



# Strength in numbers

## **MPS – the right choice for financial security**

**ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDING DECEMBER 2012**

# Contents

1	Chairman's statement
3	Chief Executive's report
5	Finance Director's report
7	Members of the Council and Committees
10	Advisers and Senior Staff
13	Report of the Council
21	Independent Auditor's report
22	Consolidated income and expenditure account
23	Consolidated statement of total recognised gains and losses
23	Note of historical cost income and expenditure
24	Consolidated and company balance sheets
25	Consolidated cash flow statement
26	Notes to the accounts
40	Professional Advisers

## About MPS

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 our 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.

**MPS started in London in 1892. Now, more than 120 years later, we are proud to serve members in dozens of countries around the world**

# Chairman's statement

**Kay-Tee Khaw**  
Chairman of the Council

In this my first report as Chair of MPS, I would like to say how proud I am to represent an organisation that puts members first. It is this ethos that drives our business and is at the heart of all we do. I believe that our commitment to providing a world-class service, responsive to members' needs, is what lies behind our continuous growth in membership, which now exceeds 290,000 members around the world.

Whilst it has been an extremely challenging twelve months, it has been reassuring to see the strength of MPS resilience and responsiveness under the leadership of our Chief Executive, Simon Kayll, and I would like to thank him and all the staff at MPS, for their dedication over the year. However, there is no room for complacency and we will continue to work hard towards our ambition that every member will experience exceptional service at every contact with MPS.

## A challenging year

Many of you will be aware that the cost of clinical negligence claims continues to rise, particularly in the UK, Ireland and South Africa. Inevitably this has an impact on the cost of indemnity, and we are very aware that this is of concern to members, many of whom are experiencing a freeze in their income and others, reductions of 30% or more. We are also seeing a rise in the frequency of complaints, regulatory investigations and other professional challenges to individual members everywhere.

## Support

The overwhelming majority of doctors and dentists go to work committed to doing the very best they can for their patients each day, often in very challenging working environments. Yet sometimes things go wrong and mistakes can be made, in even the most skilled and experienced hands. We know that the consequences can be catastrophic for the patient but also for the clinicians involved. Being the subject of a claim, complaint or investigation by a regulator into your professional life can be one of the most stressful and distressing experiences a doctor or dentist may have to face. But should the worst happen, MPS members, wherever they are practising around the world, can be confident that they have access to the best professional support and expert advice through our team of experienced medico-legal advisers, dento-legal advisers and specialist lawyers.

## Professionalism

I have been struck recently by assertions that standards of professionalism are falling. The Health Professions Council in South Africa has been explicitly critical, and the publication in February of The Francis Report into the appalling standards of care at Mid Staffordshire NHS Foundation Trust in the UK raises many questions as to how this could happen, and why it took so long to uncover. Much has been said about the critical role that the culture of an organisation has in influencing attitudes and patterns of behaviour.

Never has it been more opportune to remind ourselves of the pride in professional values, and what motivated us to enter our

professions in the first place. Each of us individually has a part to play in creating the culture of openness, transparency and candour which supports patient safety as well as staff morale.

## Reducing Risk

MPS invests significant resources in developing risk management and education programmes. This enables us to work with members to help reduce risk, and support them in providing the safest care to their patients.

Our Educational Services team organise and deliver medical and dental educational events across the world. Last year alone, our faculty of carefully selected and rigorously trained local presenters delivered more than 1,200 events in 11 countries. This figure includes 922 communication skills workshops on which more than 16,000 places were filled. We will continue to add to the portfolio of education available.

We have also expanded our educational offerings over the past year to provide tailored and relevant conferences and events for members in many parts of the world. We expanded our "Ethics for All" events in South Africa, to three locations - Durban, Pretoria and Johannesburg - with more than 2,000 members attending last year's events. We also provide tailored conferences for specialty groups and expert training courses, as well as many hundreds of bespoke lectures and presentations to diverse audiences around the world.

One highlight of 2012 was the MPS International Conference - Quality and Safety in Healthcare: Making a Difference, which moved the focus from making medicine better, to making it safer. Held in London in November, over 300 delegates from many different countries heard from leading international experts about the importance of listening to patient feedback to improve quality, the need to be transparent and professional when things go wrong, and the cost, both to the doctor-patient relationship and to the doctor's claims experience, in failing to do so.

## Influence and engagement

An important role for MPS is to be the eyes and ears of the profession, scanning the horizon for both threats and opportunities that might impact on members' professional lives so that we can inform members and respond effectively. We do this through building strong relationships with key stakeholders, ensuring that we have the best possible connections with decision makers and responding to consultations on key healthcare issues.

## Discretion

MPS indemnity rests on the Memorandum and Articles of Association, which specifies that all the benefits of membership are to be granted at the discretion of MPS Council. This is important because advances in clinical practice, changing social expectations and political agendas can all influence the medicolegal environment to varying degrees. The detailed terms and conditions found in insurance policies may not be flexible enough to accommodate

## Chairman's Statement continued

changes in the medicolegal environment or robust enough to meet the escalating costs they may generate

In addition to discretion giving MPS the flexibility to assist members with matters that might not be covered under the terms and conditions of an insurance policy, it also provides MPS with the flexibility to decline or limit assistance when appropriate. As a mutual organisation, MPS continually weighs the interests of individual members against the interests of the membership as a whole. In some circumstances it may be appropriate to use discretion to decline or limit assistance, where assisting a member is not in the interests of the membership as a whole.

For these reasons MPS believes very strongly that the interests of members, individually and collectively, are best served by the discretionary benefits of membership that we have consistently provided for over 120 years.

### Strength of mutuality

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In my first year as Chair I have seen firsthand how MPS indemnity is able to provide the gold standard of protection, combining the twin strengths of discretion – the flexibility to accommodate the needs of members even in unusual circumstances – and occurrence-based assistance.

### MPS Council

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I would like to welcome our new Council members, Mr Simon Pashby, chartered accountant, and Mr Howard Kew, Executive Director – Finance and Risk, and to take this opportunity to thank Mr Frank Attwood, Dr Mary Favier and Lady Elizabeth Vallance, who have served MPS with dedication and diligence and are retiring from Council at the end of their terms.

Finally, I want to express my grateful thanks to Dr Nicholas Davies, who retired as Chairman last year, for his wise counsel, service and commitment to MPS over the years of his tenure.

### Kay-Tee Khaw

Chairman of the Council

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# Chief Executive's report

**Simon Kayll**  
Chief Executive

The Global Financial Crisis started in 2008 and this also marks a turning point in MPS's business environment. The word used most regularly over these last few years to describe MPS's business environment is 'challenging'. Looking back at 2012 this word, even if overused, is still very apt. There have been many challenges in the past year, and we see many challenges ahead. This report accompanies the 2012 financial statements and looks primarily at the past year to complement the Finance Director's report in adding some flesh to the bare bones of the financial results. However many of the themes in 2012 are expected to endure into 2013 and will shape the future for MPS, as they have shaped the recent past.

## Business overview

There are many positives to take away from 2012. MPS's membership continues to grow, with total membership in excess of 290,000, an increase of over 7,000. This partly accounts for an increase in subscriptions of almost 7% in the past year. MPS's invested assets, which are there to meet the future cost of claims, also performed well, despite the difficult market conditions. Total invested assets ended the year at £1,784m and achieved an investment return of 3.5%, net of taxation and investment management fees. MPS also continues to roll out its educational workshops to an ever increasing number of members and feedback shows that they are extremely well received. We place a strong emphasis on listening and responding to the needs of members and I am pleased to say that our members continue to rate MPS very highly and value the service and assistance that they receive.

However, some aspects were less positive, most noticeably the continued rise in claim numbers (frequency) and claims cost (severity). It is worse-than-expected claims experience that accounts for the loss shown on the Income and Expenditure account of £27.5m, compared to a surplus last year of £39.5m and accounts for the fact that on the balance sheet, our liabilities have increased proportionately more than our assets during the year.

## The benefits of MPS membership

MPS exists so that members can apply for assistance with matters arising from their professional practice. The majority of these requests for assistance are not related to claims of alleged negligence, but to the wider scope of assistance offered by MPS membership, such as disciplinary matters, inquests, fatal accident inquiries and reports to the regulator. Whilst these matters are often of the deepest concern to members - as they may well impact on their careers and livelihood - it is claims of alleged negligence that are by far the most costly and therefore of most significance when considering the financial performance of the organisation.

## Claims experience

The general themes related to MPS's claims experience for 2012 are economic conditions, government actions and product liability.

### *Economic conditions*

I referred above to the Global Financial Crisis, the impact of which, despite its name, has not been felt equally around the globe. As far as the sphere of MPS's business is concerned, the impact of the Global Financial Crisis has been most acute in Ireland and the UK.

The current economic climate has led to increased claims driven by claimants seeking compensation for matters that they might not otherwise pursue in more affluent times and lawyers turning to clinical negligence litigation as a way to generate fee income as other commercial sources dry up.

On the positive side, we are beginning to see evidence of the economic climate, at least in Ireland, having a beneficial impact on the level of external legal fees and we hope that this will, in time, extend to the future costs of care.

### *Government actions*

Governments can have the biggest influence on the frequency and cost of negligence claims. They can introduce tort reform, which can significantly control the future frequency and cost of claims, as was the case in Australia based on recommendations in the Ipp report following the work of the Negligence Review Panel in 2002. This has also been the case in a number of different States in the USA, where amongst other reforms, there has been particular focus on limiting awards for non-economic damages. In addition, in some countries - particularly the UK and Hong Kong - the government is responsible for setting the rate used to convert future annual sums to provide cost of care to claimants - known as the discount rate - into a current value lump sum as part of the settlement. The lower the discount rate, the higher the current value lump sum.

It seems likely that government actions have had an appreciable impact on claim frequency in the UK over the last year. In 2008 Lord Justice Jackson was asked to undertake a review into the costs of civil litigation and MPS was party to that consultation. Some of the recommendations from the Jackson report have been included in the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO), which was implemented from 1 April 2013. One element of LASPO is a change in the 'no win no fee' arrangements currently used to finance many UK clinical negligence claims. As a result, it is expected that after 1 April 2013, there may be a fall in the number of clinical negligence claims being litigated, particularly at the lower-value end. With this 'writing on the wall', it looks as though claimant solicitors have been especially active in signing up as many clinical negligence claims as possible, prior to 1 April 2013. This represents firstly a 'pull forward' of claims that might otherwise not have been litigated until 2013 or beyond, secondly it could represent an increase in claims because of the extra effort put in by claimant solicitors to advertise their services as a final push before LASPO bites from 1 April 2013.

