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Annual Report & Accounts

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 more than 270,000 members help with legal and ethical problems that arise from their professional practice. This includes clinical negligence claims, complaints, medical council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal-accident inquiries.

Fairness is at the heart of how we conduct our business. We actively protect and promote the interests of members and the wider profession. Equally, we believe that patients who have suffered harm from negligent treatment should receive fair compensation. We promote safer practice by running risk management and education programmes to reduce avoidable harm. MPS is not an insurance company.

The benefits of membership are discretionary – this allows us the flexibility to provide help and support even in unusual circumstances.

Annual Report & Accounts 2010

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“MPS Council ... undertakes regular review of all aspects of risk to ensure that the many possible ways of mitigating risk are embedded throughout the organisation”

Nicholas Davies
Chairman of the Council

Chairman's statement

Public scrutiny of both the medical and dental professions continues to be intense. There seems to be no limit to the medicolegal pitfalls that continue to beset us. In 2010 a record number of our members picked up the telephone to seek expert advice, assistance and reassurance from a professional colleague at MPS. We answered nearly 48,000 such calls from our UK and Ireland members, an average of about 200 calls each working day. The ready access to this help, available 24/7 throughout the year, is a much-valued benefit of MPS membership. We have always encouraged advice to be sought at the earliest possible opportunity. Prompt corrective action is much more likely to lead to resolution acceptable to all parties, and may well avoid any possibility of legal action, saving much protracted heartache and expense.

Nonetheless it is wishful thinking to conclude that all medicolegal problems are solved so easily. Last year's annual report drew attention to a worrying rise in both the number of claims and the amount of money needed in settlements. Sadly this trend of increasing litigation has continued in 2010 against our members in many countries, with an inevitable associated increase in legal costs. In the UK, however, we are hopeful that implementation of the recommendations in Lord Justice Jackson's review of civil costs should reduce costs, especially in claims of lower value where legal fees frequently exceed damages.

The sums awarded for damages in higher value claims are a different matter, however. These have increased significantly, especially in South Africa and the UK (excluding Scotland). Indeed the latter now has some of the highest awards seen anywhere in the world, including North America. Damages sought for care of the most severely injured patients can seem extreme. Claimants' solicitors may seek extensive modifications to a home, even to the extent of building a new house. They may claim the cost of providing skilled nursing care round the clock at home approaches £250,000 per annum, and of course with good care these patients can enjoy a much-improved life expectancy compared with the past. This has resulted in courts awarding very large amounts for personal injury, with some awards exceeding £10million.

In the UK a further threat on the horizon could increase the potential financial burden borne by all indemnifiers. The Lord Chancellor is considering submissions from claimants' solicitors on the discount rate, used to predict likely investment returns and so derive the lump sum needed today to yield the desired future annual payments. They suggest this should reflect the current low interest rate environment and be reduced from its present 2.5% rate, even though it seems unlikely that interest rates will remain low for much longer. This would have a very significant impact on high value claims, increasing some by well over 40%. Clinical negligence in the NHS is a huge and increasing cost to the taxpayer: £651m in 2009-10, and this amount would increase considerably with a lower discount rate. MPS will be lobbying energetically on your behalf.

Members should be reassured by the accounts presented here. MPS has investments and bank deposits of £1.6 billion, which I believe to be more than adequate to meet current challenges. However we remain acutely aware of recent failures of risk management and corporate governance in many of the world's largest banks and other financial institutions. These failures resulted in the widespread recession of the last couple of years, affecting all countries in which we operate, but particularly damaging to the economies of Ireland and the UK. MPS Council therefore undertakes regular review of all aspects of risk to ensure that the many possible ways of mitigating risk are embedded throughout the organisation.

To take just one example, the Claims Advisory Committee, whose members are independent doctors drawn from a wide variety of different specialties, plays an important role in providing clinical advice to MPS staff handling claims around the world, particularly those of high value or raising significant points of professional principle. This committee sees two broad types of harm to patients arising from alleged negligence. Firstly, there are rare but serious complications of treatment that either cannot be foreseen or which many doctors might consider unduly intrusive or alarmist to include in information given beforehand to their patients. Secondly, some problems recur all too often and are indefensible. A mundane but common example is nerve damage caused by an incorrect technique of intramuscular injection. Such recurrent themes are often reported in Casebook, but also addressed as part of our rapidly developing educational programme drawing on our extensive experience. Many excellent workshops in this programme are free to MPS members. The first to be developed, *Mastering Your Risk*, has now been attended by more than 10,000 doctors in eight different countries.

We have experienced a further rise in expenditure incurred representing members at disciplinary hearings. This has been a theme in past years, and sadly shows no sign of abating. The GMC's most recent report (2009) revealed a 32% increase in the number of fitness to practise hearings. Referrals giving rise to concerns about a doctor's fitness to practise showed a more modest increase, 11%, but have reached the level where one doctor in every 40 is being reported to the GMC each year.

There has been only one change to the membership of Council in 2010. Kathryn Harley stepped down last June, having chaired the Board of Dental Protection since June 2006, and we are most grateful for all her hard work in these roles. In her place we extend a warm welcome to Professor Trevor Burke from the Birmingham School of Dentistry.

Nicholas Davies
Chairman of the Council

“Subscriptions are always set as fairly as possible, with the appropriate rates charged for each specialty within each country in which MPS operates.”

Tony Mason
Chief Executive

Chief Executive's report

MPS has again had a good year from the point of view of the return on our investments, despite the continued turmoil in world markets. However, the deterioration in claims experience, particularly in the UK (apart from Scotland) and South Africa, has continued at a faster rate than before. This is not good news and we have further increased our provisions to allow for what has been a major increase in both the number of reported claims and the value of the awards.

MPS finished 2010 with gross assets of more than £1.6 billion, a rise of over £200 million in the year. After providing for outstanding reported claims and other liabilities, the amount available to meet future claims from adverse clinical incidents, which had already occurred by the end of 2010 but had not yet been reported to MPS, increased from £913m to £1,019m. Although this was an increase of £106m over the year, our actuaries have calculated that the amount required to meet future unreported claims rose by more than this amount. Fortunately, MPS remains in a strong position with a healthy surplus of assets over the projected value of future claims despite the backward step in our funding position during 2010. This highlights the past wisdom of maintaining a prudent financial policy.

The worsening claims experience in England, Wales and Northern Ireland is due primarily to two key factors. First, the numbers of claims against GPs, both medical and dental, have seen a steep increase over the last few years coupled with a major jump in the average value of settled medical claims. Of equal concern is the dramatic rise in the value of claims involving catastrophic injury, which have more than doubled in a short period of time. This has led to settlements that dwarf comparable claims anywhere else in the world, and are now higher than in the USA, which will be a surprise to many.

The cost of medical malpractice premiums in the USA reached a crisis point 20 years ago and the solution adopted in many states was to introduce tort law reform which in various ways restricted or capped damages, so that claims above US\$5m are unusual in most states and exceptional above US\$10m. This compares with awards in the UK that for the most serious cases of catastrophic injury involving periodical payments may well now exceed £10m when converted to a lump sum, or £15m if the indemnifier is forced to purchase an annuity to settle the periodical payment.

MPS is not the only organisation to experience such a significant rise in the number and value of claims; the NHS Litigation Authority has reported similarly dramatic increases. The level of awards in the UK has now reached the point where if a consultant obstetrician working in the NHS had to purchase their own indemnity rather than being covered by the State,

then the cost would almost certainly exceed £500,000 pa for each doctor. Clearly this is both unaffordable and unsustainable without considerable government subsidy, and calls into question the current unrestrained application of English Common Law when dealing with personal injury claims involving lifelong care. Legislators should decide on the level of damages that society can afford to pay, along with all the other tough decisions that must be taken when considering public expenditure.

