
Expenditure		
15 Claims costs and associated legal costs (including costs of insurance)	100,461	115,352
Insurance recoveries	(1,661)	(713)
15 Advisory costs and associated legal costs	32,425	22,800
4a Administration expenses	12,629	12,180
4b (Profit)/loss on exchange movements	(11,206)	15,459
11,12 Impairment of subsidiary company investment	1,764	-
	134,412	165,078
Excess of members' subscriptions and other income over expenditure	97,730	49,301
5 Income from investments	25,581	20,279
9 Other finance income	522	462
Realised losses from disposal of investments	(957)	(8,069)
Contribution from ordinary activities before taxation	122,876	61,973
6a Tax on investment income and gains	(10,284)	7
17 Net contribution for the year available to meet future liabilities and charges	112,592	61,980

Statement of total recognised gains & losses

	2007 £'000	2006 £'000 Restated	
Notes			
	Net contribution for the financial year	112,592	61,980
16	Surplus on revaluation of investments	35,759	28,745
16	Surplus on revaluation of fixed assets	6	-
9	Actuarial gain/(loss) on defined benefit scheme	3,049	(127)
6a	Tax charge on investment gains	(385)	-
	Total recognised gains	151,021	90,598
3	Prior year adjustment	(144)	-
	Total recognised gains since the last annual report and financial statements	150,877	90,598

Note of historical cost income & expenditure

Notes	2007 £'000	2006 £'000 Restated	
	Reported net contribution before tax	122,876	61,973
16	Realisation of valuation gains of previous years	1,119	19,452
16	Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	69	69
	Historical cost net contribution before tax	124,064	81,494
	Historical cost net contribution retained after tax	113,395	81,501

Consolidated & company balance sheets

at 31 December 2007

Notes	Group 2007 £'000	Group 2006 £'000 Restated	Company 2007 £'000	Company 2006 £'000 Restated
Fixed assets				
10 Tangible assets	7,999	8,047	7,885	7,981
11 Investments	1,015,393	834,116	31,009	31,001
	1,023,392	842,163	38,894	38,982
Current assets				
13 Debtors – due within one year	6,098	8,460	732,726	623,330
13 – due after one year	13,115	9,902	13,115	9,902
Bank deposit accounts	104,611	111,847	26,354	29,979
Cash at bank and in hand	3,496	2,310	3,295	2,237
	127,320	132,519	775,490	665,448
14 Creditors – amounts falling due within one year	(60,051)	(48,851)	(50,280)	(47,995)
Net current assets	67,269	83,668	725,210	617,453
Total assets less current liabilities	1,090,661	925,831	764,104	656,435
15 Provision for liabilities and charges	(346,395)	(329,302)	(345,608)	(328,537)
Net assets excluding pension asset/(liability)	744,266	596,529	418,496	327,898
9 Pension asset/(liability)	2,841	(443)	2,841	(443)
Net assets	747,107	596,086	421,337	327,455
Accumulated funds				
16 Revaluation reserve	123,209	88,632	2,893	2,956
Income and expenditure	623,898	507,454	418,444	324,499
17 Funds available to meet future liabilities and charges	747,107	596,086	421,337	327,455

Nicholas Davies
Chairman of the Council
9 April 2008



Consolidated cash flow statement

for year ended 31 December 2007

Notes	2007 £'000	2006 £'000
18 Net cash inflow from operating activities	111,712	97,143
19 Returns on investment and servicing of finance	25,581	20,279
Taxation	(3,531)	(5,053)
Acquisition of subsidiary company	(664)	-
20 Capital expenditure and financial investment	(145,040)	(80,317)
	(11,942)	32,052
Net cash inflow/(outflow) from management of liquid resources (comprising bank and investment deposits)	13,128	(29,100)
Increase in cash in the period	1,186	2,952

	At 1/1/2007 £'000	Cash flow movement £'000	At 31/12/2007 £'000
Analysis of changes in net funds			
Cash at bank and in hand	2,310	1,186	3,496
Bank deposit accounts	111,847	(7,236)	104,611
Cash with investment managers	13,142	(5,892)	7,250
Net funds	127,299	(11,942)	115,357