## Chief Executive's Report continued

This is a major part of the explanation of why the claims costs and associated legal costs are £289.3m in 2012, compared to £189.8m in 2011.

There are further concerns of the impact that government action may have on claims experience, this time on claims severity. For cases of more severe damage to patients, a large part of the settlement awarded reflects the future cost of care. This will be the sum required by the patient every year of their life to provide for their needs. In arriving at a settlement value now, it is necessary to convert the future annual payments into a current value lump sum, that - when invested for the future - will be sufficient to provide the annual funds as required. As described above, the future annual payments are converted into a current value lump sum by using a discount rate, like the reverse of an interest rate. The lower the discount rate, the larger the current value lump sum. In some countries, the discount rate is set by the courts, but specifically in the UK and Hong Kong, the discount rate is set by the government. In light of the current economic climate and the low yields on government bonds, there is significant pressure to reduce the discount rate, so leading to larger lump sum settlements. This pressure has achieved the result in Hong Kong where in the last few months the discount rate has been reduced, which will push up the cost of the larger claims and will inevitably lead to a rise in MPS subscriptions. The UK is still consulting on the matter and MPS has contributed to this consultation.

### *Product liability*

Last year saw two product liability issues hit the press, principally, but not exclusively in the UK and Ireland. They were the Du Puy metal on metal hips and the PIP breast implants. Clinicians would not normally have a responsibility for faulty products, such responsibility resting with the manufacturer of the product and subsequently with the vendor. However, with the Du Puy hips, attempts were made to bring surgeons into the claims on the grounds that they had failed to properly fit the prostheses. With the PIP breast implants, the insolvency of the manufacturer meant that claimants were even keener to try to include surgeons in the claims. In both situations, whilst MPS is not providing an indemnity for product liability, MPS is supporting members with these cases and is doing whatever is possible to prevent the development of litigation targeting clinicians, when other more appropriate sources for compensation (the manufacturer or vendor) are no longer available.

## Risk management

I am very conscious that no matter where members are practising medicine or dentistry, they have probably seen a rise in the subscription that they pay to MPS. I am also conscious that the rise will, in many instances, have been higher than the rate of inflation and higher than any rise members may have seen in their own income. Much of this is due to increasing claims experience.

MPS strives to control the impact of claims experience. Firstly we lobby governments and legislators about the cost to society of ever-rising clinical indemnity costs and the potential for tort reform. Secondly we manage ever-more closely the risk that MPS accepts and the way that risk is priced. We also promote risk management.

Indeed risk management and education is a vital part of MPS's work. We are acutely aware of the potentially devastating impact that a complaint or claim can have on a clinician and we are keen to do what we can to prevent these problems occurring.

Our work in this area takes many forms. The backbone of it is the communication skills workshops that are available to all members and the Clinical Risk Assessments that we undertake, mainly in primary care practices. 2012 saw us provide our 1,000th such assessment in the UK. These two activities are supported by a range of conferences and risk related publications, not least our flagship medical risk publication, *Casebook*, and dental risk publication, *Riskwise*. During 2012 we hosted an extremely successful conference in London titled *Quality and Safety in Healthcare: Making a Difference*, which included speakers from around the world. We held three *Ethics for All* conferences in South Africa, which were attended by over 2,000 doctors, all of whom were MPS members, and hosted a number of GP conferences in both the UK and Ireland focussing on risk management.

## The importance of MPS staff

This report comes at the end of my first year as Chief Executive. It has been a demanding and at times, rather daunting year. What has shone through is the quality of staff within MPS dedicated to serving and helping members. MPS staff have an unparalleled depth and breadth of knowledge and experience and this, combined with a strong sense of service, provide an exceptional offering for members. I would like to thank everyone at MPS for their support and hard work over the last year.

**Simon Kayll**  
Chief Executive

**We will continue to invest in people, systems and infrastructure to ensure that MPS can provide the levels of services members rightly expect**

# Finance Director's report

**Howard Kew**  
Finance Director

## Financial Overview

The financial picture for 2012 is dominated by the continuing increase in the number of claims brought against members and the increasing value of both new claims and the costs of the cases brought forward from previous years

The Income and Expenditure Account shows this cost at £289.3m in 2012 (2011 £189.8m), an increase of £99.5m, and when combined with all other costs in 2012 and then compared to the income collected in 2012, the costs exceed the income by £27.5m (2011 surplus income over expenditure of £39.5m)

It is testament to the financial strength of MPS that it is able to absorb this level of increased claims costs without undue strain on its overall position. The investment return on MPS's assets helped mitigate this and contribute to a substantial growth in the net assets held to meet provisions on the balance sheet of 8.7% from £1.75bn to £1.9bn

However, the figures represented in a single year's accounting need to be approached with some caution. The financial effects of MPS's activities are realised over a much longer time period, and isolating one year reflects only a part of the development of risks and returns generated by many previous years' activities

As reflected in the Chief Executive's report, we believe that the legal reform in 2013 will have led to an acceleration of claims, and there is much debate on whether the increasing trend will continue, stabilise or even show a decrease as was the case in similar circumstances in Australia just over a decade ago. We will monitor this very closely in the second half of 2013 and may need to consider further actions to mitigate against these costs

## Actuarial Estimates

The nature of the medical and dental risks we indemnify on a discretionary basis mean that the full costs only emerge over a long period of time. There may be a considerable reporting delay followed by an extended period whilst the exact liability is established

Estimates of the final settlement values will change over time and each time a change occurs it is recognised in the accounts. Each year, we share data with our independent actuarial advisers, who provide estimates of the reserves that may be required to meet these uncertain future costs

The actuarial estimates look at the longer term trends on a consistent basis and calculate the expected outcome from the current year and all previous years from which claims may arise. Our accounts show not only the costs experienced in 2012 but the expected impact of the claims where we have exercised our discretion to support our members

In addition, we manage MPS's finances and set subscriptions on a consistent basis, mindful of the risks of potential claims of which we are not yet aware and of those incidents that are yet to happen

## Reported Financial Performance

Our income comes predominantly from member subscriptions and the return on our invested assets. It is vital to understand that the resources of MPS are managed on a long term basis to ensure that we are not financially impeded when exercising our discretion to support members and meet future potential obligations. In principle, the subscription income we collect in 2012 is held on behalf of the members to meet the risks arising from their clinical activities in 2012, acknowledging that these funds need to be invested in anticipation of the costs crystallising in future years

The group reported total subscription and other income of £339.4m in 2012, an increase of 6.6% on 2011's figure of £318.3m. This increase arises from the overall effect of an increase in the number of members from 284,000 to 291,000, coupled with a change in the mix of membership as members join and leave, plus the 2012 increase in subscriptions for specific membership categories to reflect the cost trends discussed above. This is a very creditable performance when considering competitor activity, particularly in our core market of UK General Practitioners. Our market share held up extremely well, in the region of 45%, in the face of aggressive and, in my opinion, unsustainable price competition

The other major component of income is MPS's investment performance which reflects the return on members' assets held to meet both reported and unreported potential future costs. The majority of MPS's assets are invested in government-backed inflation related assets with the intention of broadly matching our liabilities, and in particular in UK Index linked bonds. 2012 was a mixed year for investment markets in general, but a continuing strong performance in this asset class ensured that investment income held up at £29.1m compared to £30.4m in 2011, and capital growth totalled almost £54m (2011 £88m). The investment outlook for 2013 and beyond looks challenging, particularly as the appetite for UK government stock may well diminish as perceptions of credit strength and interest rate outlooks change. MPS continues to oversee the active management of these assets as it seeks to provide an investment return with an appropriately modest level of investment risk, reflecting the fact that we are stewards of our members' resources up to the point they are needed, rather than seeking speculative returns and taking commensurate risks, with their assets

## Finance Directors's Report continued

The investment performance reported above is in Sterling terms and this does not always reflect the underlying performance of assets invested in different currencies. One of MPS's key principles is to remove mismatches by holding assets in currencies which broadly match the underlying estimated liabilities. However, some of our liabilities are in currencies with very limited investment markets and in 2012 a more sophisticated approach was used to meet this principle through the introduction of currency hedging to reduce the risks of mismatches. Losses on exchange rate movements are shown at £15.4m in 2012 (2011: £32.5m) but, as in previous years, this will, ceteris paribus, be offset by decreases in the liabilities denominated in those currencies.

Turning to expenditure, the principal cost components of our reported financial position for the year are members' claims that we pay out, changes in our recorded estimates for claims that have been reported to MPS, the costs of providing advice and support with matters other than negligence claims, and the administration costs of delivering our services.

We have already made several references to the headline claims figures related to clinical indemnity, but the current litigious climate also impacts patients' propensity to bring complaints against our members and costs are incurred in supporting the members in representations to their regulatory bodies. Whilst the specific increases here are not as significant, the year on year increase is a little over 5% and, when combined with the very significant increase in the indemnity activity, this adds further pressure to the administrative costs of MPS, which in total increased by 11.6%. This administration expense represents just 6 pence in each pound of member income, as it did in 2011.

In 2012 we continued to invest in people, systems and infrastructure to ensure that MPS can provide the levels of services members reasonably expect. We are upgrading our main IT systems and have moved into a new freehold property in Leeds where the excellent and cost effective infrastructure allows us to provide appropriate facilities for staff and members as demands for assistance and support continue to rise.

### Conclusion

I can report that the financial position of MPS has remained secure in 2012 in spite of an unprecedented increase in the claims and associated legal costs experienced by our members. It remains to be seen if this was a high water mark in the UK but, if that proves not to be the case, then the burden on the medical and dental professions in particular - and society in general - will also continue to increase. MPS will further develop its systems and processes to manage this as efficiently as possible but by far the most significant costs will always be those claims on our members.