In South Africa, the worsening experience is largely amongst the high risk specialties and substantial increases in subscriptions are necessary for obstetricians, neurosurgeons and spinal surgeons. Although unwelcome news for the individuals involved, the proportion of income spent on medical negligence indemnity in South Africa is still significantly lower than most other countries in which MPS operates.

It is not, however, all gloomy news and I am pleased to report that we have been able to reduce subscriptions for many categories of member in a number of countries, including medical rates in Scotland and New Zealand and dental rates in Hong Kong. In other countries, subscriptions have generally been frozen or risen by no more than local wage inflation. It is important for all members to understand that subscriptions are always set as fairly as possible, with the appropriate rates charged for each specialty within each country in which MPS operates. The aim is for each country to fund its own risk but to have the back up of the central fund to protect against fluctuations in claims experience, which is one of the main benefits of belonging to an international mutual.

In the UK, our response to the higher claims experience is two-fold. First, we have implemented a significant increase in subscriptions for those groups of members that have demonstrably had worse experience. These groups include GPs working in private practice and those doing a material amount of out-of-hours work. We have also increased rates substantially for the highest risk specialties, particularly private obstetricians, neurosurgeons and spinal surgeons. There are in fact very few private obstetricians practising in the UK and the numbers are now likely to dwindle to no more than a handful, as the cost of providing indemnity in most cases will now outstrip their earnings from private practice. This was a move we took with great reluctance but has been forced upon us by the extraordinary awards currently being made by the Courts for claims involving catastrophic injury.

Our second response is to continue to support strongly the legal reforms proposed by Lord Jackson that I mentioned last year and also to press for a national debate on the need for tort law reform along the lines of legislative changes introduced in

Chief Executive's report continued

the USA in the 1990s and in Australia ten years ago. It is rare that politicians act without there being a crisis but I would argue that the crisis here started several years ago and has been largely hidden only because most catastrophic injury claims are paid for by the State on an unfunded, pay-as-you-go basis. Our Policy Department continues to forge excellent relationships with key stakeholders in government, amongst regulators and the professions across many countries and we are confident that the important messages we have to give are being both listened to and understood.

Turning away from financial matters, MPS had a highly successful year in 2010. Membership grew in all countries in which we operate with the total number of members increasing by almost 7,000 to more than 270,000. In a number of countries, new competitors offering a cheaper insurance product entered the market, which is something we generally welcome as it gives members choice. I am pleased to report that to date very few individuals have chosen to leave MPS, as once members understand the shortcomings of a claims made policy with standard small print restrictions, they better appreciate the value of the benefits provided by MPS.

The MPS Communications Department had as busy a time as ever, producing a wide range of publications tailored for the different needs of members around the world. These include, each year, 18 editions of *Casebook* for medical members, 15 editions of *Riskwise* for dental members, and a growing number of bespoke targeted publications, factsheets, e-bulletins and booklets, all of which can be found on our website.

On the education front, I am delighted to report the number of workshops, courses, lectures and seminars that MPS held in 2010 exceeded 1,500. The demand from members to attend these educational activities continues to grow and the enthusiasm is best demonstrated by the "Ethics For All" seminar held in Cape Town in November, when around 1,400 members attended, probably the largest gathering of MPS members in our history. MPS remains fully committed to our educational programme and to help provide our members with all the tools and skills necessary to meet the increasing challenges faced in professional practice. Our website also contains details of all educational events.

During these troubled economic times we are very much aware of the financial difficulties faced by some of our members, particularly in those countries that have suffered some traumatic cutbacks in public expenditure. It is therefore vital that MPS responds by being vigilant over keeping down our own costs whilst ensuring that we continue to provide the high level of service expected by members. This is a careful balancing act and I would like to extend a huge thank you to all MPS staff who

day in and day out show dedication and commitment to upholding our core values of Quality and Fairness in all our dealings with members.

The coming 12 months will undoubtedly throw up fresh challenges for MPS whether they be investment, regulatory or claims related. All members, however, can continue to be assured that they belong to a strong, secure mutual organisation that is totally focused on the needs of our membership and always acts in your collective best interests.

Tony Mason
Chief Executive

**“Members should be assured that
MPS's finances remain in robust
health.”**

Simon Kayll
Finance Director

Finance Director's report

Financial Overview

MPS's balance sheet shows net assets at 31 December 2010 of £1,018.8million, an increase over the year of £105.6m. On the face of it this looks like a strong financial performance. However, the underlying picture is not quite so rosy.

The balance sheet shows that total assets less current liabilities increased by 15.7%, whereas the provision for reported claim liabilities increased by 25.0%. In addition the income and expenditure account shows the costs of claims, advisory services and administration are more than the subscription income for the year. These two statistics give a truer indication of the challenges faced in 2010.

The nature of clinical indemnity is that costs arise many years after the adverse incident to which they relate. Thus, the costs allowed for in 2010 relate to adverse incidents from past years, whereas the subscription income collected in 2010 is intended to meet the costs arising from adverse incidents in 2010, which will not be incurred for a number of years. As MPS's membership has grown year on year and as the average cost of a past adverse incident will almost certainly be lower than the average cost of a future adverse incident – that seems to be the way of the world – it should be that subscription income is greater than the costs incurred in any given year. For 2010 this is not the case. The reason for this is a significant increase in the number and cost of adverse incidents accounted for in the year, which is discussed in more detail below.

Whilst this deterioration is a concern, members should be reassured that it does not significantly compromise MPS's financial strength.

Members may question the validity of the claim that MPS's financial position is not significantly compromised. MPS's financial strategy has been to create a 'cushion' of funds in excess of that needed to meet the expected cost of claims, to help protect MPS against external financial shocks such as unexpected claims deterioration. An analogy could be an airbag in a car. This 'cushion' helps protect the occupant from harm resulting from some external shock, such as being hit by another car. After a crash, the airbag has helped prevent harm to the occupant and the remedial action required for the occupant is less urgent and less extreme than it might have been if there was no airbag. So it is with MPS, the financial strength has been protected from the adverse impact of claims deterioration by the cushion of surplus funds and whilst remedial action is required, it is less urgent and less extensive than it would have been without the protection of the cushion. Thus members should be assured that MPS's finances remain in robust health and that whilst subscriptions will need to rise to repair the damage to the cushion, there is no need to take precipitate action in the light of the 2010 claims experience.

Financial Performance

Subscription and other income

Subscription and other income increased by £21.0m, 7.6% (2009 £23.3m, 9.2%) in the year. Subscription income is a function of member numbers, mix of members and rates charged. Total increase in the number of members who pay a subscription in 2010 was about 4% (2009 about 4%) and the general increase in subscription rates was between 0% and 7% (2009 0% and 6%). Taken together these movements provide a broad explanation of the total increase in subscription income.

MPS continues to set subscription rates with the benefit of advice from independent consulting actuaries. The rates are set at a level at which MPS considers is necessary to meet the future costs that will arise from the adverse incidents in the year to which the subscriptions relate. In the long run, it is not in members' – or their patients' – interest to set rates that are insufficient to meet these future costs.

Claims costs and associated legal costs

These are the costs incurred in the year in defending and settling claims as well as the costs of employing claims management staff. In addition this cost item includes the change in the estimated outstanding value of the future costs of claims of negligence reported to MPS between the start and the end of the year. These costs were £258.7m in 2010, up by £67.8m, 35.5% (2009 £30.4m, 18.9%). However, the £30.4m increase in 2009 is distorted by an exceptional item in the 2008 figures – a more comparable figure for the 2009 increase would be about £80m after excluding the 2008 exceptional item.