	2007 £'000	2006 £'000
Reconciliation of net cash flow to movement in net funds		
Increase in cash	1,186	2,952
Cash flow from (decrease)/increase in net liquid resources	(13,128)	29,100
	(11,942)	32,052
Net funds at 1 January	127,299	95,247
Net funds at 31 December	115,357	127,299

Notes to the accounts

1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and MPS's constitution

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 MPS within that convention are set out below

2 Accounting policies

a Change in accounting policy

During the year MPS chose to adopt early the amendments to FRS17 ('Retirement Benefits'), which has resulted in a change of accounting policy and a prior year adjustment. Details of the impact of these changes on the current year and comparative information are set out in note 3

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 and as identified in note 12. 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 receivable during the year, apportioned to accounting periods on a time basis and stated at the fair value of the consideration receivable. It is recognised when the Company has performed its obligations and in exchange obtained the right to consideration. No geographical analysis of subscription income is shown because, in the opinion of the Council, it would be seriously prejudicial for the Group to do so

d Tangible fixed assets and depreciation

All freehold land and buildings are included at valuation. Valuations are kept up-to-date. Other tangible fixed assets are included at cost. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down would be charged to operating profit unless it was a reversal of a past revaluation surplus in which case it would be taken to the statement of total recognised gains and losses. No depreciation is provided on freehold land. The principal annual rates used for other assets are

Freehold buildings	2% per annum
Leasehold property	over life of leases
Furniture and fittings	5% per annum
Office equipment	15% per annum
Computers	20%, 25% or 33.3% 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. Monetary 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 gains or losses are taken to the income and expenditure account, except for those arising from international equities, which are taken to the statement of total recognised gains and losses

f Dividends and interest receivable

Interest receivable is brought into account on an accruals basis. As MPS's equity investments are in pooled funds and unit trusts, income is reinvested rather than distributed. Such income is therefore included within unrealised gains on investments rather than being recorded in the accounts as dividend income

g Investments

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 FRS3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account

Investments in subsidiaries are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

h Derivative financial instruments

The Group's investment managers are permitted to hold derivative financial instruments to enhance investment returns.

Realised gains and losses are taken directly to the income and expenditure account.

i Costs and damages for claims of negligence

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 MPS by 31 December in respect of which the 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 and are recognised only when it is virtually certain that reimbursement will be received.

No provision is made for the potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date.

j Costs related to all other claims

Provision is made at discounted future settlement values for estimated future costs of these claims that have been notified to MPS by 31 December in respect of which the Council has exercised or is expected to exercise its discretion to provide assistance.

No provision is made for these potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date.

k Tax

Provision is made in the financial statements for tax on investment and trading income received and receivable in the year, revaluation gains and losses recognised in respect of UK and International bonds and on other investments disposed of during the year.

No deferred tax provision is required to be reflected in the financial statements. Whilst there is a timing difference arising between the accounting and taxation treatment of certain non-monetary assets, in accordance with FRS19, deferred tax is not provided on timing differences arising from the revaluation of non-monetary assets, where there is no binding agreement to sell these assets at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

l Pensions

MPS operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of MPS's finances. The pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within MPS's defined benefit scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present values of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Pension scheme surpluses, to the extent they are considered recoverable, or deficits are recognised in full on the face of the balance sheet.

Further information on the structure of the defined benefit scheme is contained within note 9 to these accounts.

m Leasing

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

Notes to the accounts

3 Prior year adjustments

As stated in note 2(a), during the year MPS chose to adopt early the amendments to FRS17 ('Retirement Benefits'), which became mandatory for accounting periods beginning on or after 6 April 2007. This has resulted in a prior year adjustment and comparatives have been restated.

Set out below is the impact on the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, and the group balance sheet for both the prior and current year.