**Howard Kew**  
Finance Director

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# Members of the Council and Committees

<b>President</b>	Sir Peter Morris AC FRS FRCS FMedSci <sup>2,3</sup>
<b>Vice-President</b>	Professor John Bonnar MA MD FRCP FRCOG
<b>Chairman of the Council</b>	Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci
<b>Chief Executive</b>	Simon Kayll BA(Hons) FCA MBA
<b>Members of the Council</b>	<p>Frank Attwood BSc(Econ) FCA FRSA ACIS MAE <sup>1,2,4,5</sup></p> <p>The Lord Bradley PC BA(Hons) MPhil <sup>1</sup></p> <p>Professor Trevor Burke DDS MSc BDS MSc FDSRCS(Eng) FDSRCS(Edin) FDSRCP(S Glas) MGDSCRCS(Edin) FFGDP(UK) (ex officio) <sup>6</sup></p> <p>Ian Croxford QC LLB <sup>1,3</sup></p> <p>Nicholas Davies MA DM(Oxon) MRCP FRCA <sup>2,3,4,5,6</sup> (Retired 13 June 2012)</p> <p>Mark Davis MB ChB MRCP FRCOG DocMed FRCPEd <sup>7</sup></p> <p>Yasmin Drabu MB ChB DCH FRCPath FRCP <sup>6</sup></p> <p>Mary Favier MB BCh MRCGP FRCGP <sup>2,3</sup></p> <p>Patrick Forbes MB ChB FRCOG</p> <p>Taj Hassan MD FCEM MRCP DA FRCSEd <sup>7</sup></p> <p>Simon Kayll BA(Hons) FCA MBA Chief Executive (ex officio) <sup>4,5,6,8</sup></p> <p>Howard Kew BSc(Hons) PGCE (Appointed 13 June 2012) <sup>4,5</sup></p> <p>Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci Chairman <sup>2,3,4,5,6</sup></p> <p>Kevin Lewis BDS FDSRCS(Eng) FFGDP(UK) LDSRCS(Eng) <sup>8</sup></p> <p>Simon Pashby BA (Hons) FCA <sup>1,4</sup> (Appointed 1 November 2012)</p> <p>The Lady Vallance JP MA MSc PhD <sup>1,2,8</sup></p>

- 1 Members of the Audit and Risk 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
- 6 Members of the Board of Dental Protection Limited
- 7 Members of the Educational Advisory Committee
- 8 Members of the Ethical Conduct Committee

# Council member biographies

## **FRANK ATTWOOD**

Frank Attwood was elected to the 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 was, until retiring on 31 December 2009, Deputy Chair of the International Ethics Standards Board of the International Federation of Accountants. His professional experience covers audits of insurance entities, charities and other regulated companies.

## **KEITH BRADLEY**

Keith Bradley joined the Council as a non-executive director of MPS in July 2007 and was elected by the membership at the Annual General Meeting in June 2008. He is a member of the House of Lords, is Chair of the Christie Hospital NHS Foundation Trust, Chair of Manchester Salford and Trafford LIFT Company and is Associate Vice-President of 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. He is a member of the Privy Council.

## **TREVOR BURKE**

Trevor Burke joined the Council as a non-executive director of MPS in June 2010 and as Chairman of MPS's subsidiary, Dental Protection Limited, his position on Council is ex officio and thus he is not elected by the membership. He has been Professor of Primary Dental Care at the University of Birmingham and Honorary Consultant in Restorative Dentistry since 2000. He has authored or co-authored four books and published 270 peer reviewed papers and has been awarded over 75 research grants. His main research interests include properties and applications of tooth-coloured restorative materials, clinical evaluation of materials and their performance in general dental practice, the design of an index of oral health for clinical audit and quality control, and ill health retirement among dentists. He is also an examiner for the Royal College of Surgeons of Edinburgh and is the Editorial Director of Dental Update.

## **IAN CROXFORD**

Ian Croxford joined the Council as a non-executive director of MPS in November 2007 and was elected 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.

## **MARK DAVIS**

Mark Davis was elected to the Council as a non-executive director of MPS in June 2009. He is in general practice in Leeds and has been a principal since 1984. He acts as an occupational medical adviser to a number of companies and has since 2000 acted as an independent expert witness. Until April 2013 he was on the Executive of Leeds South and East CCG, with responsibility for long term conditions. Between 2007 and 2012 he was a board

member of a practice based Commissioning Consortium and from 2002 to 2006 was a member of the Professional Executive Committee of the East Leeds Primary Care Trust. He has a special interest in cardiovascular medicine and has served, or does serve, on a number of Department of Health, Primary Care and NIHCE committees and working groups related to this clinical area.

## **YASMIN DRABU**

Yasmin Drabu was elected to the Council as a non-executive director of MPS in June 2009. She was appointed as a Consultant Microbiologist in the Health Service in 1982. In 2000, she became Medical Director at North Middlesex University Hospital (NMUH). Her experience at NMUH was extensive and challenging with wide-ranging responsibilities including working as Acting Chief Executive. In March 2006 she moved to Barking Havering and Redbridge University Hospital NHS Trust (BHRUT) as a full time Medical Director and in February 2010 she was seconded to the Blood Policy and Infectious Diseases Division in the Department of Health. Yasmin has over 35 years experience in the NHS. She has been the Executive Lead for Clinical Governance in both NMUH and BHRUT. She has implemented major programmes of developing clinicians as leaders in both the Trusts. In 2009, BHRUT was voted the top NHS Trust for Innovation in London. In 2004 she was awarded the Asian Professional Woman of the Year, in 2007 she was awarded an Honorary Fellowship of the Royal College of Physicians. She is currently the treasurer for Medical Womens Federation and a Mentor for Tower Hamlet College.

## **MARY FAVIER**

Mary Favier was elected to the Council as a non-executive director in June 2005. She is a GP principal and partner in a practice in Cork. She sits on the Professional Competence and Membership committees of the Irish College of General Practitioners. She is on the editorial board of Forum, the ICGP general practice magazine, and a member of the editorial board of a consumer health information website.

## **PATRICK FORBES**

Patrick Forbes was elected to the Council as a non-executive director of MPS in June 2012. He is a Consultant Urogynaecologist at Addenbrooke's Hospital, Cambridge, and previously a Consultant in Obstetrics & Gynaecology in the RAF and at Hinchbrook Hospital, where he has also been Clinical Director and Royal College Tutor. He has been a regional panellist for the Confidential Enquiry into Stillbirths and Deaths in Infancy. He serves as an examiner for Final MB at Cambridge University, and is a member of the Academy of Experts and expert panel for the Speedy Resolution Scheme in Wales.

## **TAJ HASSAN**

Taj Hassan was elected to the 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 the Leeds Teaching Hospitals NHS Trust. He is presently Vice President of the College of Emergency Medicine (CEM). He is also the national Director for eLearning for the College's ENLIGHTENme programme, an examiner for Fellowship of the CEM, and a member of the College's Safer Care Committee.

#### **SIMON KAYLL**

Simon Kayll was elected to the Council as an executive director in June 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He joined MPS in February 1994 as Chief Accountant and was successively appointed as Financial Controller and then Finance Director in January 1999, also serving as Company Secretary for MPS and most of its subsidiary companies from March 2000 until December 2011. He was appointed Chief Executive of MPS on 1 January 2012.

#### **HOWARD KEW**

Howard Kew was elected to the Council as an executive director in June 2012. He has over 20 years' experience in financial services, having originally graduated in Mathematics from the University of Leeds. Howard also has experience in the mutual sector and with one of the UK's leading insurance companies where he was finance director of their personal finance subsidiary. He has had extensive involvement in investment, credit management and capital markets and is a qualified corporate treasurer. He has been closely involved in economic development in the Leeds city region and has promoted the financial and professional service sector internationally, including lobbying at local and national government level. Howard is also MPS's Executive Director – Finance and Risk and is responsible for overseeing all aspects of finance, investment, risk, internal audit and compliance.

#### **KAY-TEE KHAW**

Kay-Tee Khaw was elected to the Council as a non-executive director of MPS in June 2011. She is Professor of Clinical Gerontology at Cambridge University and Fellow of Gonville and Caius College. She is a Fellow of the Academy of Medical Sciences, has chaired the International Society of Cardiovascular Epidemiology and Prevention, served as a board member of the Higher Education Funding Council for England, NHS Central Research and Development Committee, MRC Health Services and Public Health Research Board, Cambridgeshire Health Authority, Welcome Trust Population Sciences Panel, and the World Heart Federation Council on Epidemiology and Prevention. She has also acted as a trustee of the Kennedy Memorial Trust, the British Heart Foundation and Help the Aged.

#### **KEVIN LEWIS**

Kevin Lewis was elected to the Council as an executive director in June 2003. He was 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 was an Associate Editor of *Dental Practice* (1981 to 2006), and since 2006 has been the Consultant Editor of *Dentistry*. He was a member of GDC steering group on Recertification and the former Vice President of the British Association for Dental Therapists and Council member of the British Society for Restorative Dentistry.

#### **SIMON PASHBY**

Simon Pashby joined the Council as a non-executive director of MPS in November 2012 and submits himself for formal election by the membership at the Annual General meeting in June 2013. He is a Chartered Accountant with over 25 years audit experience and was, until recently, a senior audit partner with KPMG, specialising in the regulated financial services sector. He has advised a range of organisations including listed investment fund managers and large UK mutuals in the insurance and healthcare sectors, with significant international operations. Prior to retirement, he led the financial services team for KPMG in Scotland, working across the UK. He has wide ranging and recent financial experience advising Boards and their Audit Committees on financial reporting, accounting standards, risk management and internal control systems.

#### **ELIZABETH VALLANCE**

Elizabeth Vallance joined the 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 has been a non-executive director of HMY Group, Norwich Union plc, CGNU plc and Aviva plc, and is on the board of Charter European Trust plc. She was Reader in Government and Politics in the University of London and head of department, professor and Fellow at Queen Mary, London. She is also a Fellow of the Institute of Education, University of London, where she was chairman from 2000 to 2009. She is chairman of ICAN, the national children's communication charity, of the Centre for Mental Health and CEDR and chaired St Georges NHS Trust and the Ministerial Advisory Committee on Clinical Excellence awards. She is a JP, was High Sheriff of Greater London, 2008 to 2009, and was from 2004 to 2011 on the Committee on Standards in Public Life.