Based on this revised 2009 figure the increase for 2010 looks reasonable but, compared to recent history, both are excessive and indicate a significant deterioration in the expected future costs of claims of negligence. For 2010, this deterioration in claims results mainly from UK (excluding Scotland) GP claims and South African medical consultant claims experience.

The aggregate cost of claims depends upon the frequency of claims (the number per 1,000 members during a specified period) and the average cost, or severity, of each of these claims. In 2009 (compared to 2008) MPS estimated that, for UK (excluding Scotland) GPs, the aggregate cost (frequency x severity) increased by 23% and in 2010 (compared to 2009) it is estimated that the increase is 32%. Roughly the increase is in equal measure between frequency and severity. Taking the two years together, the increase is in excess of 70% on the aggregate cost of claims recorded in 2008.

It is unclear as to why the last two years have seen such an increase in UK (excluding Scotland) GP claim frequency. This may be down to less continuity of care and a change in the

nature of the relationship between the patient and their doctor or dentist. Our experience is that Out of Hours care has a worse claims record than In Hours care. The economic climate may also have pushed some people to pursue claims they would not otherwise have pursued.

Whatever the underlying reason, the facts cannot be denied that claims experience has deteriorated significantly over the last two years and the current expectations are that future claims experience is likely to be little better. MPS is in the business of taking on risk and to do so it is prudent to build reserves against unexpected events, such as the increased cost of claims. MPS has such reserves and they have proved adequate to protect MPS's underlying strength, but the extent of this recent experience means that MPS has no choice but to increase subscription rates for those groups which have had deteriorating claims experience and to closely review the risk it continues to accept, in the interest of the wider membership.

Insurance recoveries

As well as holding reserves as a protection against unexpected events, MPS also insures some of its risk, to provide protection against very costly individual claims. The recoveries of £4.9m represent the actual recoveries and the increase in projected recoveries at the end of 2010 compared to the end of 2009, if all the reported claims settle at the expected value.

The total value of possible recoveries that MPS can make against its insurances if the reported claims were settled at expected levels is £37.0m, which is shown in the debtors note (note 13) and is slightly higher than the equivalent figure for 2009 of £35.6m.

Advisory and associated legal costs

This represents the costs of employing doctors, dentists and lawyers to provide advisory services to members for all requests for assistance other than claims of negligence and the cost of any external legal services incurred in supporting members with these advisory matters. In addition, as with the claims of negligence, this cost item also includes the movement in the year, between the start and end of the year, of the expected future cost of requests for assistance with matters other than negligence claims reported to MPS by 31 December 2010.

These costs were £52.7m in the year, an increase of £5.8m, 12.5% (2009 £3.9m, 9.1%) in the year. This cost element has been increasing quite rapidly for many years and shows no sign of abating. This reflects the fact that there is an ever-increasing demand from members for assistance with regulatory and disciplinary matters and that these matters are increasingly complex and legalistic. 2010 continues the trend seen first in 2008, where MPS has had to spend more on legal fees in this area than it has in defending claims of negligence.

Education, publications and external relations

These are the costs of developing and delivering educational and risk management services to members as well as providing a variety of publications, 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.

These costs were £7.9m during the year, an increase of £2.4m, 43.8% (2009 £2.3m, 74.0%) in the year. Much of the costs included in this heading are relatively new, and the percentage increase shows that MPS has been rapidly spending in this area to develop its education and risk management services. The rate of increase has slowed slightly as this function matures, and as the nature of the spend changes from that of establishing an education and risk management function to that of delivering the education and risk management training.

MPS exceeded its plans for 2010 by delivering over 1,500 educational workshops, courses, lectures and seminars – mainly to members – which is nearly a 173% increase on 2009. In 2011 MPS plans to deliver a similar number of educational events.

Administration expenses

These are the costs of running the business, other than those costs related to the management of claims or the provision of advisory or educational services and external relations, which are dealt with elsewhere. This leaves common services such as finance, IT, human resources, marketing, office accommodation and membership services.

The costs were £17.0m in 2010, an increase of £1.4m, 9.0% (2009 £0.2m, 1.2%) in the year. MPS continues to invest in resources focused on delivering service to members. In 2010 the number of staff in membership services was increased to ensure service standard during the peak renewal period and the 'opening' times for membership helpline service were extended to 8am to 6.30pm. The number of medico and dentolegal consultants delivering front line advisory services has also increased. In addition, MPS continues to invest in IT systems aimed at improving efficiency and service quality. This has resulted in the launch of a new website during the year and the introduction of an electronic document management system, and work continues on developing systems that support the business.

Loss on exchange movements

MPS experiences a profit or loss on exchange movements in two ways: one is through trading and the other is through the matching of assets and liabilities.

Trading

As part of its business, MPS will receive income and pay costs in non-sterling currencies. Whenever it does this there may be a period of time between entering the income or costs due in the books of account and then entering the actual receipt or payment. If the exchange rate moves during this time, whilst there will be no difference in local currency between the initial entry and subsequent entry, there may be a difference in sterling terms and this will result in a profit or loss on exchange. This impact is relatively minor compared to the impact from matching assets and liabilities.

Matching

MPS has claims liabilities in many different countries. It is important to ensure that the assets held to meet the future costs of these claims are held in the same currency, so that exchange rate movements do not alter MPS's ability to fund these claim liabilities. Although the exchange element of the assets and liabilities is closely matched by MPS, accounting

disclosure requirements dictate that in these published accounts, the exchange movements related to the claim liabilities are included within the "claims costs" line and the exchange movements related to assets are included in the line "loss on exchange movements"

The loss for 2010 at £0.2m is considerably smaller than the loss in 2009 of £12.6m. This reflects the increased stability within exchange rate markets in 2010 compared to 2009.

Conclusion

2010 saw an unexpected increase in the frequency and severity of claims, particularly related to UK (excluding Scotland) GPs. MPS's financial strength has ensured that these additional and unexpected costs can be borne without serious harm to the future prospects of the company, but subscription rates for some groups will inevitably have to rise to help ensure MPS's continued financial strength.

A financially strong MPS is in everyone's interest, that of members, patients and staff and every effort is being taken by Council and the senior executive to ensure the continued financial strength of the business, through subscription setting, effective and efficient management of claims, cost control and the rigorous assessment of indemnity risk.

Simon Kayll

Finance Director

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President

Sir Peter Morris AC FRCS FRCS FMedSci ³

Vice-President

Professor John Bonnar MA MD FRCPI FRCOG

Chairman of the Council

Nicholas Davies MA DM(Oxon) MHCP FRCA

Chief Executive

Tony Mason BScSc FIA

Members of the Council

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

The Lord Bradley PC BA(Hons) MPhil ¹

Professor Trevor Burke BDS MSc BDS MDS FDSRCS(Eng) FDSRCS(Edn) FDSRCS(Glas)
MGDSRCS(Edn) FFGDP(UK) (ex officio) ⁶ (Appointed 9 June 2010)

Ian Croxford QC LLB ¹

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

Richard Youell JP MA ^{2 4}

1 Members of the Audit Committee
2 Members of the Remuneration Committee
3 Members of the Nominations Committee

4 Members of the Board of MPI (London) Limited
5 Members of the Board of MPS Risk Solutions Limited

6 Members of the Board of Dental Protection Limited
7 Members of the Educational Advisory Committee

MPS Council continued

“Every effort is being taken by Council and the senior executive to ensure the continued financial strength of the business, through subscription setting, effective and efficient management of claims, cost control and the rigorous assessment of indemnity risk.”

