

PURPOSE PERFORMANCE VISION

2017

ANNUAL REPORT AND ACCOUNTS

FRIDAY



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ABOUT MPS

The Medical Protection Society Limited (MPS) is the world's leading protection organisation for doctors, dentists and healthcare professionals. We protect and support the professional interests of more than 300,000 members around the world. Membership provides access to expert advice and support and can also provide, depending on the type of membership required, the right to request indemnity for any complaints or claims arising from professional practice.

Our in-house experts assist with the wide range of legal and ethical problems that arise from professional practice. This can include clinical negligence claims, complaints, medical and dental council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal accident inquiries.

Our philosophy is to support safe practice in medicine and dentistry by helping to avert problems in the first place. We do this by promoting risk management through our workshops, e-learning, clinical risk assessments, publications, conferences, lectures and presentations.

MPS is not an insurance company. All the benefits of membership of MPS are discretionary as set out in the Memorandum and Articles of Association.

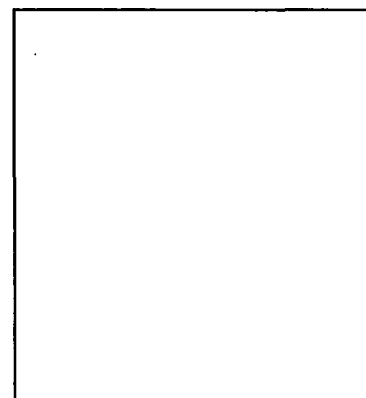
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The Medical Protection Society Limited
medicalprotection.org
dentalprotection.org

CHAIRMAN'S STATEMENT

KAY-TEE KHAW
CHAIRMAN OF THE COUNCIL



Last year the Medical Protection Society (MPS) celebrated its 125th anniversary. Reflecting on this, I am struck by the contrast between the unprecedented pace of change that we have seen globally within healthcare sectors and the consistency of the support that MPS, as a mutual organisation, has provided to members around the world over the years. Our purpose of protecting the careers and reputations of doctors, dentists and other healthcare professionals is more relevant today than it has ever been, and as we plan for the future, this principle defines the work that we do.

The burden of rising patient expectation and the increased accountability of doctors and dentists, who often find themselves working in challenging conditions, has led to worryingly high levels of clinical negligence claims in many specialties and countries in which we have members. Indeed, at the close of 2017, we had almost 8,000 claims, over 3,500 regulatory cases and more than 20,000 complaints cases open worldwide.

In addition to facing allegations of clinical negligence, members can also potentially find themselves facing multiple jeopardy when things go wrong. This can include being held accountable not only before their regulator, but also in a criminal court. The case of Medical Protection member, Dr Bawa-Garba, demonstrated what this can mean for a member in practice. Her case made headlines around the world when the UK's General Medical Council (GMC) appealed the adjudication body's decision to suspend her registration, and sought the agreement of the High

Court to erase her from the UK medical register. Having robustly defended Dr Bawa-Garba for more than seven years, we unequivocally share the feelings of the wider healthcare community regarding the GMC's actions and were disappointed by the High Court's decision to allow the appeal, and have been vocal in stating our concerns.

Such pressure, combined with the complexity presented by evolving technologies, increasing demands from regulators and the growing burden of chronic disease management, mean that as doctors and dentists, you are facing more challenges today than you ever have before. I, along with many of my MPS colleagues, are fellow healthcare professionals and so we understand these challenges. Our years of global experience and expertise mean that we are uniquely positioned to help support you, not only by offering flexible indemnity protection, but also by providing the quality of defence and advice that is needed to address and overcome the professional challenges you face on a daily basis.

We know from the volume of correspondence that we receive from you, that it is this combination of defence, support and advice that you most value as part of your membership. You write of the fear you feel when first confronted with a claim or disciplinary notice, the stress you experience when you consider the legal and professional implications that you face, and the sense of relief you have when you realise that you are not going to be facing it alone. Your letters thank us for our professionalism, empathy and diligence, and detail the appreciation

you feel when the matter is resolved. But to us they are much more than acknowledgements of thanks; they go to the heart of why we do what we do. It is not simply about indemnifying you against risk and defending you against claims and complaints – it is about protecting your career and your reputation.