	As previously stated £'000	Adjustment £'000	As restated £'000
2006			
Income and expenditure account			
Excess of income over expenditure	49,301	-	49,301
Net contribution for the year to meet future liabilities and charges	61,988	(8)	61,980
Statement of total recognised gains and losses			
Actuarial loss	(101)	(26)	(127)
Balance sheet			
Net assets	596,230	(144)	596,086
	As previously stated £'000	Adjustment £'000	As restated £'000
2007			
Income and expenditure account			
Excess of income over expenditure	97,730	-	97,730
Net contribution for the year to meet future liabilities and charges	112,602	(10)	112,592
Statement of total recognised gains and losses			
Actuarial gain	3,033	16	3,049
Balance sheet			
Net assets	747,245	(138)	747,107

The resulting net adjustment from the early adoption of the FRS17 amendment in 2007 of £138,000, for both the Group and Company, has been credited to the pension asset, further details of which are included in note 9.

4a Administration expenses	2007 £'000	2006 £'000
Included under this classification are		
Operating lease rentals - Land and buildings	1,083	908
- Motor vehicles	93	82
Loss on disposal of tangible fixed assets	163	2
Depreciation of fixed assets	735	721
Auditors' remuneration		
<i>Services to the Company and its subsidiaries</i>		
Fees payable to the Company's auditor for the audit of the annual financial statements	59	57
Fees payable to the Company's auditor and its associates for other services		
Audit of the financial statements of the company's subsidiaries pursuant to legislation	12	11
Other services relating to taxation - compliance and advice	41	40
Services related to corporate finance transactions	-	32
<i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	4	4

4b Exchange movements

The majority of the gains on exchange movements relate to the restatement of international bonds and cash assets held to match international liabilities. These gains are substantially offset by a corresponding increase in international liabilities, which is included in costs through an increase in the overall claims provisions (note 15)

5 Net income from investments	2007 £'000	2006 £'000
Bond and gilt interest	19,072	16,068
Bank interest	6,439	4,268
Other investment income/(expense)	70	(57)
	25,581	20,279

Other investment income/(expense) includes net gains/(losses) arising from derivative financial instruments, which are discussed in more detail in the Report of the Council on page 21

As noted in 2(f), dividend income from MPS's equity investments is not distributed but is reinvested and included in unrealised gains on investment rather than as investment income

Notes to the accounts

	2007 £'000	2006 £'000
6a 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 and gains for the year at 30% (2006 30%)	10,277	21
Adjustment in respect of prior years	1	(28)
Double taxation relief	(12)	(21)
	10,266	(28)
Foreign tax		
Current tax on income for the year	18	21
Tax on investment income and gains in the income and expenditure account	10,284	(7)
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax		
Current tax charge on gains for the year at 30% (2006 30%)	385	-
Tax on other gains included in the statement of total recognised gains and losses for the year	385	-

	2007 £'000	2006 £'000 Restated
6b Factors affecting tax charge for the year		
Current tax reconciliation		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below		
Contribution before tax per accounts	122,876	61,973
Less non-taxable contribution (see below)	(88,623)	(62,286)
Income and net losses from investments included in the income and expenditure account for the year	34,253	(313)
Income and net losses from investments multiplied by the standard rate of corporation tax in the UK of 30%	10,276	(94)
Effects of		
Realised gains on disposal of investments	-	(37)
Expenses not deductible for tax purposes	1	49
Unrealised gains in MPS Risk Solutions	-	9
Surplus tax losses	-	94
Current tax charge for the year	10,277	21

The non-taxable contribution above is the surplus of members' subscription income over related expenditure, which, due to MPS's mutual status, is not subject to corporation tax

6c Unprovided deferred taxation

A £17.3 million (2006 £14.6 million) tax charge would arise should MPS's equity investments and freehold property be sold at the market values at which they are included in the balance sheet

7 Emoluments of members of the Council	2007 £'000	2006 £'000
Aggregate amount of emoluments paid to members of the Council (including executive members)	861	808
Chairman	45	41
Highest paid member of the Council		
Chief Executive		
to 30 September 2007 - emoluments and taxable benefits	160	208
- accrued annual pension rights	98	92
from 16 October 2007 - emoluments and taxable benefits	50	-
- accrued annual pension rights	1	-