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 a non-executive director 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 225 published 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.

Nicholas Davies

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

Mark 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 where he has been a principal since 1984. He acts as an Occupational Medical Adviser to a number of occupational health companies and since 2000 has acted as an independent expert witness. Since 2007 he has been a board member of a Practice Based Commissioning consortium and from 2002-2006 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 NIHC committees and working groups related to cardiovascular medicine.

Yasmin Drabu

Yasmin Drabu was elected to the Council as a non-executive director of MPS in June 2009. Since February 2010 she has worked at the Department of Health as Senior Medical Officer in the Blood Policy – Infectious Diseases Division. She has been from 2006-2010, the Medical Director and Director of Infection Prevention and Control at the Barking Havering and Redbridge NHS Trust, from 2000-2006, Medical Director at North Middlesex University Hospital NHS Trust and from 1982-2006, consultant microbiologist, from 1986-1993 head of department, pathology, from 1993-1995 clinical director, diagnostic services, and from 1995-1997 divisional director.

Mary Favier

Mary Favier was elected to the Council as a non-executive director of MPS in June 2005. She works as a GP principal and partner in a practice in Cork. She is Chair of Education for the Irish College of General Practitioners and a member of its executive. She is on the editorial board of Forum, the ICGP general practice magazine, and a member of the editorial board of a health information consumer website.

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 Leeds General Infirmary, Leeds Teaching Hospitals NHS Trust. He is presently a council member of the College of Emergency Medicine (CEM) as Regional Chair for Yorkshire & Humber. He is also the national Director for eLearning for the College, an examiner for Fellowship of the CEM, and a member of the College's Safety Committee.

Leela Kapila

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

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 finally Finance Director in January 1999. He was also appointed Company Secretary for MPS and most of its subsidiary companies in March 2000. His current responsibilities include finance, investment management, reinsurance, internal audit, marketing, membership and oversight of MPS Risk Solutions Limited.

Kevin Lewis

Kevin Lewis was elected to the Council as an executive director in June 2003. He is formerly a general dental practitioner and was a member of the original Board of Dental Protection Limited from 1989-1992, 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 (1981-2006), 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.

Tony Mason

Tony Mason joined the Council as Chief Executive of MPS in October 2007. He is a Fellow of the Institute of Actuaries. Before joining MPS, he was a partner at Lane Clark & Peacock LLP, a firm

of consulting actuaries. He was appointed a partner in 1985, was appointed Managing Partner in 1997 and Chairman in 2006. He specialised in all matters concerning professional indemnity cover arising from clinical negligence, including the NHS in England and Scotland, MPS and several Australian organisations. Prior to his appointment as Chief Executive, he was an actuarial adviser to MPS for more than 20 years.

Elizabeth Vallance

Elizabeth Vallance joined 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 sits on the board of Charter European Trust plc and has been an independent director of HMV Group, Norwich Union plc and Aviva plc. She is a Fellow of Queen Mary and of the Institute of Education, both of the University of London. She is Chairman of I CAN, the children's communication charity and was Chairman of St George's Healthcare NHS Trust and of the Advisory Committee on Clinical Excellence Awards. She is a magistrate on the Inner London bench, was High Sheriff of Greater London, 2008-2009, and is on the Committee on Standards in Public Life.

Richard Youell

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

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 also Director of the Centre for Evidence in Transplantation at the Royal College of Surgeons and the University of London and Honorary Professor, 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.

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Chairman

Susan Sellers MB ChB MD FRCOG

Vice-Chairman

Francis Cranfield MB BS MRCS LRCP DRCOG FRCGP

Secretary

Emma Hallinan LLB(Hons) Solicitor

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Peter Campbell MB BS FRCS(Orth)

Nicholas Davies MA DM(Oxon) MRCP FRCA

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Patrick Forbes MB ChB FRCOG

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MPS Risk Solutions Limited – Marketing Director

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Head of Membership

Carol Sherlock BSc(Hons)

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 2010

Business review and principal activity

Principal activity

MPS is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners and other healthcare professionals. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by MPS's Memorandum of Association.

One of MPS's objects is to grant indemnity to members in respect of claims and demands arising from their professional practice, which may result in the payment of costs and damages. The Articles of Association set down in paragraph 40 state that 'the grant of an indemnity shall be entirely in the discretion of the Council who shall have the power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same'.

In addition to the principal activity of the holding company, the group has two principal trading subsidiaries, MPS Risk Solutions Limited, and Cognitive Consulting Group Pty Limited. MPS Risk Solutions Limited is registered in England and is a general insurance company, regulated by the Financial Services Authority, which provides professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Cognitive Consulting Group Pty Limited is registered in Australia and provides education and training in communication skills and risk management to medical practitioners. There is a further major subsidiary, MPI (London) Limited (MPI), which is registered in England and 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.

Business purpose

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

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

This means that if a member seeks advice or an indemnity relating to an incident from a particular year, providing the member was paying an appropriate subscription during the year of the incident and assistance is granted, then MPS will pay all reasonable costs related to that incident. These costs may include representation at a regulatory council, assistance with disciplinary proceedings and full indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident before

costs are incurred and the issues are resolved. Applying for the benefits of membership years after the adverse incident, subject only to having paid the appropriate subscription for the period of the adverse incident, is known as claims-incurred cover.

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 below.

The principal risks facing MPS and their mitigation are

■ Reserving risk

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

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

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

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

■ Underwriting risk

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

Mitigation

Again, the skill of staff and advisers is important as are the quality of internal systems. In addition, MPS carefully reviews all applications and makes an assessment on those risks that it is willing to accept. MPS also runs an internal programme to identify individual members who appear to represent a higher than normal risk and tries to work with them to reduce their risk. MPS also purchases insurance to cover 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 have a relatively low 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. Sometimes this might be beneficial, sometimes not. This is a risk that is outside the scope of MPS's business and skill, and should be removed as much as is possible.

Mitigation

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

■ Liquidity risk

Liquidity risk is the risk that there will be insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to make the payment or the need to terminate an illiquid investment at an inopportune time, which could be costly.

Mitigation

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

■ Credit risk

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

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

Mitigation

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

■ Interest rate / inflation risk

MPS holds about 65% of its invested assets in bonds and bond prices move inversely to changes in interest rates, thus an increase in interest rates will cause a fall in the price of bonds. The impact on MPS's liabilities is more complicated. The main influence on the cost of large claims (in the UK) is that element to reflect compensation for future costs or losses, these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to a discount factor. The discount factors might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor. However, with the introduction in 2005 of periodical payments as an alternative to lump sum or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant, and these payments are to be indexed according to the retail price index. Since the determination of the Appeal in the Thompsonstone case, it is increasingly likely that for settlements subject to periodicals, the cost of future care will be subject to indexation by a wage measure and not the retail price index.

Specific comment on the interest and inflation risk in relation to derivative financial instruments is provided on page 21.

Mitigation

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

■ Operational risk

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

Mitigation

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

accuracy of data on which business decisions are based, and to prevent fraud and theft.

Financial targets

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

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

More detail is provided on the financial targets in the Finance Director's report on pages 5-7.

Financial performance for the year

Subscription income has increased in the year, administration costs were close to expectation and investment performance has been positive. However, the development of reported claims, particularly for UK (excluding Scotland) and South Africa, has been considerably worse than anticipated.

More detail of the financial performance for the year is provided within the Finance Director's report on pages 5-7.

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 principal 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.