ADVOCATING FOR CHANGE

From the defence of claims and complaints, to supporting you with disciplinary proceedings, inquiries and inquests, we remain committed to working in your best interests. Crucial to this commitment is the work we undertake to actively promote and defend your interests in regulatory and legislative environments around the world. Campaigning for legal reform to tackle rising clinical negligence costs forms a central plank of this work. When the cost of clinical negligence increases, the cost of indemnity must also increase to reflect this. We recognise the financial pressure that increasing subscriptions place on you, and have been campaigning governments – particularly in South Africa, the Republic of Ireland and the UK – to develop a more sustainable system.

Our UK Striking a Balance campaign, which calls for compensation that is reasonable, but also affordable to society and healthcare professionals, launched in 2017 and took the debate on clinical negligence costs to UK policy makers and media. Our campaign clearly sets out a proposed package of nine legal reforms, including a cap on the fees lawyers can charge, particularly in cases involving low-value claims, and seeking reform of tort law to bring down costs. Similar



From the defence of claims and complaints, to supporting you with disciplinary proceedings, inquests and inquiries, we remain committed to working in your best interests.

campaigns will be rolled out in South Africa and the Republic of Ireland in 2018, building on the legal reform proposals we have already promoted in those countries.

Another area of legislative focus for us in 2017 related to the change that was made to the personal injury discount rate in the UK. This change has significantly impacted the healthcare profession – with the announcement of a state-backed indemnity scheme for GPs in England being a notable example. We campaigned throughout the year to ensure that this impact was fully understood and properly taken into account in subsequent governmental discussions. Being invited to appear before the House of Commons Justice Committee to discuss this, provided us with an excellent opportunity to ensure your concerns were heard, and we remain actively involved in the debate regarding how the rate will be set for the future.

We have also engaged closely with the South African Law Reform Commission on their proposals surrounding reforms to address the problems in the medicolegal claims environment. We have been keen to share our expertise on these issues and champion reforms that will benefit our members and their indemnity subscriptions. We were invited to give evidence before the Scottish Parliament's Health & Sport Committee, where we were able to share your concerns regarding some of the barriers that can exist in creating an open, learning culture in healthcare and, importantly, what measures could be put in place to solve these. We have also been working with the Ministry of Health in Malaysia

on a series of events which focus on the importance of compulsory indemnity.

THINKING GLOBALLY, ACTING LOCALLY

Over forty percent of members are based outside the UK, and their needs continue to be an area of focus for us. We have grown our international team considerably over the last year, and now have dedicated resources for each of the countries we serve. This includes the addition of three regional directors, based in South East Asia, South Africa and Australia and New Zealand, who provide the local presence and expertise that you have asked for.

Our strategy for 2017 also saw us seeking more opportunities to engage with members and stakeholders on an individual country basis. Doing so has ensured that we are best placed to fully understand the unique challenges you face within the healthcare environments in which you work, and to offer you more tailored support. This support has ranged from providing advice in Singapore following the establishing of the 'Modified Montgomery Test', to offering guidance in South Africa for dealing with a complaint from the Health Professions Council of South Africa (HPCSA) – the number of which has increased 100% in the 10-year period up to 2016.

We also hosted 860 workshops around the world, covering topics such as 'Consent', 'Achieving Safer and Reliable Practice' and 'Managing Risk', along with a number of conferences and events. These included our hugely popular Ethics for All conference in South Africa, which brought

together respected local and international speakers to provide guidance on practising safely and ethically, and a well-received medicolegal conference in Hong Kong, which focused on the challenges of modern-day practice and combatting issues before they escalate.

FORWARD THINKING

We have a clear sense of the challenges you face. We are firmly focused on continuing to develop our capacity, capability and understanding of the constantly changing healthcare landscapes in which we operate, enabling us to respond swiftly and best serve your needs.

I am pleased to present this report to you and to thank you for your continued membership and support of MPS.