There are 3 (2006 3) executive members of the Council who are members of MPS's defined benefit pension scheme, details of which are set out in note 9

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £18,100 (2006 £17,250). An increase of £850 per annum was implemented on 1 March 2007. The following members of Council, who were members of other Boards and Committees, received additional remuneration as detailed below

Council Member	Additional Remuneration (£)	Council Member	Additional Remuneration (£)
Frank Attwood	13,046	Leela Kapila	4,016
Mark Dinwoodie	4,017	Ravinder Maini	4,016
Mary Favier	1,833	Elizabeth Vallance	2,183
Kathryn Harley	17,433	John Leighton Williams	2,534
Taj Hassan	4,033	Richard Youell	2,183

In addition, and as stated in the Report of Council on page 17, two members of the Council received fees for acting as expert witnesses on behalf of MPS members, one received fees for providing risk management services to members and six had personal membership with MPS

8 Employees

The average number of people employed by the Group and the Company during the year was 304 (2006 279)

Costs in respect of these employees were	2007 £'000	2006 £'000
Wages and salaries	12,491	11,977
Social security costs	1,292	1,202
Pension costs	2,333	1,525
	16,116	14,704

Notes to the accounts

9 Pensions

MPS operates a defined benefit pension scheme, The MPS Pension Scheme. The scheme funds are administered by Trustees and are independent of MPS's finances. Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the Trustees and MPS.

The full actuarial valuation as at 31 December 2005 was updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

As stated in note 2(a) during the year MPS adopted early the amendments to FRS17 which became mandatory for all accounting periods beginning on or after 6 April 2007.

The following tables set out the key FRS17 assumptions used for the scheme. The tables also set out, as at the accounting date, the fair values of the assets, analysed by asset class, the present value of the scheme liabilities and the resulting pension surplus. FRS17 requires that this surplus be shown as "Pension asset" on the face of the balance sheet.

Principal actuarial assumptions	At 31 December 2007 % per annum	At 31 December 2006 % per annum
Price inflation	3.5	3.1
Discount rate	5.7	5.1
Pension increases (LPI 5%)	3.4	3.1
Pension increases (LPI 3%)	2.7	2.5
Salary growth	5.0	4.6
Expected return on assets at start of year	6.4	6.1

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 26.7 years (2006: 26.5 years). Allowance is made for future improvements in life expectancy.

	At 31 December 2007 £'000	At 31 December 2006 £'000 Restated
Balance sheet		
Defined benefit obligation	(44,831)	(43,654)
Fair value of scheme assets	47,672	43,211
Pension asset/(liability) in balance sheet	2,841	(443)

The current allocation of pension scheme assets is as follows	At 31 December 2007 % £'000		At 31 December 2006 % £'000 Restated	
Equities	59	28,197	61	26,235
Bonds	38	18,231	36	15,767
Property	2	865	2	936
Cash	1	379	1	273
Total	100	47,672	100	43,211

	2007 £'000	2006 £'000 Restated
The following amounts are recognised in the income and expenditure account		
Current service cost	2,317	2,427
Interest cost	2,257	1,889
Expected return on pension scheme assets	(2,779)	(2,351)
Past service gain	-	(921)
Total expense recognised in income and expenditure account	1,795	1,044

Within the income and expenditure account current service costs are recognised within administration expenses and the net of interest costs and the expected return on pension scheme assets are recognised as other finance income of £522,000 (2006 £462,000)

	2007 £'000	2006 £'000 Restated
The defined benefit obligation moved over the year as follows		
Opening defined benefit obligation	43,654	39,451
Current service cost	2,317	2,427
Interest cost	2,257	1,889
Contributions by scheme members	442	398
Actuarial (gains)/losses	(2,283)	1,722
Benefits paid	(1,556)	(1,312)
Past service gain	-	(921)
Closing defined benefit obligation	44,831	43,654

	2007 £'000	2006 £'000 Restated
The fair value of the scheme assets moved over the year as follows		
Opening fair value of scheme assets	43,211	38,191
Expected return on scheme assets	2,779	2,351
Actuarial gains	766	1,595
Contributions by the employer	2,030	1,988
Contributions by scheme members	442	398
Benefits paid	(1,556)	(1,312)
Closing fair value of scheme assets	47,672	43,211
The actual return on scheme assets was	3,545	3,946

Over the year to 31 December 2007, MPS made contributions of £2,029,669 (2006 £1,987,952) to the scheme. It has been agreed that future employer contributions will be at a rate of 20% of pensionable salaries.