Report of the Council continued

The 2010 increase in total members, including those who don't pay a subscription, was 2.5% (2009: 0.8%)

With reference to those members who have paid a subscription to MPS in 2010 and so contributed to the 7.6% increase in subscription and other income for 2010, numbers increased in the year by 3.8% compared to 4.2% in the previous year.

In addition to the growth in member numbers, internal measurements also show that the risk profile of the membership for 2010 compared to 2009 is lower across the board, although there was a very slight increase in the risk profile of the membership in a couple of countries, most notably, Hong Kong.

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 early 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 £10,188 (2009: £10,000). Donations in 2010 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 (2009: £nil).

Employees

During the year MPS continued to provide employees with relevant information and seek their views on matters of common concern through the Staff Consultative Group, staff briefings and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting MPS's trading position and of any significant organisational

changes. MPS also seeks regular feedback from its employees and a number of different mechanisms exist for this, including a regular company-wide staff survey.

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

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 9.

Corporate Governance

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

Council

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

Of the non-executives (including the Chairman) at the year end, seven are doctors or dentists and five are not. With the exception of the Chairman, the non-executives are considered to be independent. The five non-executives who are not a doctor or dentist have no financial interest in MPS other than their fees as members of the Council. The seven non-executives who are a doctor or dentist receive fees as members of the Council and some had personal membership with MPS. Their personal membership 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 published internally a Code of Ethical Conduct for all staff, which will apply 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 a sufficient calibre and number to bring strength and independence to the Council and does not propose to nominate any one non-executive to be a senior independent member of the Council. In stating this, the Council recognises that this is not in accordance with the relevant provision of the Combined Code.

All Council members, except for the Chief Executive and the Chairman of Dental Protection Limited, are subject to election by members at the first opportunity after their appointment by the Council and to re-election (excepting the Chief Executive and the Chairman of Dental Protection Limited) at general meetings at least every three years. The Chief Executive is appointed by the Council and can be removed by the Council. The Council recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the Combined Code, but believes that it does not compromise the independence or integrity of the Council.

The Chairman of Dental Protection Limited is a member of 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 are limited to an eight-year term.

The Council met formally eight times during the year (eight times in 2009). In addition to these regular meetings, the Council also devoted the better part of a day for an additional meeting to consider and review the organisation's business objectives and strategy. The attendance record of members of the Council at the eight meetings is shown in table 1 below.

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

Non-executive members of the Council met once during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman and executive if they wish – this was not thought necessary during 2010.

Sub-Committees of the Council

The Council has a Nominations, Remuneration and Audit Committee, the members of which are listed on page 9.

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

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

The Audit Committee is chaired by a non-executive member of the Council, Frank Attwood, (a former audit partner of an international firm of Chartered Accountants) and met twice in the year. MPS's external auditors, Chairman, Chief Executive, Finance Director, Financial Controller and Internal Audit and Compliance Officer also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. Other senior managers attend for specific agenda items as required. The Audit Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews, prior to publication, the annual financial statements and the other information included in the Annual Report. The Audit Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit Committee is shown in table 2 on page 20. The Committee meets in March and November.

The Audit Committee is responsible for ensuring the continued independence of the external auditors. The Committee has a written policy on this, which includes requiring the auditors to make a statement on their continued independence, placing

TABLE 1 – Attendance record of the members of the Council at Council meetings

Member of the Council	Appointed/Retired	Meetings attended	
		2010	2009
Frank Attwood		8	8
Keith Bradley		8	7
Trevor Burke	Appointed on 9 June 2010	3	N/A
Ian Croxford		5	7
Nicholas Davies		8	7
Mark Davis	Appointed on 10 June 2009	8	4
Yasmin Drabu	Appointed on 10 June 2009	8	4
Mary Favier		7	8
Kathryn Harley	Retired on 9 June 2010	4	8
Taj Hassan		7	8
Leela Kapila		8	8
Simon Kayll		8	8
Kevin Lewis		8	8
Tony Mason		8	8
Elizabeth Vallance		8	6
Richard Youell		8	8

Report of the Council continued

limits on the amount of non-audit work undertaken by the auditors and having a policy covering the commissioning of non-audit services from the auditors

Several members of the Council are members of the Board of MPI (London) Limited, which manages MPS's investment portfolio, and of the Board of MPS Risk Solutions Limited, which provides general insurance contracts to corporate healthcare providers. Both Boards are chaired by the Chairman of the Council and the other Council members are listed on page 9

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 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 annual evaluation of its performance based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the 2010 evaluation were presented to the Council by the Chairman in its February 2011 meeting and resulting actions were approved by the Council.

Internal control

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

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

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

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

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

TABLE 2 – Attendance record of the members of the Audit Committee at Committee meetings

Member of Audit Committee	Appointed/Retired	Meetings attended	
		2010	2009
Frank Attwood		2	2
Keith Bradley	Appointed on 1 July 2009	2	1
Ian Croxford	Appointed on 1 July 2009	2	1
Leela Kapila		2	2
Elizabeth Vallance		2	2

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 Committee meetings. The Audit Committee is responsible for monitoring and reviewing the work of the Internal Audit team. The Audit Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the Internal Audit and Compliance Officer about his work at each committee meeting.

Remuneration report

The Remuneration Committee is responsible for recommending to the Council, fees for members of the Council, Committees and directors of subsidiaries as well as deciding the remuneration of senior staff and receiving recommendations from the Chief Executive for the remuneration of other employees. In framing its policy, the Remuneration Committee aims to attract and retain senior staff to run MPS successfully without making excessive payments.

In 2008 MPS, for the first time, instigated 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 Combined Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that MPS has with its members. However, the general tenor of the provisions is applicable to MPS and MPS values its dialogue with members.

The Council also uses the Annual General Meeting to communicate financial performance with members and encourages their participation. Members of the Audit, Nomination and Remuneration committees will be present at the Annual General Meeting to respond to any relevant questions if necessary.

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

Derivative financial instruments

During the year MPS's investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses 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 today for delivery at some date in the future. Table 3 below explains the contracts that were entered into during the year.

Risk characteristics of derivative financial instruments

Interest rate risk

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.

For an asset such as a bond the risk is calculated by multiplying the dirty price (the price of the bond plus accrued interest) of the bond by its modified duration. The bond future risk is then calculated by multiplying the bond risk by a conversion factor used in the pricing of the contract. The bond risk and future risk are then compared to determine the number of futures contracts that need to be held.

Credit Risk

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

TABLE 3 – Contracts entered into during the year

Currency	Contract Type	Currency	Contract Type
AUD	3 year bond future	USD	5 year note future
AUD	10 year bond future	USD	2 year note future
EUR	Euro-Bobl future	USD	10 year note future
EUR	30 year Euro-Buxl future	USD	Ultra Bond future
EUR	Euro-Schatz future	USD	90 day Euro future
EUR	3 month Euribor future	ZAR	Bond future
GBP	90 day Sterling future	ZAR	Fixed interest rate swap
GBP	Long Gilt future	ZAR	Variable interest rate swap

Report of the Council continued

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 guidance set out in the Financial Reporting Council's report – *Update for Audit Committees: issues arising from current economic conditions* – published in November 2010.

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 law).

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 group for that period.

In preparing these financial statements, the Council are 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,
- 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.

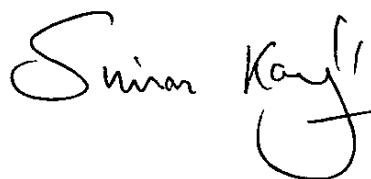
The Council is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approval

This report was approved by the Council on 13 April 2011 and signed on its behalf by

Simon Kayll

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 2010 which comprises the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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 auditors

As explained more fully in the Council's Responsibilities Statement set out on page 22, 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.