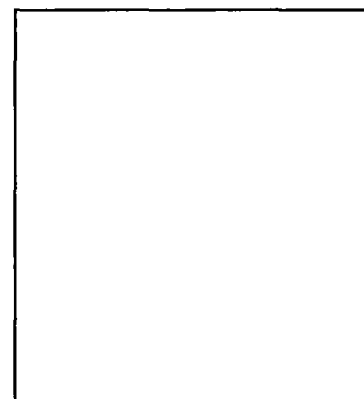
Kay-Tee Khaw
Chairman of the Council

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CHIEF EXECUTIVE'S REPORT

SIMON KAYLL
CHIEF EXECUTIVE



M PS's commitment to members

We understand that members are not simply choosing indemnity when they join MPS; they are trusting us with their career, reputation and financial security, and we take that trust very seriously. Protecting members and being here when they need us is the cornerstone on which MPS was built, and we remain committed to not only supporting members' needs today, but also providing them with security for the future.

In 2017 we celebrated 125 years of service to members and I am determined that we will continue to build on these strong foundations and still be meeting the needs of members 125 years from now. We know there are many challenges ahead, and whilst we do not underestimate the impact of these, we are confident that in addition to our strong foundations, we are also flexible and adaptable enough to face them and thrive.

OUR PURPOSE IS TO PROTECT MEMBERS

Every week we support and assist hundreds of members worldwide, providing everything from advice over the telephone, to representation before regulators, defence of clinical negligence claims and even defence for some criminal accusations arising from clinical practice. The discretionary nature of MPS's membership allows us greater flexibility to respond to the needs of members in ever changing and complex healthcare, regulatory and legal environments.

The nature of MPS's membership is that members pay an annual subscription which gives them the right to seek assistance with the consequences of any adverse event which occurred during the membership year. This protection includes the right to request indemnity for claims of negligence and a range of advice and support with other matters arising from a member's professional practice, such as regulatory inquiries, inquests and disciplinary proceedings.

As there is often a long delay between an adverse incident and the resulting claim or complaint, it may be many years before a member seeks our assistance. The overall period from an incident to payment is an average of seven years, but it can be longer. The majority of MPS's members have occurrence-based protection, which means that they can request our assistance no matter how long after the adverse incident, even if they are no longer a member.

ACKNOWLEDGING FUTURE CHALLENGES

In the absence of specific change, we believe that the litigation and complaints environment for clinicians is likely to get worse. Patients will live longer with greater co-morbidities, presenting more complex healthcare needs and increasing the pressure on already strained resources. The growing complexity and capability of healthcare will further raise patients' expectations that they can be cured or treated, and the inevitable failure to live up to these unrealistic expectations will only fuel further litigation and complaints. New opportunities offered by technology are likely to run ahead of the ability of ethicists, regulators and

legislators to get to grips with them. This means that those who pay for healthcare will increasingly pay for outcomes rather than treatment.

ENSURING MPS IS FIT FOR THE FUTURE

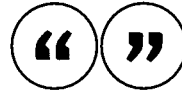
FINANCIAL SECURITY

At the heart of MPS's commitment to members is our financial security. This bedrock provides members with the assurance that they can request assistance in the future should they need it. Financial security is determined by having a surplus of assets compared to the current estimate of future costs of claims. At the end of 2017, MPS has a surplus of £1,961m – a significant improvement on recent years. All funds held by MPS are for the purpose of providing the means to support members should they seek assistance for matters arising from their clinical practice.

MPS remains the only UK medical defence organisation to provide full transparency of its financial position, by publishing an estimated current value of the future costs of claims related to past adverse incidents, which have not yet been reported. For further information, please see note 22 to these accounts.

INNOVATION

Clinical practice is changing rapidly. There is greater specialisation, healthcare delivery is more team-orientated and clinicians have more diverse roles than ever before. There are also signs of a move from individual and independent practice into employed practice. At MPS we recognise that members want an increasingly personalised membership,



We are taking steps to address affordability in three different ways: a more focused and cost effective defence of claims, lobbying for legal reform and increased risk management and educational activity.

one that better reflects the nature of their work and their risk, as well as the ability to interact with MPS in a manner and a time that suits them.

For our UK and Irish members, such features will be offered as part of their membership by the end of this year. We plan to provide the same features for members in other countries the following year. Our new membership administration system will enable us to become increasingly more sophisticated in how we tailor membership to the work members undertake, reflecting the responsibilities they carry and the risks they face more accurately. Members will also be able to manage their membership online, so they can view, update and renew when it's convenient for them.