(Pensions continued overleaf)

Notes to the accounts

9 Pensions (continued)

The following amounts are recognised in the statement of total recognised gains and losses	2007 £'000	2006 £'000 Restated
Actuarial gain/(loss)	3,049	(127)

Five year history	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Defined benefit obligation	(44,831)	(43,654)	(39,451)	(30,945)	(26,534)
Fair value of scheme assets	47,672	43,211	38,191	26,541	22,265
Surplus/(deficit)	2,841	(443)	(1,260)	(4,404)	(4,269)
Experience adjustments on scheme liabilities	-	(814)	-	-	135
Experience adjustments on scheme assets	766	1,595	3,554	1,272	2,078

10 Tangible fixed assets

	Freehold property	Leasehold property	Computers, furniture, fittings & office equipment	Total
Group	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 2007	6,549	406	6,106	13,061
Additions	172	4	668	844
Disposals	-	-	(535)	(535)
Revaluation	(421)	-	-	(421)
At 31 December 2007	6,300	410	6,239	12,949
Depreciation				
At 1 January 2007	287	405	4,322	5,014
Provided in year	140	-	595	735
Released on disposals	-	-	(372)	(372)
Released on revaluation	(427)	-	-	(427)
At 31 December 2007	-	405	4,545	4,950
Net book value				
At 31 December 2007	6,300	5	1,694	7,999
At 31 December 2006	6,262	1	1,784	8,047
Company				
Cost or valuation				
At 1 January 2007	6,549	406	5,983	12,938
Additions	172	-	582	754
Disposals	-	-	(522)	(522)
Revaluation	(421)	-	-	(421)
At 31 December 2007	6,300	406	6,043	12,749
Depreciation				
At 1 January 2007	287	405	4,265	4,957
Provided in year	140	-	558	698
Released on disposals	-	-	(364)	(364)
Released on revaluation	(427)	-	-	(427)
At 31 December 2007	-	405	4,459	4,864
Net book value				
At 31 December 2007	6,300	1	1,584	7,885
At 31 December 2006	6,262	1	1,718	7,981

All the leasehold properties held at 31 December 2007 are short leaseholds

(Tangible fixed assets continued overleaf)

Notes to the accounts

10 Tangible fixed assets (continued)

Assets included at valuation

The freehold property was originally 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 Tie Leung, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. In the intervening period further full and interim valuations have been carried out by the above Chartered Surveyors in accordance with FRS15, Tangible Fixed Assets. The latest interim valuation was carried out as at 31 December 2007.

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

	£'000
Cost	4,359
Depreciation	(950)
At 31 December 2007	3,409
At 31 December 2006	3,306

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (2006: £ nil)

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
11 Investments				
Valuation or cost at 1 January	834,116	737,516	31,001	31,001
Additions	279,954	331,433	1,772	-
Disposals at carrying value	(136,715)	(259,821)	-	-
Provision for impairment of subsidiary company investment	-	-	(1,764)	-
Movement in cash	(5,892)	5,328	-	-
Foreign exchange gains/(losses) on listed investments	8,171	(9,085)	-	-
Surplus on revaluation of listed investments	35,759	28,745	-	-
At 31 December	1,015,393	834,116	31,009	31,001
Investments comprise				
Listed on UK Stock Exchange				
- Equities	104,094	101,034	-	-
- Government and other bonds	553,877	417,523	-	-
Listed on overseas Stock Exchanges				
- Equities	187,852	174,757	-	-
- Government and other bonds	152,621	122,778	-	-
Unlisted	9,699	4,882		
Shares in group undertakings	-	-	31,009	31,001
Cash	7,250	13,142	-	-
	1,015,393	834,116	31,009	31,001
Historical cost of investments	892,527	754,061	31,009	31,001