*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, participating 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 now Director of the Centre for Evidence in Transplantation at the Royal College of Surgeons and the University of London and Honorary Professor. He is a fellow of the Royal Society and the Academy of Medical Sciences, and Foreign Member of both the Institute of Medicine of the National Academy of Sciences and the American Philosophical Society.

# Advisers and Senior Staff

## Claims Advisory Committee

### Chairman

Susan Sellers MB ChB MD FRCOG

### Vice-Chairman

Frances Cranfield MB BS MRCS LRCP DRCOG FRCGP

### Secretary

Emma Hallinan LLB(Hons) Solicitor

### Committee members

Martin Ashley MB BS MRCS LRCP FRCA MRCGP FRCert

Robert Battersby MB BS FRCS

Nicholas Boon MD FRCP(Edin) FESC FACC

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Nicholas Davies MA DM(Oxon) MRCP FRCA

Yasmin Drabu MB ChB DCH FRCP(Ed) FRCP

Mary Favier MB BCh MRCGP FRCGP

Patrick Forbes MB ChB FRCOG

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John F Mayberry DSc MD LLM FRCP(London & Glasgow) FRCP(Ireland)

Kerth Parsons MB ChB FRCS(Ed) FRCS

Professor Marc Winslet MS FRCS

## Medical Division

### Executive Director – Professional Services

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### Medical Director

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Carol Sherlock BSc(Hons)

# Report of the Council

The Council, which for the purposes of the Companies Act 2006 is the Board of Directors, presents its annual report for the year ended 31 December 2012

## Principal activity and business review

### *Principal activity*

MPS is the leading medical defence organisation of its kind around the world. It 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 a number of subsidiary companies that complement and support the activities of the group.

MPI (London) Limited (MPI), which is registered in England, holds the invested assets on behalf of MPS. MPI has a separate board which is responsible for implementing the investment strategy approved by MPS Council. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity. The MPI board is also responsible for overseeing the investment performance of the third party managers.

Cognitive Consulting Group Pty Limited is registered in Australia and provides education and training in communication skills and risk management to medical practitioners.

MPS Risk Solutions Limited (MPSRs) is registered in England and is a general insurance company, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In June 2012 MPS made a strategic decision that MPSRs would withdraw from the insurance market, to enable MPS to focus on its core business of providing discretionary indemnity. MPSRs provided professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Claims brought whilst policies were in force will continue to be managed to the highest standard using the same existing claims expertise as previously.

MPS has one other subsidiary, The MPS Periodical Payment Trustee Limited, a Corporate Trustee, which has been appointed as Trustee to the MPS Periodical Payment Trust.

### *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.

MPS will meet the costs of assisting members subject to discretion, the scope of the benefits of membership and payment of the appropriate subscription. If a member requests assistance then MPS will pay all reasonable costs related to an incident where it exercises its discretion to assist. These costs may include representation at a regulatory council, assistance with disciplinary proceedings and 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.

In addition, MPS has developed and continues to develop a range of non-clinical educational courses and risk management assessments for members worldwide to help reduce risk and so improve patient care. The educational courses take the form of workshops, lectures and web-based learning and focus on communication and interpersonal skills, practice systems and processes, professionalism and ethics.

### *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.

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 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 estimated as the cost of the claims. The uncertainty around estimating the value of all claims is greater for unreported potential claims than for those that have been reported. For unreported potential 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 of these may become large claims. The uncertainties for the reported claims are a little narrower, but still considerable.

## Report of the Council continued

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 periodical payment orders and the reduction in discount rates. The discount rate is the rate used to 'translate' future cash flows, to be paid under the settlement agreement, into a lump sum value in current money terms. The lower the discount rate, the higher the value of the lump sum. The discount rate in England and Wales is set by the Lord Chancellor and is currently 2.5%. In other countries, the rate at which future cash flows are discounted to a current value lump sum will be part of the settlement negotiations.

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 of its internal staff to determine accurate estimates for individual claims. It also ensures that levels of skill are maintained by supporting on-going training initiatives. 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 (LCP), to use the internal individual claim estimates and membership data to arrive at a statistical reserve for the likely cost of all claims.

The methodologies and assumptions used by LCP have been reviewed by independent qualified actuaries, and in addition their year end reserving report is reviewed by MPS's external auditors.

### ■ **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 is 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. A significant internal reorganisation was undertaken early

in 2013 with the aim of improving and developing the systems and processes involved in the management of risk. MPS purchases insurance to reduce the impact of catastrophic high claims.

### ■ **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 that MPS is trying to achieve from its invested assets, the greater will be the fluctuations in the value of those assets and thus, the greater will be the risk that MPS will see a fall in the value of its assets. Such volatility in the value of MPS's assets is, when asset values fall, damaging to the strength of the balance sheet and significant volatility in investment returns makes it more difficult to plan for the longer term.

### *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 generally have a lower level of volatility, secondly there is considerable diversity of those assets held primarily to achieve an investment return. The equity element of these assets is held in a number of 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 claims liabilities are in a number of different currencies. If the assets are not held in the same currency as the liabilities, then there is a risk that movements in exchange rates will alter the relative value of assets to liabilities.

### *Mitigation*

MPS's strategy is to minimise currency mismatches between its assets and liabilities. This is achieved by either holding assets in the same currency, and to the same value, as the liabilities or through a currency hedging programme designed to protect against currency mismatches.

### ■ **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 realise an illiquid investment before maturity, 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 by members to pay subscriptions, because if payments are not made, the non-paying members will not receive membership benefits. MPS's main credit risk arises from either a failure of its insurers, a failure of a bank, with which it holds deposits, 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 20.

#### *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. Bank credit ratings are reviewed before deposits are made with specific institutions, and deposits are spread across a number of counterparties to mitigate against bank failure. 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 holds about two thirds of its invested assets in bonds. An increase in interest rates will cause a fall in the price (value) of bonds, as bond prices move inversely to changes in interest rates.

The impact on MPS's liabilities is more complicated. The main influences on the cost of large claims (in the UK) are those elements that 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 rate. The discount rate might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor, who has commenced a second phase of consultation on the level of this rate, which ends on 7 May 2013. It is not currently known when the Lord Chancellor will report on his latest review. However, with the introduction in 2005 of periodical payments as an alternative to lump sum or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant. Since the determination of the Appeal in the *Thompson* case, the cost of future care is subject to indexation by a wage related

measure and this has made settlement by way of periodical payments a better option for claimants.

Specific comment on the interest and inflation risk in relation to derivative financial instruments is provided on page 20.

#### *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, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount. Further mitigation is provided by the ability to reduce the tax charge as a result of indexation. In addition, in early 2013 MPS began using interest rate swaps as a means of protecting bond assets against the potential impacts of rising interest rates. MPS's response to the risk inherent in periodical payment orders 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.

#### ■ 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, flood, 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 to ensure that its assets exceed the estimated value of both its reported claims and unreported potential claims, to protect against the risk that claims may, for many reasons, when eventually settled, cost more than anticipated. The financial targets have been set such that even if these claim values were, within certain parameters, to be higher than expected, or, again within certain parameters, the value of invested assets was to be lower than expected, then MPS would still have sufficient funds to meet all of its potential claims.

## Report of the Council continued

### *Financial performance for the year*

Subscription income has increased in the year, administration costs were close to expectation and investment performance has been positive, if modest. Costs incurred in managing and settling claims increased significantly as a consequence of an increase in reported claims and the costs of settling them.

More detail of the financial performance for the year is provided within the Finance Director's report on pages 5 – 6.

### *Key markets*

MPS operates in a number of different international markets. This international perspective allows many members to practise 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 key markets are

- |                  |                           |
|------------------|---------------------------|
| ■ Hong Kong      | ■ Ireland                 |
| ■ Malaysia       | ■ New Zealand             |
| ■ Singapore      | ■ South Africa            |
| ■ United Kingdom | ■ West Indies and Bermuda |

In addition, MPS may provide the benefits of membership in many other countries 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 2012 increase in total members, including those who don't pay a subscription, was 2.7% (2011: 4.0%).

### *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.

MPS was reaccredited with the Investors In People Standard in 2010.

### *Future developments*

The Chief Executive's report (see pages 3 – 4) refers to developments during the year and touches on future developments.

For the coming year, MPS's main focus will continue to be the delivery of a high-quality, cost-effective service to members, the delivery of education and risk management courses to members and the continued strengthening of our relationship with regulators, legislators and professional representative bodies. To this end, MPS will continue to ensure that it has the internal resources necessary to meet demand from members and will continue to develop its IT and operational systems to improve their efficiency and cost effectiveness.

## Donations

Charitable donations made by MPS during the year amounted to £10,505 (2011: £10,441). Donations in 2012 were all 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 (2011: £nil).

## Employees

Since 2005, MPS has utilised the Staff Consultative Group in order to comply with the requirements of the Information and Consultation of Employees Regulations 2005.

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 regular company-wide staff engagement survey.

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 7.

## Corporate Governance

The Listing Rules of the Financial Conduct Authority require listed companies to apply the Main Principles of the UK Corporate Governance Code prepared by the Financial Reporting Council and report to their shareholders on how they have done so. Although not listed, MPS complies with the UK Corporate Governance Code where it is considered proportionate and relevant to its business and constitution. The following is, where relevant, a statement in accordance with the Code.

### *Council*

The Council, which is the Board of Directors of MPS, currently consists of a non-executive Chairman, the MPS Chief Executive, two further executive members (being the MPS Executive Director

– Finance and Risk and the Dental Director) and eleven other non-executive members. MPS's constitution requires that the majority of Council members are Medical or Dental Members of MPS and that the Chairman is either a Medical or Dental Member.

Of the non-executives (including the Chairman) at the year end, eight are Medical or Dental Members and four are not. With the exception of the Chairman, the non-executives are considered to be independent. The four non-executives who are not a Medical or Dental Member have no financial interest in MPS other than their fees as members of the Council. The eight non-executives who are a Medical or Dental Member receive fees as members of the Council. Their personal membership of MPS is not felt sufficient to compromise their independence.

MPS continues to review the transparency of the independence of its non-executive directors and to provide appropriate guidelines for all directors on their ethical conduct as a director of MPS. To this end, MPS introduced in 2008, for MPS and its subsidiary boards, a register of interests and also publishes internally a Code of Ethical Conduct for all staff, which applies equally to members of the Council.

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 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 UK Corporate Governance Code.