AFFORDABILITY

The past years have seen an unrelenting rise in the cost of membership in nearly all countries in which MPS has members, especially UK, Ireland and South Africa. The drivers for this vary between countries, but the essence is often either more claims, higher cost of claims, or both.

We are taking steps to address affordability in three different ways: a more focused and cost effective defence of claims, lobbying for legal reform and increased risk management and educational activity.

In 2017 we finalised internal changes to our claims management processes, limiting our reliance on external legal input by creating specialised teams 'in-house', meaning that we manage claims more effectively. This is proving very successful and is a contributor to our improved financial position. We have successfully reduced the time to resolution of claims, and reduced both our defence and claimant costs. At the same time, our members tell us that they remain as satisfied with our service as ever.

On the back of this success, we are rolling out similar changes to the way in which we provide advice and case management services. These changes will be implemented during 2018 and our strong expectation is that, in addition to us seeing a saving in cost, members will benefit from having faster access to the right support at the right time.

We continue to lobby legislators to consider legal changes which will at least slow, or even reverse, the inexorably rising cost of compensation. It is right that fair compensation is paid to those damaged by clinical negligence, but more needs to be done to limit unmeritorious claims, to ensure that claimant legal costs are proportionate to the size of the claim and to determine exactly what is fair compensation. We have lobbied on this in the UK, Ireland and South Africa.

MPS also undertakes a considerable amount of non-clinical member education and risk management. In recognition of the growing importance of team-based delivery of healthcare and of healthcare systems, we have developed an initiative called Speaking Up For Safety, which is aimed at improving the openness of communication – both speaking and listening – to improve patient safety. We have more than a hundred hospitals in Australia, New Zealand, Singapore and the

UK signed up to this initiative, including Great Ormond Street Hospital.

STATE-BACKED INDEMNITY SCHEME FOR ENGLISH GPs

The UK Government announced in October 2017 that it plans to offer a state-backed indemnity scheme for GPs in England. The announcement was in direct response to increasing concern over the rising cost of clinical negligence and the negative impact that the lowered personal injury discount rate will have on the availability of general practice. The UK Government's proposals will, in time, see a similar arrangement to the indemnity scheme that exists for NHS hospital doctors being extended for GPs in England.

As a member-owned organisation we are committed to standing up for all members and representing their interests to health and legal policy makers. As such, we welcome developments which benefit members, but believe that in the absence of significant legal reform, the introduction of the proposed scheme will do little to reduce indemnity costs, and will simply change who is responsible for paying for them. We will continue to actively campaign for a package of legal reform to address the increasing cost of clinical negligence, which risks becoming unsustainable for the NHS and society.

The introduction of the state-backed scheme, planned from April 2019, will lead to a loss of some English GP indemnity income. However, because MPS is a diverse international business, English GP income represents a much smaller portion of our business than is the case for other UK indemnity providers. We also have well-developed plans in place across all markets for the necessary controlling of our cost base and growth of other sources of income following the introduction of the proposed scheme, meaning that we are in a strong position to adapt to the change and flourish.

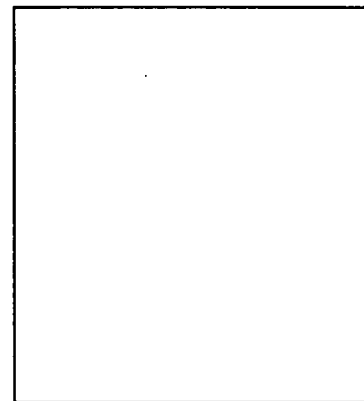
Additionally, the proposed state-backed scheme does not plan to protect English GPs from anything other than clinical negligence claims arising from NHS contracted work, so we will continue to offer membership for these GPs, which will include access to indemnity for non-contracted NHS work and support for complaints, GMC inquiries, inquests and disciplinary proceedings.

We have invested a great deal of time and effort in understanding the changing healthcare environments in all of the countries in which we have members, and the implications of this for members and our business. We are using this knowledge to better understand member needs, so that MPS's protection remains as strong, robust and relevant in the future as it has always been.