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 2010 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, England

13 April 2011

Financial statements

Year ended 31 December 2010

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT		2010	2009
Notes	Year ended 31 December 2010	£'000	£'000
	Income: continuing operations		
	Members' subscriptions and other income	296,644	275,650
	Expenditure		
15	Claims costs and associated legal costs (including costs of insurance)	258,701	190,873
	Insurance recoveries	(4,929)	(19,700)
15	Advisory costs and associated legal costs	52,651	46,806
3a	Education, publications and external relations	7,853	5,461
3b	Administration expenses	17,049	15,640
3c	Loss on exchange movements	226	12,570
		331,551	251,650
	(Deficit)/excess of members' subscriptions and other income over expenditure: continuing operations	(34,907)	24,000
4	Income from investments	28,505	29,726
8	Other finance income/(expense)	580	(2)
	Realised gains/(losses) from disposal of investments	4,207	(14,896)
	Contribution from ordinary activities before taxation	(1,615)	38,828
5a	Tax on investment income and gains	(7,897)	(79)
17	Net contribution for the year available to meet future liabilities and charges	(9,512)	38,749

Notes	CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	2010	2009
		£'000	£'000
	Net contribution for the financial year	(9,512)	38,749
16	Surplus on revaluation of investments	121,993	95,848
	Deficit on revaluation of fixed assets	–	(838)
8	Actuarial gains/(losses) on defined benefit pension scheme	3,175	(8,140)
5a	Tax charge on investment gains	(10,018)	(9,269)
	Total recognised gains	105,638	116,350

Notes	NOTE OF HISTORICAL COST INCOME AND EXPENDITURE	2010	2009
		£'000	£'000
	Reported net contribution before tax	(1,615)	38,828
16	Realisation of valuation gains of previous years	34,326	55,477
16	Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	13	29
	Historical cost net contribution before tax	32,724	94,334
	Historical cost net contribution after tax	14,809	84,986

Financial statements

Year ended 31 December 2010

CONSOLIDATED AND COMPANY BALANCE SHEETS		2010 GROUP £'000	2009 GROUP £'000	2010 COMPANY £'000	2009 COMPANY £'000
Notes	At 31 December 2010				
Fixed assets					
9	Intangible assets	–	–	378	–
10	Tangible assets	8,896	8,606	8,894	8,428
11	Investments	1,527,192	1,296,999	921,010	856,011
		1,536,088	1,305,605	930,282	864,439
Current assets					
13	Debtors – due within one year	12,585	13,925	108,254	91,615
13	– due after one year	29,605	26,714	29,605	26,714
	Bank deposit accounts	79,950	88,812	12,676	19,083
	Cash at bank and in hand	3,636	4,073	3,410	3,952
		125,776	133,524	153,945	141,364
14	Creditors – amounts falling due within one year	(54,432)	(50,346)	(44,362)	(49,179)
	Net current assets	71,344	83,178	109,583	92,185
	Total assets less current liabilities	1,607,432	1,388,783	1,039,865	956,624
15	Provision for liabilities	(592,126)	(473,854)	(582,238)	(470,853)
	Net assets excluding pension asset/(liability)	1,015,306	914,929	457,627	485,771
8	Pension asset/(liability)	3,448	(1,813)	3,448	(1,813)
	Net assets	1,018,754	913,116	461,075	483,958
Accumulated funds					
16	Revaluation reserve	203,753	116,099	178	191
16	Income and expenditure	815,001	797,017	460,897	483,767
17	Funds available to meet future liabilities and charges	1,018,754	913,116	461,075	483,958

Nicholas Davies
Chairman of the Council
13 April 2011



The Medical Protection Society Limited
Registered Company No. 36142

CONSOLIDATED CASH FLOW STATEMENT		2010	2009
Notes	Year ended 31 December 2010	£'000	£'000
18	Net cash inflow from operating activities	82,576	95,288
19	Returns on investment and servicing of finance	28,505	29,726
	Taxation	(9,683)	(29,721)
	Acquisition of subsidiary company	(306)	(267)
20	Capital expenditure and financial investment	(111,175)	(95,754)
		(10,083)	(728)
	Net cash inflow from management of liquid resources (comprising bank deposits and investment deposits)	9,646	3,602
	(Decrease)/increase in cash in the period	(437)	2,874

Analysis of changes in net funds			
	At 1/1/2010 £'000	Cash flow movement £'000	At 31/12/2010 £'000
Cash at bank and in hand	4,073	(437)	3,636
Bank deposit accounts	88,812	(8,862)	79,950
Cash with investment managers	12,589	(784)	11,805
Net funds	105,474	(10,083)	95,391

Reconciliation of net cash flow to movement in net funds		2010	2009
		£'000	£'000
(Decrease)/increase in cash		(437)	2,874
Cash flow from decrease in net liquid resources		(9,646)	(3,602)
		(10,083)	(728)
Net funds at 1 January		105,474	106,202
Net funds at 31 December		95,391	105,474

Notes to the accounts

1 Basis of preparation of the financial statements

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

Convention

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

2 Accounting policies

(a) 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 2010 was a deficit of £26.1m, as shown in note 16.

(b) Subscriptions

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

(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% per annum

(d) Tangible fixed assets and depreciation

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

The principal annual rates used for other assets are

Freehold buildings	– 2% per annum
Leasehold property	– over life of leases
Furniture and fittings	– 5% per annum
Office equipment	– 15% per annum
Computers	– 33.3% per annum

(e) Translation of foreign currency transactions

Income and expenditure in foreign currencies are translated to their sterling equivalent at the rate ruling at the transaction date. Monetary assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December or at a rate fixed in advance by way of a forward exchange contract. Any gains or losses are taken to the income and expenditure account, except for those arising from investments held in foreign currencies and 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. Derivatives are held at cost and as such 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.

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

(j) Costs related to all other claims

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

(k) Tax

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

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

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

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

(l) Pensions

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

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

Further information on the structure of the defined benefit scheme is contained within note 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.

Notes to the accounts continued

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

3b Administration expenses

	2010	2009
	£'000	£'000
Included under this classification are		
Operating lease rentals – Land and buildings	2,521	2,173
– Motor vehicles	115	99
– Office equipment	54	41
Loss on disposal of tangible fixed assets	5	6
Depreciation of fixed assets	1,590	1,591
Auditor's 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	63	59
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	13	12
– Other services relating to taxation – compliance and advice	48	64
– Accounting advice	6	–
<i>Services to the Company's associated pension scheme</i>		
– Audit of the financial statements of the scheme pursuant to legislation	4	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. 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 15)

4 Net income from investments

	2010	2009
	£'000	£'000
Bond and gilt interest	25,811	26,461
Bank interest	1,160	1,862
Other investment income	1,534	1,403
	28,505	29,726

Other investment income includes realised gains arising from derivative financial instruments, which are discussed in more detail in the Report of the Council on page 21

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

5a Tax on income and gains from investments

	2010	2009
	£'000	£'000
Tax on income and gains included in the income and expenditure account for the year		
UK corporation tax		
Current tax on income and gains for the year at 28% (2009 28%)	8,693	111
Adjustment in respect of prior years	(811)	(52)
Double taxation relief	(3)	(9)
	7,879	50
Foreign tax		
Current tax on income for the year	18	29
Tax on investment income and gains in the income and expenditure account (see note 5b)	7,897	79
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax		
Current tax charge on gains for the year at 28% (2009 28%)	10,018	9,269
Tax on other gains included in the statement of total recognised gains and losses for the year	10,018	9,269