12 Investments in subsidiary undertakings

MPS has the following direct interests in subsidiary undertakings

Name	Parent & group interest in ordinary shares & voting rights	Cost of parent investment £'000	Country of incorporation or registration	Nature of business
Dental Protection Limited	100%	-	England	To manage the advisory and administrative affairs of the dental division of MPS
MPS Risk Consulting Limited	100%	664	England	To provide risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations
MPI (London) Limited	100%	20,001	England	To manage the investment portfolio
DPL Australia Pty Limited	100%	-	Australia	To manage the administrative affairs of Dental Protection Limited in Australia
MPS Risk Solutions Limited	100%	11,000	England	The provision of general insurance contracts to organisations in the healthcare sector
MPS Risk Consulting Australia Pty Limited*	100%	-	Australia	Holding company
The Cognitive Consulting Group Pty Ltd*	100%	-	Australia	To provide communication skills and risk management training to healthcare professionals in existing markets (Australia, New Zealand and Singapore) and, since acquisition, for the benefit of MPS's wider membership

*Indirectly owned by MPS

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

After the end of 2006 MPS Risk Consulting Limited established MPS Risk Consulting Australia Pty Limited (MPSRCA), a company registered in Australia. On 10 January 2007, MPSRCA acquired 100% of the share capital of Cognitive Consulting Group Pty Limited (CCG) trading as Cognitive Institute, also registered in Australia.

It is envisaged that in the short to medium term CCG will be focused on developing suitable training programmes for MPS to provide to its members as well as continuing with its existing trading activities. As positive cash flows are not predicted to be strong during this period of development the decision was taken to write down the value of the investment to the net assets of CCG on acquisition.

The ownership of MPSRCA was transferred to MPS on 22 February 2008.

Notes to the accounts

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
13 Debtors				
Receivable within one year				
Trade debtors	345	1,136	33	892
Recoverable insurance claims	1,457	2,500	1,457	2,500
Amounts owed by subsidiary undertakings	-	-	727,659	616,533
Other debtors	1,376	1,949	689	617
Prepayments	2,920	2,875	2,888	2,788
	6,098	8,460	732,726	623,330
Receivable after one year				
Recoverable insurance claims	13,115	9,902	13,115	9,902
Total debtors	19,213	18,362	745,841	633,232
	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
14 Creditors amounts falling due within one year				
Corporation tax	7,138	-	258	-
Other taxes and social security	902	524	868	509
Other creditors and accruals	20,159	16,570	18,045	16,128
Deferred subscription income	31,852	31,757	31,109	31,358
	60,051	48,851	50,280	47,995

15 Provision for liabilities and charges

Group	Reported negligence claims £'000	Claims handling £'000	Reported other claims £'000	Total £'000
At 1 January 2007	297,083	13,182	19,037	329,302
Movements in the year				
Charged to the income and expenditure account				
Reported negligence claims	96,070	4,391	-	100,461
Reported other claims	-	-	20,580	20,580
Paid	(82,530)	(3,484)	(17,934)	(103,948)
At 31 December 2007	310,623	14,089	21,683	346,395

Company				
At 1 January 2007	296,318	13,182	19,037	328,537
Movements in the year				
Charged to the income and expenditure account				
Reported negligence claims	96,036	4,353	-	100,389
Reported other claims	-	-	20,580	20,580
Paid	(82,481)	(3,483)	(17,934)	(103,898)
At 31 December 2007	309,873	14,052	21,683	345,608

For both the Group and Company reported other claims of £20.6m, shown above, are included in the income and expenditure account within advisory costs and associated legal fees of £32.4m. The difference between these two figures of £11.8m relates to costs, other than external legal costs, incurred in providing advisory services to members.

The reported negligence claims provision is the estimated discounted future settlement values for damages and legal costs in respect of all negligence claims notified by 31 December. The claims handling provision is the estimated internal cost of managing these claims to conclusion. The reported other claims provision is the estimated discounted future settlement value of legal costs relating to these claims notified by 31 December.