Simon Kayll
Chief Executive

FINANCE DIRECTOR'S REPORT

HOWARD KEW
FINANCE DIRECTOR



The financial performance for MPS in 2017 was dominated by the effects of the changing values on our balance sheet, with both claims reserves and our invested assets creating strong contributions to our overall financial position, resulting in an improvement of £341m in our funding overall.

Holding an excess of assets over liabilities is critical, as we need to anticipate the costs of assisting members into the future and also carry an appropriate level of insulation against the challenges that we know lie ahead. The size and diversity of MPS helps us to manage these risks more effectively and it benefits the membership as a whole that we serve a wide range of medical and dental disciplines in many countries.

Over 2017, these factors, in aggregate, proved favourable when compared to the position at the start of the year and hence the improved financial position.

The Council of MPS, largely elected by the membership, determine the overall level of surplus of assets over liabilities that we should aspire to hold for members, and the 2017 result showed good progress towards this.

All funds held by MPS are for the purpose of providing the means to support members should they seek assistance for matters arising from their clinical practice. We have no external shareholders demanding dividends, or borrowings that require servicing.

Furthermore, it is important to understand that the Consolidated Statement of Comprehensive Income only relates to a single calendar year, whilst MPS is managed on a long-term basis to ensure that our finances are sufficient to exercise our discretion in support of members and to meet any future potential obligations. The vast majority of our members are entitled to seek our assistance on the "occurrence-based" principle. This means that the subscription income we collect in any one year is held on behalf of the members, to meet the risks arising from their clinical activities in that year. The overall period from an incident to payment is an average of seven years, but it can be longer. Therefore, these funds need to be invested in anticipation of the costs crystallising in future years.

The largest single factor affecting our reported claims costs (down from £302m in 2016 to £105m in 2017) arose from the consequences of the change in the UK personal injury discount rate, used to calculate personal injury compensation in England, Wales and Scotland. Our estimates of the costs of claims at the end of 2016 reflected our best view of the impact of this change. One year later, our view is that the impact on our reported claims, whilst still significant, may not be as severe as we had initially anticipated. It is this reduction on individual estimates that offsets other claims costs and allows us to report a decreasing figure overall. However, the future path of the personal injury discount rate remains uncertain and we will continue to engage in the debate

regarding the appropriate methodology that should be adopted by the UK Government in setting this critical value.

This positive news combines with the benefits we are seeing from our investment in our claims processing approach, which was redesigned to better service members' needs in light of changing claimant behaviour. Improved efficiency in our processes and a greater proportion of claims being managed "in house" has led to considerable benefits being realised – both for members and the member funds. This has been achieved principally by shortening the time from incidents being reported to either repudiating the claim, or, when necessary, agreeing the final settlement. This helps to prevent excessive costs being incurred on behalf of the member, whilst still enabling us to maintain a very high level of member satisfaction by ensuring that their needs continue to be met – which includes the use of appropriate, high quality external legal resources to support the member when required.

This improved position on the liabilities is joined by a positive investment performance which led to an overall growth in assets less current liabilities from £2,744m to £3,009m. Our overall investment strategy remains one where we seek to protect capital values whilst targeting an appropriate level of return. We do not wish to speculate with our members' funds as they are held solely to enable assistance when requested. However, we do need to look for



We truly believe MPS membership represents genuine value for money in protecting the careers and reputations of members and offers excellent support, advice and protection when members need us.

investments which will increase broadly in line with costs, as claims in general will also inflate over time. In the past, the bulk of our assets were held in inflation-linked government bonds, but as the yields on these bonds have continued to decline, we have gradually diversified into a wider range of investments which carry some, though a still relatively small amount, of credit risk. This strategy transition will be completed in 2018, but it is pleasing to note that our overall investment performance has continued to be very strong as the realignment has been taking place.

In addition to managing our overall investment position, we also need to manage currency risk, as we seek to recognise the advantages of our international diversification without being over exposed to the change in relative values of currencies. We achieve this by holding assets in the principal traded currencies of Sterling, US Dollar and Euro, and using currency derivatives to ensure we are broadly matched to our liabilities. The principal exception to this is the South African Rand, where we hold, on an approximate basis, Rand denominated assets to match the liabilities in that country. This largely insulates the balance sheet as a whole from major currency movements, though our income year on year will still be subject to exchange rate variances.