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 28% (2009 28%) are explained below	2010	2009
	£'000	£'000
Contribution before tax per accounts	(1,615)	38,828
Non-taxable contribution	25,005	(39,549)
Income and net gains/(losses) from investments included in the income and expenditure account for the year	23,390	(721)
Income and net gains/(losses) from investments multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	6,549	(202)
Effects of		
Depreciation in excess of capital allowances	3	5
Non-taxable dividend income	(160)	-
Realised investment income taxed as gains	2,059	-
Double tax relief	(3)	(9)
Adjustment in respect of prior years	(811)	(52)
Loss carry back for MPS Risk Solutions Limited	239	-
Other short term timing differences	3	-
Tax on income from unlisted investments not yet recognised	-	308
Current tax charge for the year	7,879	50

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 £24.9 million (2009 £14.1 million) tax charge would arise should MPS's equity investments and freehold property be sold at the market values at which they are included in the balance sheet

Notes to the accounts continued

6 Emoluments of members of the Council

	2010 £'000	2009 £'000
Aggregate amount of emoluments paid to members of the Council (including executive members)	1,008	977
Chairman	52	51
Highest paid member of the Council		
Chief Executive – standard emoluments and taxable benefits	261	254
– bonus	31	28
– accrued annual defined benefit pension rights	7	5
– employer contributions to defined contribution pension scheme	25	24

There are 3 (2009 3) executive members of the Council who are members of MPS's defined benefit pension scheme, details of which are set out in note 8

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £19,985 (2009 £19,495). An increase of £490 per annum was implemented on 1 March 2010. 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	14,461	Kathryn Harley	11,579
Keith Bradley	2,420	Taj Hassan	7,260
Trevor Burke	14,623	Leela Kapila	4,840
Ian Croxford	2,420	Elizabeth Vallance	2,420
Mark Davis	2,420	Richard Youell	2,420
Mary Favier	2,420		

In addition, and as stated in the Report of the Council on page 18, 6 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 427 (2009 382)

Costs in respect of these employees were	2010 £'000	2009 £'000
Wages and salaries	19,547	17,344
Social security costs	1,991	1,771
Pension costs	3,095	1,985
	24,633	21,100

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.

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

Principal actuarial assumptions	At 31 December	At 31 December
	2010 % pa	2009 % pa
Price inflation	3.7	3.8
Discount rate	5.4	5.6
Pension increases (LPI 5%)	3.5	3.7
Pension increases (LPI 3%)	2.7	2.8
Salary growth	5.2	5.3
Expected return on assets at start of year	6.7	5.8

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.2 years (2009: 28.1 years). Allowance is made for future improvements in life expectancy.

Balance sheet	At 31 December	At 31 December
	2010 £'000	2009 £'000
Defined benefit obligation	64,332	57,495
Fair value of scheme assets	(67,780)	(55,682)
Pension (asset)/liability in the balance sheet	(3,448)	1,813

The current allocation of pension scheme assets is as follows	At 31 December		At 31 December	
	%	2010 £'000	%	2009 £'000
Equities	54	36,406	60	33,420
Bonds	18	12,450	19	10,701
Liability driven investment	17	11,695	19	10,767
Property	1	636	1	595
Diversified growth fund	9	6,438	—	—
Cash	1	155	1	199
Total	100	67,780	100	55,682

The following amounts are recognised in the income and expenditure account	2010 £'000	2009 £'000
Current service cost	2,936	1,892
Interest cost	3,290	2,662
Expected return on pension scheme assets	(3,870)	(2,660)
Total expense recognised in income and expenditure account	2,356	1,894

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/(expense). For 2010 this was an income of £580,000, and for 2009, an expense of £2,000.

Notes to the accounts continued

8 Pensions: continued

The defined benefit obligation moved over the year as follows	2010 £'000	2009 £'000
Opening defined benefit obligation	57,495	40,987
Current service cost	2,936	1,892
Interest cost	3,290	2,662
Contributions by scheme members	642	587
Actuarial losses	1,007	12,618
Benefits paid	(1,038)	(1,251)
Closing defined benefit obligation	64,332	57,495

The fair value of the scheme assets moved over the year as follows	2010 £'000	2009 £'000
Opening fair value of scheme assets	55,682	44,952
Expected return on scheme assets	3,870	2,660
Actuarial gains	4,182	4,478
Contributions by the employer	4,442	4,256
Contributions by scheme members	642	587
Benefits paid	(1,038)	(1,251)
Closing fair value of scheme assets	67,780	55,682

The actual return on scheme assets was	8,052	7,138
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Over the year to 31 December 2010, MPS made contributions of £4,441,642 (2009 £4,255,601) to the scheme. It has been agreed that future employer contributions will be 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 next actuarial valuation due as at 31 December 2011.

The following amounts are recognised in the statement of total recognised gains and losses	2010 £'000	2009 £'000
Actuarial (gains)/losses	(3,175)	8,140

Five year history	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Defined benefit obligation	64,332	57,495	40,987	44,831	43,654
Fair value of scheme assets	(67,780)	(55,682)	(44,952)	(47,672)	(43,211)
(Surplus)/deficit	(3,448)	1,813	(3,965)	(2,841)	443
Experience adjustments on scheme liabilities	172	385	–	–	814
Experience adjustments on scheme assets	(4,182)	(4,478)	7,603	(766)	(1,595)

9 Intangible fixed assets**Copyright
£'000***Company***Cost**

At 1 January 2010

-

Additions

394

At 31 December 2010**394****Amortisation**

At 1 January 2010

-

Provided in year

16

At 31 December 2010**16****Net book value****At 31 December 2010****378**

At 31 December 2009

-

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)

10 Tangible fixed assets**Freehold
property****Leasehold
property****Computers,
furniture, fittings
and office
equipment****Motor
vehicles****Total****£'000****£'000****£'000****£'000****£'000***Group***Cost or valuation**

At 1 January 2010

4,350

2,008

8,532

25

14,915

Additions

60

126

1,699

-

1,885

Disposals

-

-

(191)

-

(191)

At 31 December 2010**4,410****2,134****10,040****25****16,609****Depreciation**

At 1 January 2010

-

666

5,641

2

6,309

Provided in year

105

266

1,214

5

1,590

Released on disposals

-

-

(186)

-

(186)

At 31 December 2010**105****932****6,669****7****7,713****Net book value****At 31 December 2010****4,305****1,202****3,371****18****8,896**

At 31 December 2009

4,350

1,342

2,891

23

8,606

*Company***Cost or valuation**

At 1 January 2010

4,350

1,941

8,252

25

14,568

Additions

60

223

1,750

-

2,033

Disposals

-

-

(191)

-

(191)

At 31 December 2010**4,410****2,164****9,811****25****16,410****Depreciation**

At 1 January 2010

-

661

5,477

2

6,140

Provided in year

105

265

1,187

5

1,562

Released on disposals

-

-

(186)

-

(186)

At 31 December 2010**105****926****6,478****7****7,516****Net book value****At 31 December 2010****4,305****1,238****3,333****18****8,894**

At 31 December 2009

4,350

1,280

2,775

23

8,428

All the leasehold properties held at 31 December 2010 are short leaseholds

Notes to the accounts continued

10 Tangible fixed assets. continued

Assets included at valuation

The freehold property was originally revalued on 31 December 1999 on the basis of the Existing Use Value including notional directly attributable acquisition costs. The valuation was independent and external and was carried out by DTZ Debenham Tie Leung, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. In the intervening period further full and interim valuations have been carried out by the above Chartered Surveyors in accordance with FRS15, Tangible Fixed Assets. The last full valuation was carried out on 31 December 2009.