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 (again 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 UK Corporate Governance 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 the 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 usually serve for a maximum of eight full years.

The Council usually meets formally eight or nine times during the year (eight times in 2012) but may meet more often. In addition to its regular meetings, the Council will usually devote one meeting to conduct a detailed review of the organisation's business objectives and strategy. The attendance record of members of

the Council at the eight meetings is shown in the table below (eligible meetings for attendance shown in brackets).

Member of the Council	Appointed or Retired	Meetings Attended	
		2012	2011
Frank Attwood		7 (8)	8 (8)
Kerth Bradley		7 (8)	8 (8)
Trevor Burke		5 (8)	6 (8)
Ian Croxford		8 (8)	8 (8)
Nicholas Davies	Retired 13 June 2012	4 (4)	8 (8)
Mark Davis		7 (8)	8 (8)
Yasmin Drabu		7 (8)	7 (8)
Mary Faver		7 (8)	7 (8)
Patrick Forbes	Appointed 8 June 2011	8 (8)	4 (4)
Taj Hassan		6 (8)	5 (8)
Simon Kayll		8 (8)	8 (8)
Howard Kew	Appointed 13 June 2012	4 (4)	-
Kay-Tee Khaw	Appointed 8 June 2011	7 (8)	4 (4)
Kevin Lewis		7 (8)	7 (8)
Simon Pashby	Appointed 1 November 2012	2 (2)	-
Elizabeth Vallance		8 (8)	7 (8)

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 on occasions 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 2012.

#### *Sub-Committees of the Council*

The Council has a Nominations, Remuneration, Audit and Risk, and Ethical Conduct Committee, the members of which are listed on page 7.

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 and Risk 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 three times in the year. MPS's external auditors, Chairman, Chief Executive, Executive Director – Finance and Risk, Financial

## Report of the Council continued

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 may attend for specific agenda items at the request of the Committee. The Audit and Risk 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 and Risk Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit and Risk Committee is shown in the table below (eligible meetings for attendance shown in brackets). The Committee meets in March, July and November.

Member of the Audit and Risk Committee	Appointed or Retired	Meetings Attended	
		2012	2011
Frank Attwood		3 (3)	2 (2)
Kerth Bradley		3 (3)	2 (2)
Ian Croxford		3 (3)	2 (2)
Simon Pashby	Appointed 1 November 2012	1 (1)	-
Elizabeth Vallance		3 (3)	1 (2)

The Audit and Risk 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.

The Ethical Conduct Committee was formed in 2011 and met twice in 2012. The Committee is responsible for establishing and maintaining an Ethical Code for MPS and its subsidiaries. The Committee acts as a point of reference for legal and ethical issues, provides a forum to which unethical or unlawful behaviour can be reported and monitored, reviews and maintains MPS's anti corruption policies and procedures. The Committee is chaired by a non-executive member of the Council, Elizabeth Vallance, and the other Council members are listed on page 7.

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. The Boards are chaired by the Chairman of the Council and Mr Frank Attwood (non-executive member of the Council) respectively. The other Council members of the Boards are listed on page 7.

### *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 related to potentially controversial, expensive or unusual requests for assistance in relation to its Medical members and it has delegated authority to exercise discretion on its behalf in such cases for its Dental members to the Board of Dental Protection Limited, subject to reporting to and oversight by the Council.

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 documented 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.

### *Board Evaluation*

The Council undertakes an evaluation of its performance in each financial year. To date this has been based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the 2012 evaluation which covered 2011 and the early part of 2012 have been reported to the Council by the Chairman and debated. The Council was satisfied as a result of the review that the Council and its sub-committees functioned effectively during the review period.

### *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 the UK Corporate Governance Code and the 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 and Risk Committee. The Chairman of the Audit and Risk Committee reports outcomes of its meetings to the Council and the Council receives the minutes of all these meetings. In fulfilling its responsibilities to the Council, the Audit and Risk 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, and
- Reports the results of its work, 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 team whose responsibilities include providing assurance over a wide range of issues including financial, corporate and operational risks. Assurance is provided through reporting and the provision of opinion following a range of monitoring activities, discussion and review. The Internal Audit function is independent from all operational departments and its work is overseen and coordinated by the Internal Audit and Compliance Officer, who also works closely with the external auditors and attends the Audit and Risk Committee meetings. The Audit and Risk Committee is responsible for monitoring and reviewing the work of the Internal Audit team: the 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.

The Council recognises the need to regularly review and monitor the appropriateness of its approach to overseeing the systems of risk management and control operated at MPS. With this in mind, the Council has continued to adapt its approach during the year to take into account the economic climate of the last four years, the revisions to corporate governance standards and guidance (as set out in the UK Corporate Governance Code and associated Guidance on Audit Committees), and the release of the final report and recommendations of the Sharman Inquiry ("Going Concern and Liquidity Risks"). The increased focus on risk management and control culminated in the introduction of a third annual meeting of the Audit and Risk Committee, the key remit of which is to review and assess management's approach to strategic risks.

#### *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 for overseeing 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. Since 2008 MPS has operated an incentive scheme paying a modest reward to the nine most senior staff (excluding the Chief Executive) based on performance of a range of criteria. It remains that the non-executive members of the Council do not receive any incentive or performance-related remuneration. Because MPS is not a listed company, this report is not required to comply with the rules on Remuneration Reports.

Details of the Chief Executive's and non-executive Council Members' remuneration are included at note 6 to the accounts.

#### *Relations with members*

The provisions of the UK Corporate Governance 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 to members and encourage their participation. Members of the Audit and Risk, Nominations, Remuneration and Ethical Conduct 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 resulting from holding these contracts are included in note 4 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 on the transaction date for delivery at an agreed date in the future.

MPS also maintains a currency hedging programme to mitigate currency risks where it does not hold sufficient assets in a particular currency to match its liabilities in that currency.

## Report of the Council continued

### *Risk characteristics of derivative financial instruments*

#### *Interest rate risk*

Some of MPS's 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 using a formula 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.

In forming this view, members of the Council have considered the findings and recommendations of the Sharman Inquiry ("Going Concern and Liquidity Risks").

### **Auditors**

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

### **Statement of the Council's responsibility for the Financial Statements**

The Council is responsible for preparing the Report of the Council 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 that law the Council has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Council must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and the net contribution available to meet future liabilities and charges of the company and group for that period.

In preparing these financial statements, the Council is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Council is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each Council member is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the Council members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Approval**

This report was approved by the Council on 10 April 2013 and signed on its behalf by



**David Wheeler**  
Company Secretary  
33 Cavendish Square, London, W1G 0PS

# Independent Auditor's report to the members of The Medical Protection Society Limited

We have audited the financial statements of The Medical Protection Society Limited for the year ended 31 December 2012 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost income and expenditure, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 the company and the company'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 auditor

As explained more fully in the Council's Responsibilities Statement set out on page 20, the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the net contribution available to meet future liabilities and charges of the group for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

## Andrew Wood

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP,  
Statutory Auditor, Chartered Accountants  
Leeds

10 April 2013

Grant Thornton UK LLP

# Financial statements

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT Year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
<b>Income: continuing operations</b>			
Members' subscriptions and other income		<b>339,414</b>	318,339
<b>Expenditure</b>			
Claims costs and associated legal costs (including costs of insurance)	16	<b>289,340</b>	189,777
Movement in projected insurance recoveries		<b>1,002</b>	7,181
Advisory costs and associated legal costs	16	<b>54,510</b>	51,748
Education, publications and external relations	3a	<b>9,516</b>	8,566
Administration expenses	3b	<b>20,683</b>	18,539
Impairment of assets	13	<b>1,250</b>	271
Loss on exchange movements	3c	<b>15,364</b>	32,472
		<b>391,665</b>	308,554
<b>(Deficit)/excess of members' subscriptions and other income over expenditure: continuing operations</b>		<b>(52,251)</b>	9,785
Income from investments	4	<b>29,109</b>	30,438
Other finance income	8	<b>474</b>	943
Realised losses from disposal of investments		<b>(1,054)</b>	(3,332)
<b>Contribution from ordinary activities before taxation</b>		<b>(23,722)</b>	37,834
Tax (charge)/credit on investment income and gains	5a	<b>(3,771)</b>	1,641
<b>Net contribution for the year available to meet future liabilities and charges</b>	18	<b>(27,493)</b>	39,475



## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2012 £'000	2011 £'000
Net contribution for the financial year		<b>(27,493)</b>	39,475
Surplus on revaluation of investments	17	<b>55,001</b>	91,397
Impairment of fixed assets		-	(178)
Actuarial losses on defined benefit pension scheme	8	<b>(4,407)</b>	(4,262)
Tax credit/(charge) on investment (losses)/gains	5a	<b>2,183</b>	(18,217)
<b>Total recognised gains</b>		<b>25,284</b>	108,215

## NOTE OF HISTORICAL COST INCOME AND EXPENDITURE

	Notes	2012 £'000	2011 £'000
Reported net contribution before tax		<b>(23,722)</b>	37,834
Realisation of valuation gains of previous years	17	<b>9,983</b>	27,602
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount		-	13
<b>Historical cost net contribution before tax</b>		<b>(13,739)</b>	65,449
<b>Historical cost net contribution after tax</b>		<b>(15,327)</b>	48,873