Having considered the balance sheet position, which is there to assist members for incidents that have happened in the past, we can look at *subscription income*

for 2017, which is collected to meet the additional risk that the members accrue by their year of practice in medicine or dentistry during 2017.

This has shown an increase of 5% over the previous year (£477m versus £454m). This is indicative of some of the increases members have needed to bear as a result of our estimates of increasing levels of risks associated with different specialties in different jurisdictions. The prudent financial management of MPS means that we need to collect a sum that is sufficient to meet the likely future cost of the risk that the membership funds are exposed to.

We know that the cost of indemnity is a concern for many members and acknowledge that on occasion, increasing costs have led members to look elsewhere for their professional indemnity. We truly believe MPS membership represents genuine value for money in protecting the careers and reputations of members and offers excellent support, advice and protection when members need us, but we also recognise that increasing costs mean that indemnity is becoming unsustainable for some members. Our challenge is to ensure that we maximise the benefit afforded by the scale of MPS and concentrate on cost efficiencies where we can.

Howard Kew
Executive Director – Finance

OFFICERS AND MEMBERS OF THE COUNCIL AND COMMITTEES

PRESIDENT

Professor Sir Ravinder Maini BA MB BChir FRCP FRCPE Hon DSc (Glasg) FMedSci FRS⁵

VICE-PRESIDENT

Professor John Bonnar MA MD FRCPI FRCOG

CHAIRMAN

Professor Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci

VICE-CHAIRMAN

Simon Pashby BA(Hons) FCA

CHIEF EXECUTIVE

Simon Kayll BA(Hons) FCA MBA

MEMBERS OF THE COUNCIL

Richard Brennan MB BCh MICGP FRCGP LRCP&SI^{2,3}

Fiona Cornish MA MB BChir DRCOG DCH FRCGP (appointed 13 September 2017)

Mark Davis MB ChB MRCP DRCOG DOccMed FRCPEd^{3,5} (retired 26 July 2017)

Yasmin Drabu MB ChB DCH FRCPath FRCP^{2,5} (retired 26 July 2017)

Ian Eardley BA(Hons) MB BChir MA FRCS MChir FRCS (Urol)^{3,5}

Patrick Forbes MB ChB FRCOG^{1,3,6}

John Gibson BDS MB ChB PhD FRCP(Glas) FDS(OM)RCPS(Glas) FFDRC(SIrel) FDSRCS(Edin) (ex officio)^{3,7} (resigned 15 February 2017)

Simon Kayll BA(Hons) FCA MBA Chief Executive (ex officio)^{1,4,6,7,8}

Howard Kew BSc(Hons) PGCE^{1,4,6,7}

Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci Chairman^{1,3,4,5,6,8}

James McLenachan MB ChB MRCP FRCP^{3,4}

Simon Pashby BA(Hons) FCA Vice-Chairman^{1,2,4,5,6}

Alexander Scott MB ChB^{1,2,4,6}

Sally Scutt BA(Hons) MBA MA^{7,3,5}

Graham Stokes BDS MFGDP(UK) DPDS Dip Imp Dent RCS CertMedEd (appointed 13 September 2017)

Martin Thomas MA (Oxon)^{1,4,5,6}

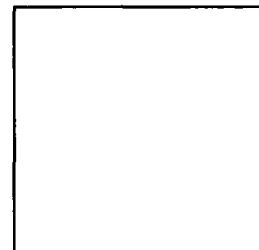
Michael Urmston BA FIA^{1,2,4,6}

Tom Weitzman QC BA(Hons)^{3,4,5}

Callum Youngson BDS DDSc FDS DRD MRD FDS(Rest Dent) RCS(Ed) FDSRCS(Eng) PFHEA⁸ (appointed 26 April 2017)

1. Members of the Asset, Liability and Investment Committee
2. Members of the Audit and Risk Committee
3. Members of the Medical Committee
4. Members of the Management Oversight Committee
5. Members of the Remuneration and Nominations Committee
6. Members of the Board of MPI (London) Limited
7. Members of the Board of MPS Risk Solutions Limited
8. Members of the Board of Dental Protection Limited

STRATEGIC REPORT



PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Council presents its Strategic Report for the group for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

MPS is the leading medical defence organisation of its kind around the world. It is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners and other healthcare professionals. It is a not-for-profit 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 objectives 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 parent company, the group has a number of subsidiary companies that complement and support the activities of the group.