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

	£'000
Cost	5,341
Depreciation	(1,211)
At 31 December 2010	4,130
At 31 December 2009	4,162

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (2009: £ nil).

11 Investments

	2010 Group £'000	2009 Group £'000	2010 Company £'000	2009 Company £'000
Valuation or cost at 1 January	1,296,999	1,132,392	856,011	766,056
Additions and increase in investment in subsidiary undertakings	445,790	645,339	65,305	90,267
Disposals at carrying value	(332,293)	(566,817)	–	(45)
Provision for impairment of investment in subsidiary undertakings	–	–	(306)	(267)
Movement in cash	(784)	1,581	–	–
Foreign exchange losses on listed investments	(4,513)	(11,344)	–	–
Surplus on revaluation of listed investments	121,993	95,848	–	–
At 31 December	1,527,192	1,296,999	921,010	856,011

Investments comprise

Listed on UK Stock Exchange				
– Equities	169,746	105,604	–	–
– Government and other bonds	832,206	688,532	–	–
Listed on overseas Stock Exchanges				
– Equities	229,771	182,276	–	–
– Government and other bonds	195,001	229,014	–	–
Underlying assets listed on multiple Stock Exchanges	41,316	40,508	–	–
Unlisted	47,347	38,476	–	–
Shares in group undertakings	–	–	921,010	856,011
Cash	11,805	12,589	–	–
	1,527,192	1,296,999	921,010	856,011
Historical cost of investments	1,302,685	1,155,646	921,010	856,011

12 Investment in subsidiary undertakings

MPS has the following 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%	910,001	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 Payments Trustee Limited	100%	–	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

Notes to the accounts continued

13 Debtors	2010 Group £'000	2009 Group £'000	2010 Company £'000	2009 Company £'000
Receivable within one year				
Corporation tax	–	215	–	–
Trade debtors	405	356	82	45
Recoverable insurance claims	7,401	8,905	7,401	8,905
Amounts owed by subsidiary undertakings	–	–	96,122	78,862
Other debtors	293	760	209	201
Prepayments	4,486	3,689	4,440	3,602
	12,585	13,925	108,254	91,615
Receivable after one year				
Recoverable insurance claims	29,605	26,714	29,605	26,714
Total debtors	42,190	40,639	137,859	118,329

14 Creditors' amounts falling due within one year	2010 Group £'000	2009 Group £'000	2010 Company £'000	2009 Company £'000
Corporation tax	8,017	–	868	1,832
Other taxes and social security	1,783	1,367	1,711	1,326
Other creditors and accruals	5,986	10,997	4,776	9,482
Deferred subscription income	38,646	37,982	37,007	36,539
	54,432	50,346	44,362	49,179

15 Provision for liabilities	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total claims £'000
<i>Group</i>				
At 1 January 2010	417,985	34,149	21,720	473,854
Movements in the year				
– Charged to the income and expenditure account				
– Reported negligence claims	246,365	–	12,336	258,701
– Reported other claims	–	34,839	17,812	52,651
Paid	(140,286)	(28,062)	(24,732)	(193,080)
At 31 December 2010	524,064	40,926	27,136	592,126
<i>Company</i>				
At 1 January 2010	415,127	34,149	21,577	470,853
Movements in the year				
– Charged to the income and expenditure account				
– Reported negligence claims	239,655	–	12,002	251,657
– Reported other claims	–	34,839	17,812	52,651
Paid	(140,135)	(28,062)	(24,726)	(192,923)
At 31 December 2010	514,647	40,926	26,665	582,238

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 £35.9m (2009: £33.4m) that are estimated to be recoverable from MPS's insurers.

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

16 Movement on reserves	Revaluation	Income and expenditure	Accumulated
	£'000	£'000	£'000
<i>Group</i>			
At 1 January 2010	116,099	797,017	913,116
Surplus on revaluation of listed investments	121,993	–	121,993
Realised on disposal of investments	(34,326)	34,326	–
Actuarial gains recognised in pension scheme	–	3,175	3,175
Tax charge on recognised investment gains	–	(10,018)	(10,018)
Release of depreciation on revalued property	(13)	13	–
Net contribution for the year after tax	–	(9,512)	(9,512)
At 31 December 2010	203,753	815,001	1,018,754

<i>Company</i>			
At 1 January 2010	191	483,767	483,958
Actuarial losses recognised in pension scheme	–	3,175	3,175
Release of depreciation on revalued property	(13)	13	–
Net contribution for the year after taxation	–	(26,058)	(26,058)
At 31 December 2010	178	460,897	461,075

17 Reconciliation of movements in funds available to meet future liabilities and charges	2010 £'000	2009 £'000
Net contribution for the financial year	(9,512)	38,749
Other recognised gains relating to the year	125,168	86,870
Tax charge on investment gains	(10,018)	(9,269)
Total recognised gains	105,638	116,350
Opening funds available to meet future liabilities and charges	913,116	796,766
Closing funds available to meet future liabilities and charges (see note 22)	1,018,754	913,116

18 Reconciliation of (deficit)/excess of income over expenditure to operating cash flows	2010 £'000	2009 £'000
(Deficit)/excess of income over expenditure	(34,907)	24,000
Depreciation charges	1,590	1,591
Loss on disposal of tangible fixed assets	5	6
Increase in provisions	118,272	75,548
Increase in debtors	(1,766)	(21,509)
(Decrease)/increase in creditors	(3,625)	6,672
Foreign exchange losses on listed investments	4,513	11,344
Cash pension contributions more than current service cost	(1,506)	(2,364)
Net cash inflow from operating activities	82,576	95,288

19 Returns on investment and servicing of finance	2010 £'000	2009 £'000
Interest received	1,160	1,862
Bond and gilt interest received	25,811	26,461
Other interest	1,534	1,403
Net cash inflow from returns on investments and servicing of finance	28,505	29,726

Notes to the accounts continued

20 Capital expenditure and financial investment	2010 £'000	2009 £'000
Purchase of tangible fixed assets	(1,885)	(2,336)
Purchase of investments	(445,790)	(645,339)
Proceeds from sale of investments	336,500	551,921
Net cash outflow from capital expenditure and financial investment	(111,175)	(95,754)

21 Commitments	2010 Group £'000	2009 Group £'000	2010 Company £'000	2009 Company £'000
Operating lease commitments				
Land and buildings, leases expiring				
– Two to five years	1,335	1,343	1,316	1,343
– Greater than five years	1,136	1,063	1,136	1,063
	2,471	2,406	2,452	2,406
Motor vehicles, leases expiring				
– Within one year	3	2	3	2
– Two to five years	20	12	20	12
	23	14	23	14
Office equipment leases expiring				
– Two to five years	62	49	62	49
	62	49	62	49

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

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

22 Potential claims that have not yet been reported

Unreported incidents up to 31 December may give rise to claims in the future. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on the Council exercising its discretion, will, to the extent to which the Council exercises that discretion to indemnify, become MPS's responsibility under the occurrence basis of cover MPS provides. The funds on the balance sheet at 31 December 2010 are more than sufficient to cover the cost of these potential claims based on an actuarial assessment prepared by an independent firm of consulting actuaries and detailed in a report prepared in accordance with the Guidance Note "General Insurance Business Actuarial Reports (GN12)" published by the Faculty of Actuaries and Institute of Actuaries.

23 Obligations of Members

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

24 Guarantee

MPS is limited by guarantee not exceeding £1 per member

Professional advisers

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Investment Managers

State Street Global Advisers Limited
25 Bank Street
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E14 5NU

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