## Financial statements continued

### CONSOLIDATED AND COMPANY BALANCE SHEETS At 31 December 2012

	Notes	2012 Group £'000	2011 Group £'000	2012 Company £'000	2011 Company £'000
<b>Fixed assets</b>					
Intangible assets	9	-	-	342	360
Tangible assets	10	22,244	4,966	22,195	4,929
Investments	11	1,783,599	1,677,431	1,071,050	1,011,050
		<b>1,805,843</b>	<b>1,682,397</b>	<b>1,093,587</b>	<b>1,016,339</b>
<b>Current assets</b>					
Asset held for resale	13	2,500	3,750	2,500	3,750
Debtors - due within one year	14	11,086	11,157	97,128	96,033
- due after one year	14	20,229	21,857	20,229	21,857
Bank deposit accounts		111,788	85,804	23,330	10,609
Cash at bank and in hand		9,768	8,445	9,662	8,223
		<b>155,371</b>	<b>131,013</b>	<b>152,849</b>	<b>140,472</b>
Creditors - amounts falling due within one year	15	(60,910)	(64,710)	(59,654)	(51,173)
<b>Net current assets</b>		<b>94,461</b>	<b>66,303</b>	<b>93,195</b>	<b>89,299</b>
<b>Total assets less current liabilities</b>		<b>1,900,304</b>	<b>1,748,700</b>	<b>1,186,782</b>	<b>1,105,638</b>
Provision for liabilities	16	(746,492)	(623,246)	(733,020)	(609,605)
<b>Net assets excluding pension (liability)/asset</b>		<b>1,153,812</b>	<b>1,125,454</b>	<b>453,762</b>	<b>496,033</b>
Pension (liability)/asset	8	(1,559)	1,515	(1,559)	1,515
<b>Net assets</b>		<b>1,152,253</b>	<b>1,126,969</b>	<b>452,203</b>	<b>497,548</b>
<b>Accumulated funds</b>					
Revaluation reserve	17	312,388	267,370	-	-
Income and expenditure	17	839,865	859,599	452,203	497,548
<b>Funds available to meet future liabilities and charges</b>	18	<b>1,152,253</b>	<b>1,126,969</b>	<b>452,203</b>	<b>497,548</b>

**Kay-Tee Khaw**  
Chairman of the Council  
10 April 2013  
**The Medical Protection Society Limited**  
Registered Company No. 36142

*Kam tee Khaw*

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2012**

	Notes	2012 £'000	2011 £'000
Net cash inflow from operating activities	19	<b>94,507</b>	84,436
Returns on investment and servicing of finance	20	<b>29,109</b>	30,438
Taxation		<b>(12,341)</b>	(12,285)
Acquisition of subsidiary company		<b>(363)</b>	(360)
Capital expenditure and financial investment	21	<b>(74,540)</b>	(75,848)
		<b>36,372</b>	26,381
Net cash outflow from management of liquid resources (comprising bank deposits and investment deposits)		<b>(35,049)</b>	(21,572)
<b>Increase in cash in the period</b>		<b>1,323</b>	4,809
<b>Analysis of changes in net funds</b>			
	At 1/1/2012 £'000	Cash flow movement £'000	At 31/12/2012 £'000
Cash at bank and in hand	8,445	1,323	<b>9,768</b>
Bank deposit accounts	85,804	25,984	<b>111,788</b>
Cash with investment managers	27,523	9,065	<b>36,588</b>
<b>Net funds</b>	<b>121,772</b>	<b>36,372</b>	<b>158,144</b>
<b>Reconciliation of net cash flow to movement in net funds</b>		<b>2012 £'000</b>	<b>2011 £'000</b>
Increase in cash		<b>1,323</b>	4,809
Cash flow from increase in net liquid resources		<b>35,049</b>	21,572
		<b>36,372</b>	26,381
Net funds at 1 January		<b>121,772</b>	95,391
<b>Net funds at 31 December</b>		<b>158,144</b>	121,772

Of the net funds of £158.1m held by MPS, £8.7m is held in trust on behalf of the MPS Periodical Payments Trust, which was established to provide security for payments to be made in satisfaction of periodical payments orders. The Trust's funds, which are invested in a segregated managed cash portfolio, can only be used to meet liabilities resulting from periodical payment orders and are not available to settle any other MPS liabilities.

# 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 one 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) 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. As a consolidated income and expenditure account is published, a separate income and expenditure account for the parent company is omitted from the group financial statements by virtue of Section 408 of the Companies Act 2006. The parent company net contribution for the year to 31 December 2012 was a deficit of £40.9m, as shown in note 17.

### *(b) Subscriptions*

Subscription income comprises amounts receivable during the year, apportioned to accounting periods based on actual membership periods and stated at the fair value of the consideration receivable. It is recognised when the Company has performed its obligation to provide a period of membership, which allows members to seek assistance for incidents occurring during that period, and in exchange obtained the right to consideration. Income is not deferred beyond the end of the period of membership, as future benefits arising from that period of membership will be subject to Council exercising its discretion to provide such benefits.

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.

### *(c) Intangible fixed assets and amortisation*

Intangible fixed assets are included at cost. Amortisation is provided evenly on the cost of intangible fixed assets, to write them down to nil value over their expected useful lives. Where there is evidence of impairment, intangible assets are written down to their current valuation, with any such write down being charged to operating profits. The annual amortisation rate used is:

Copyrights	- 4.5% per annum
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### *(d) Tangible fixed assets and depreciation*

All tangible fixed assets are included at cost. Depreciation is provided evenly on the cost 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 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	- 33.3% per annum
Motor vehicles	- 20% 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 held at valuation, which are taken to the statement of total recognised gains and losses.

### *(f) Interest receivable and dividends*

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*

Listed investments (which include cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with 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.

Unlisted investments are included in the balance sheet at the lower of their sterling cost or net asset value.

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. Such derivatives are held at cost and are not fair valued through the income and expenditure account.

Realised gains and losses arising as a result of holding derivatives are taken directly to the income and expenditure account.

*(i) Costs and damages for claims of negligence*

Provision is made 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.

The discounted future settlement values are deemed to be the best estimate of these costs.

With the exception of claims arising from insurance policies written by MPS Risk Solutions Limited, no provision is made for the potential claims arising from discretionary indemnity membership that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date. This is a key judgement area, which the Council has considered in detail, concluding that these potential claims do not constitute a liability as recognition is dependent on the exercise of discretion by the Council; there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of discretion by Council is set out in the Articles of Association in paragraph 40. In reaching the above judgement, the Council considered whether members have a valid expectation that assistance will be provided in full with regards all submitted claims. Having considered how discretion is exercised by MPS, the Council concludes that there cannot be a valid expectation that all requests for assistance will be met in full, and that it is not appropriate to make a provision for potential claims that have not been reported by 31 December.

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.

*(j) Costs related to all other claims*

Provision is made at discounted future settlement values for estimated future costs, including handling 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.

The discounted future settlement values are deemed to be the best estimate of these costs.

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 as they do not constitute a liability. Recognition of these liabilities arising from such potential claims is dependent on the exercise of discretion by the Council; there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of discretion by Council is set out in the Articles of Association in paragraph 40. This is a key judgement area, which the Council has considered in detail. In reaching this judgement, the Council considered whether members have a valid expectation that assistance will be provided in full with regards all submitted claims. Having considered how discretion is exercised by MPS, the Council concludes that there cannot be a valid expectation that all requests for assistance will be met in full, and that it is not appropriate to make a provision for potential claims that have not been reported by 31 December.

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.

*(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.

## Notes to the accounts continued

### 2(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 8 to these accounts.

### (m) Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the group are treated as operating leases. Rentals under operating leases are charged against profits on a straight-line basis over the period of the lease.

Operating lease incentives are recognised, on a straight-line basis, as a reduction of the rental expense over the shorter of the lease term and the period to the first rent review where market rentals will be payable.

### 3a Education, publications and external relations

Included under this classification are costs associated with developing and delivering education and risk management services to members with the aim of reducing risk, and liaising with regulators, legislators and professional representative bodies around the world on behalf of members and the wider professions, on matters relevant to MPS and its members.

<b>3b Administration expenses</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Included under this classification are		
Operating lease rentals		
- Land and buildings	<b>2,936</b>	2,731
- Motor vehicles	<b>157</b>	150
- Office equipment	<b>95</b>	83
Loss on disposal of tangible fixed assets	<b>580</b>	-
Depreciation of fixed assets	<b>2,037</b>	1,861
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	<b>76</b>	70
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	<b>14</b>	12
Other services		
- Taxation - compliance and advice	<b>44</b>	62
- Accounting advice	<b>18</b>	2
<i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	<b>5</b>	5

### 3c Exchange movements

The majority of the losses on exchange movements relate to the restatement of international bonds and cash assets held to match international liabilities, particularly in South Africa. These losses are substantially offset by a corresponding decrease in international claim liabilities, which are included in costs within the increase in the overall claims provisions (note 16)

<b>4 Net income from investments</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Bond and gilt interest	26,493	28,174
Bank interest	1,208	1,052
Other investment income	1,408	1,212
	<b>29,109</b>	<b>30,438</b>

Other investment income includes realised gains and losses arising from derivative financial instruments, which are discussed in more detail in the Report of the Council on pages 19 – 20

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

### 5a Tax on income and gains/(losses) from investments

<b>Tax on income and gains/(losses) included in the income and expenditure account for the year</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
UK corporation tax		
Current tax on income and gains/(losses) for the year at 24% (2011 26%)	3,749	(1,514)
Adjustment in respect of prior years	8	(139)
Double taxation relief	(13)	(7)
<b>Current tax charge/(credit) for the year (see note 5b)</b>	<b>3,744</b>	<b>(1,660)</b>
Foreign tax		
Current tax on income for the year	27	19
<b>Tax on investment income and gains/(losses) in the income and expenditure account</b>	<b>3,771</b>	<b>(1,641)</b>
<b>Tax on other (losses)/gains included in the statement of total recognised gains and losses for the year</b>		
UK corporation tax		
Current tax (credit)/charge on (losses)/gains for the year at 24% (2011 26%)	(2,183)	18,217
<b>Tax on other (losses)/gains included in the statement of total recognised gains and losses for the year</b>	<b>(2,183)</b>	<b>18,217</b>

## Notes to the accounts continued

### 5b Factors affecting tax charge for the year

#### Current tax reconciliation

Differences between the current tax charge for the period and the expected tax charge based on the current rate of 24% (2011 26%) are explained below

	2012 £'000	2011 £'000
Contribution before tax per accounts	(23,722)	37,834
Non-taxable contribution	39,275	(42,812)
Income and net gains/(losses) from investments included in the income and expenditure account for the year	15,553	(4,978)
Income and net gains/(losses) from investments multiplied by the standard rate of corporation tax in the UK of 24% (2011 26%)	3,733	(1,294)
Effects of		
Depreciation in excess/(deficit) of capital allowances	3	(12)
Non-taxable dividend income	(294)	(328)
Double tax relief	(13)	(7)
Adjustment in respect of prior years	8	(139)
Other short term timing differences	(8)	4
Change in tax rate	75	(28)
Infrastructure investment partnership income not recognised	240	130
Royalty withholding tax	-	14
<b>Current tax charge/(credit) for the year</b>	<b>3,744</b>	<b>(1,660)</b>

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

### 5c Unprovided deferred taxation

A £22.6m (2011 £17.0m) tax charge would arise should MPS's equity investments be sold at the market values at which they are included in the balance sheet

	2012 £'000	2011 £'000
<b>6 Emoluments of members of the Council</b>		
Aggregate amount of emoluments paid to members of the Council (including executive members)	994	1,036
Chairman - to 13 June 2012	24	53
- from 13 June 2012	36	-
Highest paid member of the Council		
Chief Executive		
- standard emoluments and taxable benefits	241	268
- bonus	24	31
- taxable relocation allowance	30	-
- accrued annual defined benefit pension rights	43	9
- employer contributions to defined contribution pension scheme	2	25
- alternative pension arrangements	12	-

During 2012 there were 3 (2011 3) executive members of the Council who were members of MPS's defined benefit pension scheme, details of which are set out in note 8



## 6 Emoluments of members of the Council (continued)

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £20,485 (2011 £20,485). During 2012 no increase was applied to the standard remuneration. The following members of the 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	16,140	Mary Favier	3,750
Keith Bradley	3,540	Patrick Forbes	3,750
Trevor Burke	20,780	Taj Hassan	6,240
Ian Croxford	5,718	Simon Pashby	1,222
Mark Davis	2,490	Elizabeth Vallance	6,653
Yasmin Drabu	6,863		

In addition, and as stated in the Report of the Council on page 17, 8 members of the Council had personal membership of MPS.