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

The reported negligence claims provision is stated before insurance recoveries of £14.6m (2006: £12.4m) that are estimated to be recoverable from MPS's insurers.

Although FRS12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for these provisions, due to the complexities of the many actuarial calculations involved.

Notes to the accounts

16 Movement on reserves

Group	Revaluation £'000	Income & expenditure £'000	Accumulated £'000
At 1 January 2007 as previously stated	88,632	507,598	596,230
Prior year adjustment	-	(144)	(144)
At 1 January 2007 restated	88,632	507,454	596,086
Surplus on revaluation of listed investments	35,759	-	35,759
Surplus on revaluation of fixed assets	6	-	6
Realised on disposal of investments	(1,119)	1,119	-
Actuarial gain recognised in pension scheme	-	3,049	3,049
Tax charge on recognised investment gains	-	(385)	(385)
Release of depreciation on revalued property	(69)	69	-
Net contribution for the year after tax	-	112,592	112,592
At 31 December 2007	123,209	623,898	747,107

Company

At 1 January 2007 as previously stated	2,956	324,643	327,599
Prior year adjustment	-	(144)	(144)
At 1 January 2007 restated	2,956	324,499	327,455
Surplus on revaluation of fixed assets	6	-	6
Actuarial gain recognised in pension scheme	-	3,049	3,049
Release of depreciation on revalued property	(69)	69	-
Net contribution for the year after taxation	-	90,827	90,827
At 31 December 2007	2,893	418,444	421,337

	2007 £'000	2006 £'000 Restated
17 Reconciliation of movements in funds available to meet future liabilities		
Net contribution for the financial year	112,592	61,980
Other recognised gains relating to the year	38,814	28,618
Tax charge on investment gains	(385)	-
Total recognised gains	151,021	90,598
Opening funds available to meet future liabilities and charges	596,086	505,488
Closing funds available to meet future liabilities and charges (see note 22)	747,107	596,086

18 Reconciliation of excess of income over expenditure to operating cash flows	2007	2006
	£'000	£'000
Excess of income over expenditure	97,730	49,301
Depreciation charges	735	721
Impairment of subsidiary company investment	1,764	-
Loss on disposal of tangible fixed assets	163	2
Increase in provisions	17,093	36,331
Increase in debtors	(851)	(1,314)
Increase in creditors	2,962	3,499
Foreign exchange (gains)/losses on listed investments	(8,171)	9,085
Cash pension contributions in excess of current service cost and past service gain	287	(482)
Net cash inflow from operating activities	111,712	97,143
19 Returns on investment and servicing of finance	2007	2006
	£'000	£'000
Interest received	6,439	4,268
Bond and gilt interest received	19,072	16,068
Other interest	70	(57)
Net cash inflow from returns on investments and servicing of finance	25,581	20,279
20 Capital expenditure and financial investment	2007	2006
	£'000	£'000
Purchase of tangible fixed assets	(844)	(636)
Purchase of investments	(279,954)	(331,433)
Proceeds from sale of investments	135,758	251,752
Net cash outflow from capital expenditure and financial investment	(145,040)	(80,317)

Notes to the accounts

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
21 Commitments				
Operating lease commitments				
Land and buildings, leases expiring				
Two to five years	1,316	902	1,316	902
Motor vehicles, leases expiring				
Within one year	4	-	3	-
Two to five years	10	13	10	12
	14	13	13	12

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

MPS has issued a letter of credit to MPS Risk Solutions Limited in the sum of £20 million

22 Potential claims that have not yet been reported

Unreported incidents up to 31 December may give rise to claims in the future. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on the Council exercising its discretion, will, to the extent to which the Council exercises that discretion, become MPS's responsibility under the occurrence basis of cover MPS provides. The funds on the balance sheet at 31 December 2007 are more than sufficient to cover the cost of these potential claims based on an actuarial assessment 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.

23 Obligations of Members

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

24 Guarantee

MPS is limited by guarantee not exceeding £1 per member

Professional advisers

Solicitors

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