## 7 Employees

The average number of people employed by the Group and the Company during the year was 553 (2011 508).

	2012 £'000	2011 £'000
Costs in respect of these employees were		
Wages and salaries	25,527	23,360
Social security costs	2,545	2,262
Pension costs	4,294	3,567
	<b>32,366</b>	<b>29,189</b>

## 8 Pensions

MPS operates a funded 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 last full actuarial valuation as at 31 December 2008 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.

A further full actuarial valuation was carried out as at 31 December 2011, but is yet to be finalised.

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 deficit. FRS17 requires that this deficit be shown as "Pension liability" on the face of the balance sheet.

	At 31 December 2012 % pa	At 31 December 2011 % pa
<b>Principal actuarial assumptions:</b>		
Price inflation	3.3	3.3
Discount rate	4.6	4.8
Pension increases (LPI 5%)	3.2	3.2
Pension increases (LPI 3%)	2.5	2.5
Salary growth	4.8	4.8
Expected return on assets at start of year	5.3	6.4

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.9 years (2011 28.3 years). Allowance is made for future improvements in life expectancy.

## Notes to the accounts continued

### 8 Pensions (continued)

	At 31 December 2012 £'000	At 31 December 2011 £'000
<b>Balance sheet:</b>		
Fair value of scheme assets	84,816	76,092
Defined benefit obligation	(86,375)	(74,577)
<b>Pension (liability)/asset in the balance sheet</b>	<b>(1,559)</b>	<b>1,515</b>

		At 31 December 2012 £'000		At 31 December 2011 £'000
<b>The current allocation of pension scheme assets is as follows:</b>				
	%		%	
Equities	40	34,031	43	32,919
Index linked gilts	20	16,884	22	16,720
Liability driven investment	17	14,418	19	14,332
Property	1	631	1	646
Diversified growth fund	22	18,436	15	11,429
Cash	-	416	-	46
<b>Total</b>	<b>100</b>	<b>84,816</b>	<b>100</b>	<b>76,092</b>

	2012 £'000	2011 £'000
<b>The following amounts are recognised in the income and expenditure account</b>		
Current service cost	4,059	3,328
Interest cost	3,660	3,546
Expected return on pension scheme assets	(4,134)	(4,489)
<b>Total expense recognised in income and expenditure account</b>	<b>3,585</b>	<b>2,385</b>

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 is recognised as other finance income. For 2012 this was an income of £474,000, and for 2011, an income of £943,000.

	2012 £'000	2011 £'000
<b>The defined benefit obligation moved over the year as follows:</b>		
Opening defined benefit obligation	74,577	64,332
Current service cost	4,059	3,328
Interest cost	3,660	3,546
Contributions by scheme members	775	718
Actuarial losses	4,747	3,993
Benefits paid	(1,443)	(1,340)
<b>Closing defined benefit obligation</b>	<b>86,375</b>	<b>74,577</b>

## 8 Pensions (continued)

	2012 £'000	2011 £'000
<b>The fair value of the scheme assets moved over the year as follows:</b>		
Opening fair value of scheme assets	76,092	67,780
Expected return on scheme assets	4,134	4,489
Actuarial gains/(losses)	340	(269)
Contributions by the employer	4,918	4,714
Contributions by scheme members	775	718
Benefits paid	(1,443)	(1,340)
<b>Closing fair value of scheme assets</b>	<b>84,816</b>	<b>76,092</b>
<b>The actual return on scheme assets was</b>	<b>4,474</b>	<b>4,220</b>

Over the year to 31 December 2012, MPS made contributions of £4,918,420 (2011 £4,714,133) to the scheme. It has been agreed that employer contributions will be maintained at a rate of 16% of pensionable salaries for 80th scale members, 23% of pensionable salaries for other scale members and a further £1,500,000 pa to fund the deficit revealed as part of the 2008 valuation. Contributions will be reviewed following the completion of the 31 December 2011 actuarial valuation, which is currently under discussion with the Scheme Trustees.

	2012 £'000	2011 £'000
The following amounts are recognised in the statement of total recognised gains and losses:		
Actuarial losses	4,407	4,262

  

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Five year history:					
Fair value of scheme assets	84,816	76,092	67,780	55,682	44,952
Defined benefit obligation	(86,375)	(74,577)	(64,332)	(57,495)	(40,987)
(Deficit)/surplus	(1,559)	1,515	3,448	(1,813)	3,965
Experience adjustments on scheme liabilities	745	(258)	(172)	(385)	-
Experience adjustments on scheme assets	340	(269)	4,182	4,478	(7,603)

## 9 Intangible fixed assets

Company		Copyright £'000
<b>Cost</b>		
At 1 January 2012		394
<b>At 31 December 2012</b>		<b>394</b>
<b>Amortisation</b>		
At 1 January 2012		34
Provided in year		18
<b>At 31 December 2012</b>		<b>52</b>
<b>Net book value</b>		
<b>At 31 December 2012</b>		<b>342</b>
At 31 December 2011		360

The intangible fixed asset above relates to copyrights for educational training material purchased by the parent company from another group company, The Cognitive Consulting Group Pty Limited (See note 12)

## Notes to the accounts continued

<b>10 Tangible fixed assets</b>	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Group</b>					
<b>Cost or valuation</b>					
At 1 January 2012	-	2,312	11,985	25	14,322
Additions	16,115	364	3,395	34	19,908
Disposals	-	(354)	(669)	(25)	(1,048)
<b>At 31 December 2012</b>	<b>16,115</b>	<b>2,322</b>	<b>14,711</b>	<b>34</b>	<b>33,182</b>
<b>Depreciation</b>					
At 1 January 2012	-	1,222	8,122	12	9,356
Provided in year	200	293	1,535	9	2,037
Released on disposals	-	(118)	(323)	(14)	(455)
<b>At 31 December 2012</b>	<b>200</b>	<b>1,397</b>	<b>9,334</b>	<b>7</b>	<b>10,938</b>
<b>Net book value</b>					
<b>At 31 December 2012</b>	<b>15,915</b>	<b>925</b>	<b>5,377</b>	<b>27</b>	<b>22,244</b>
At 31 December 2011	-	1,090	3,863	13	4,966
<b>Company</b>					
<b>Cost or valuation</b>					
At 1 January 2012	-	2,342	11,695	25	14,062
Additions	16,115	364	3,392	34	19,905
Disposals	-	(383)	(669)	(25)	(1,077)
<b>At 31 December 2012</b>	<b>16,115</b>	<b>2,323</b>	<b>14,418</b>	<b>34</b>	<b>32,890</b>
<b>Depreciation</b>					
At 1 January 2012	-	1,215	7,906	12	9,133
Provided in year	200	292	1,509	9	2,010
Released on disposals	-	(111)	(323)	(14)	(448)
<b>At 31 December 2012</b>	<b>200</b>	<b>1,396</b>	<b>9,092</b>	<b>7</b>	<b>10,695</b>
<b>Net book value</b>					
<b>At 31 December 2012</b>	<b>15,915</b>	<b>927</b>	<b>5,326</b>	<b>27</b>	<b>22,195</b>
At 31 December 2011	-	1,127	3,789	13	4,929

All the leasehold properties held at 31 December 2012 are short leaseholds

### Capital commitments

Capital expenditure approved and contracted for amounted to £nil (2011 £10.1m). The 2011 commitment related to the purchase of a new freehold property, which was completed in 2012.

	2012 Group £'000	2011 Group £'000	2012 Company £'000	2011 Company £'000
<b>11 Investments</b>				
Valuation or cost at 1 January	1,677,431	1,527,192	1,011,050	921,010
Additions and increase in investment in subsidiary undertakings	193,669	1,162,955	60,363	90,400
Disposals at carrying value	(140,078)	(1,092,569)	-	-
Provision for impairment of investment in subsidiary undertakings	-	-	(363)	(360)
Movement in cash	9,065	15,718	-	-
Foreign exchange losses on listed investments	(11,489)	(27,262)	-	-
Surplus on revaluation of listed investments	55,001	91,397	-	-
<b>At 31 December</b>	<b>1,783,599</b>	<b>1,677,431</b>	<b>1,071,050</b>	<b>1,011,050</b>

#### Investments comprise

Listed on UK Stock Exchange

- Equities	253,152	219,628	-	-
- Government and other bonds	972,256	951,578	-	-

Listed on overseas Stock Exchanges

- Equities	266,343	242,675	-	-
- Government and other bonds	205,477	188,152	-	-

Unlisted

Shares in group undertakings	-	-	1,071,050	1,011,050
Cash	36,588	27,523	-	-

<b>1,783,599</b>	<b>1,677,431</b>	<b>1,071,050</b>	<b>1,011,050</b>
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Historical cost of investments	1,489,030	1,416,391	1,071,050	1,011,050
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#### 12 Investments in subsidiary undertakings

MPS has the following direct interests in subsidiary undertakings

Name	Parent and group interest in ordinary shares and 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
MPI (London) Limited	100%	1,060,001	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 Periodical Payment Trustee Limited	100%	40	England	Corporate Trustee
MPS Holdings Australia Pty Limited	100%	9	Australia	Holding company
The Cognitive Consulting Group Pty Limited*	100%	-	Australia	To provide communication skills and risk management training to healthcare professionals in Australia

\* Indirectly owned by MPS

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

As noted in the Report of Council on page 13, MPS Risk Solutions Limited withdrew from the insurance market during 2012. Consequently, at the end of 2012 a review was carried out to ensure that MPS's investment in the company was not impaired, which it was found not to be.

## Notes to the accounts continued

	<b>2012 Group £'000</b>	2011 Group £'000	<b>2012 Company £'000</b>	2011 Company £'000
<b>13 Asset held for resale</b>				
Freehold property	<b>2,500</b>	3,750	<b>2,500</b>	3,750
	<b>2,500</b>	3,750	<b>2,500</b>	3,750

The above freehold property, which was offered for sale in 2011, was reclassified as an asset held for resale at 31 December 2011. Since 1999 the property has been revalued and recognised at valuation in the balance sheet in accordance with FRS15, Tangible Fixed Assets. The property is now recognised at its estimated resale value, and following review this value was written down by £1.25m at the end of 2012.

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

	£'000
Cost	5,341
Depreciation	(1,397)
<b>At 31 December 2012</b>	<b>3,944</b>
At 31 December 2011	4,037

	<b>2012 Group £'000</b>	2011 Group £'000	<b>2012 Company £'000</b>	2011 Company £'000
<b>14 Debtors</b>				

### **Receivable within one year**

Trade debtors	<b>200</b>	463	<b>136</b>	129
Recoverable insurance claims	<b>5,057</b>	5,464	<b>5,057</b>	5,464
Amounts owed by subsidiary undertakings	-	-	<b>86,571</b>	85,286
Other debtors	<b>613</b>	167	<b>156</b>	135
Prepayments	<b>5,216</b>	5,063	<b>5,208</b>	5,019
	<b>11,086</b>	11,157	<b>97,128</b>	96,033

### **Receivable after one year**

Recoverable insurance claims	<b>20,229</b>	21,857	<b>20,229</b>	21,857
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<b>Total debtors</b>	<b>31,315</b>	33,014	<b>117,357</b>	117,890
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	<b>2012 Group £'000</b>	2011 Group £'000	<b>2012 Company £'000</b>	2011 Company £'000
<b>15 Creditors: amounts falling due within one year</b>				
Corporation tax	<b>1,555</b>	12,308	<b>1,545</b>	1,692
Other taxes and social security	<b>1,963</b>	2,137	<b>1,962</b>	2,047
Other creditors and accruals	<b>10,094</b>	6,551	<b>9,497</b>	5,589
Deferred subscription income	<b>47,298</b>	43,714	<b>46,650</b>	41,845
	<b>60,910</b>	64,710	<b>59,654</b>	51,173

<b>16 Provision for liabilities</b>	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total £'000
<b>Group</b>				
At 1 January 2012	550,023	44,492	28,731	623,246
Movements in the year				
Charged to the income and expenditure account				
Reported negligence claims	273,393	-	15,947	289,340
Reported other claims	-	32,380	22,130	54,510
Paid	(155,733)	(32,506)	(32,365)	(220,604)
<b>At 31 December 2012</b>	<b>667,683</b>	<b>44,366</b>	<b>34,443</b>	<b>746,492</b>

#### Company

At 1 January 2012	537,032	44,492	28,081	609,605
Movements in the year				
Charged to the income and expenditure account				
Reported negligence claims	273,193	-	15,939	289,132
Reported other claims	-	32,380	22,130	54,510
Paid	(155,372)	(32,506)	(32,349)	(220,227)
<b>At 31 December 2012</b>	<b>654,853</b>	<b>44,366</b>	<b>33,801</b>	<b>733,020</b>

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

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 £25.1m (2011: £27.3m) 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.

<b>17 Movement on reserves</b>	Revaluation £'000	Income and expenditure £'000	Accumulated £'000
<b>Group</b>			
At 1 January 2012	267,370	859,599	1,126,969
Surplus on revaluation of listed investments	55,001	-	55,001
Realised on disposal of investments	(9,983)	9,983	-
Actuarial losses recognised in pension scheme	-	(4,407)	(4,407)
Tax credit on recognised investment losses	-	2,183	2,183
Net contribution for the year after tax	-	(27,493)	(27,493)
<b>At 31 December 2012</b>	<b>312,388</b>	<b>839,865</b>	<b>1,152,253</b>

#### Company

At 1 January 2012	497,548	497,548
Actuarial losses recognised in pension scheme	(4,407)	(4,407)
Net contribution for the year after taxation	(40,938)	(40,938)
<b>At 31 December 2012</b>	<b>452,203</b>	<b>452,203</b>

## Notes to the accounts continued

	2012 £'000	2011 £'000
<b>18 Reconciliation of movements in funds available to meet future liabilities</b>		
Net contribution for the financial year	(27,493)	39,475
Other recognised gains relating to the year	50,594	86,957
Tax credit/(charge) on investment (losses)/gains	2,183	(18,217)
Total recognised gains	25,284	108,215
Opening funds available to meet future liabilities and charges	1,126,969	1,018,754
<b>Closing funds available to meet future liabilities and charges (see note 23)</b>	<b>1,152,253</b>	<b>1,126,969</b>

	2012 £'000	2011 £'000
<b>19 Reconciliation of (deficit)/excess of income over expenditure to operating cash flows</b>		
(Deficit)/excess of income over expenditure	(52,251)	9,785
Depreciation charges	2,037	1,861
Loss on disposal of tangible fixed assets	580	-
Impairment of assets	1,250	271
Increase in provisions	123,246	31,120
Decrease in debtors	1,699	9,176
Increase in creditors	7,316	6,347
Foreign exchange losses on listed investments	11,489	27,262
Cash pension contributions more than current service cost	(859)	(1,386)
<b>Net cash inflow from operating activities</b>	<b>94,507</b>	<b>84,436</b>

	2012 £'000	2011 £'000
<b>20 Returns on investment and servicing of finance</b>		
Interest received	1,208	1,052
Bond and gilt interest received	26,493	28,174
Other interest	1,408	1,212
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>29,109</b>	<b>30,438</b>

	2012 £'000	2011 £'000
<b>21 Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(19,908)	(2,131)
Purchase of investments	(193,669)	(1,162,955)
Proceeds from sale of fixed assets	13	1
Proceeds from sale of investments	139,024	1,089,237
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(74,540)</b>	<b>(75,848)</b>



<b>22 Commitments</b>	<b>2012 Group £'000</b>	<b>2011 Group £'000</b>	<b>2012 Company £'000</b>	<b>2011 Company £'000</b>
<b>Operating lease commitments</b>				
Land and buildings, leases expiring				
Within one year	<b>82</b>	594	<b>82</b>	594
Two to five years	<b>1,297</b>	364	<b>1,297</b>	343
Greater than five years	<b>1,090</b>	1,191	<b>1,090</b>	1,191
	<b>2,469</b>	2,149	<b>2,469</b>	2,128
 Motor vehicles, leases expiring				
Within one year	<b>7</b>	6	<b>7</b>	6
Two to five years	<b>15</b>	19	<b>15</b>	19
	<b>22</b>	25	<b>22</b>	25
 Office equipment, leases expiring				
Within one year	<b>18</b>	30	<b>18</b>	30
Two to five years	<b>129</b>	51	<b>129</b>	51
	<b>147</b>	81	<b>147</b>	81

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 £20m

### **23 Potential claims that have not yet been reported**

Incidents that could potentially lead to claims that have occurred prior to the end of the financial year, but that have not been reported to MPS by the year end, are known as Incurred But Not Reported (IBNR) claims. IBNR claims do not constitute a contingent liability, and are not therefore recognised in the financial statements, because recognition of the liability is dependent on the Council exercising its discretion (see accounting policy notes 2(i) and 2(j) for further details). These potential claims, will, to the extent to which the Council exercises that discretion to indemnify, become MPS's responsibility under the occurrence basis of cover MPS provides. The funds on the balance sheet at 31 December 2012 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 relevant actuarial guidance.

### **24 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.

### **25 Guarantee**

MPS is limited by guarantee not exceeding £1 per member.

# Professional advisers

## Investment Managers

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State Street Global Advisers Limited  
25 Bank Street  
London, E14 5NU

Investec Asset Management SA  
36 Hans Strijdom Avenue  
Foreshore  
Cape Town 8001  
South Africa

AllianceBernstein Limited  
1 Mayfair Place  
London, W1X 6JJ

Schroder Investment Management Limited  
31 Gresham Street  
London, EC2V 7QA

Baring International Fund Managers (Ireland) Ltd  
Georges Court  
54-62 Townsend Street  
Dublin 2, Ireland

Macquarie Capital Funds (Europe) Limited  
Level 35, CityPoint  
1 Ropemaker Street  
London, EC2Y 9HD

Macquarie Capital Funds Limited  
125 West 55th Street  
Level 22  
New York  
NY 10019  
United States of America

Newton Investment Management Ltd  
Bank of New York  
Mellon Centre  
160 Queen Victoria Street  
London, EC4V 4LA

Ruffer LLP  
80 Victoria Street  
London, SW1E 5JL

FRM Investment Management Limited  
7th Floor, The Adelphi  
1-11 John Adam Street  
London, WC2N 6HT

BlackRock Asset Management Ireland Ltd  
JP Morgan House  
International Financial Services Centre  
Dublin 1  
Ireland

## Solicitors

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MPS retains a panel of over 40 law firms around the world to provide advice to members

## Insurance Brokers

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Miller Insurance Services Limited  
Dawson House  
5 Jewry Street  
London, EC3N 2PJ

## Bankers

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Barclays Bank plc  
1 Churchill Place  
London, E14 5HP

HSBC Bank plc  
Yorkshire Corporate Banking Centre  
4th Floor, City Point  
29 King Street  
Leeds, LS1 2HL

## Auditors

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Grant Thornton UK LLP  
No 1 Whitehall Riverside  
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## Actuaries

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MPS Risk Solutions is a general insurance company authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

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