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

Dental Protection Limited, which is registered in England, is a non-trading company. However, it has an active Board, which provides insight on dental issues which impact MPS.

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

DPL Australia Pty Limited is also registered in Australia, where it manages the administrative affairs of our dental members in Australia.

MPS Risk Solutions Limited (MPSRs) is registered in England and is a general insurance company, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In June 2012, MPS made a strategic decision that MPSRs would withdraw from the insurance market, to enable MPS to focus on its core business of providing discretionary indemnity. MPSRs provided professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Claims brought whilst policies were in force will continue to be managed to the highest standard using existing claims expertise. On 10 December 2015, the MPSRs Board resolved to undertake a transfer of the business and has been working towards this during the year. It is anticipated that the transfer of business should be completed during 2018.

MPS South Africa Services (Pty) Limited, which is registered in South Africa, provides services to MPS in relation to its membership in South Africa.

MPS (Singapore Services) Pte Limited, which is registered in Singapore, provides services to MPS in relation to its membership in Singapore.

MPS (Hong Kong Services) Limited, which is registered in Hong Kong,

provides services to MPS in relation to its membership in Hong Kong.

MPS has a further subsidiary, The MPS Periodical Payment Trustee Limited, a Corporate Trustee, which has been appointed as Trustee to the MPS Periodical Payment Trust and is responsible for the safekeeping of assets, and payments due, in respect of past Periodical Payment Orders made in settlement of claims against members. Further details regarding investments in subsidiary undertakings can be found in note 14 to the financial statements.

BUSINESS PURPOSE

MPS exists to serve its members with the aim of ensuring that it remains a strong viable entity to meet its current and future commitments to members, and that it continues to provide much-needed services to members for years to come.

MPS will meet the costs of assisting members subject to payment of the appropriate subscription, compliance with the rules of the Memorandum and Articles of Association, the scope of the benefits of membership and discretion. If a member requests assistance then MPS will pay all reasonable costs related to an incident for which it exercises its discretion to assist. These costs may include representation before a regulatory body, assistance with disciplinary proceedings and indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident occurs before a matter is raised, and the costs are incurred.

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 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.

FINANCIAL TARGETS

Despite the risk mitigation identified on pages 17 to 20, it is impossible for MPS to eliminate risks associated with its business activities. 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 long-term financial targets to ensure that its assets exceed the estimated value of both its reported claims and potential requests for assistance in relation to incidents not yet reported. This is to protect against the risk that claims may, for many reasons, when eventually settled, cost more than anticipated. The financial targets have been set such that even if these claim values were, within certain parameters, to be higher than expected, or, again within certain parameters, the value of invested assets was to be lower than expected, then MPS would still have sufficient funds to meet all of its reported claims and unreported potential requests for assistance.

PERFORMANCE FOR THE YEAR

The Council is committed to ensuring appropriate governance and oversight of the business for the benefit of its members. To achieve this, MPS operates and continues to develop a robust system of performance measurement. This provides the Executive Committee and the Council with information on our Key Performance Indicators (KPIs), allowing them to assess organisational effectiveness and efficiency, cost control and an appropriate level of investment in the development of MPS services.

Aside from financial measures of performance, central to our KPIs are the measures MPS operates in relation to member interactions and, importantly, the member feedback that we receive in relation to the services we offer. The 2017 outcome of some of our key surveys and activity measures, along with other significant achievements, are highlighted below.

MEMBER SURVEYS

We survey the members who contact us to understand their evaluation of the services provided, and we use this feedback to consider how we can continue to improve those services. Feedback is given on a scale of 1-7, where 1 represents "Very Poor" and 7 represents "Excellent". The average of the monthly

feedback scores achieved from surveys of those members who contacted Member Operations or our medicolegal and dentolegal advice lines, as well as of those attending Educational Services workshops during 2017, is as follows:

Member Operations	6.4
Medicolegal/Dentolegal advice	6.4
Educational Services	6.5

KEY ACTIVITIES

MEDICOLEGAL AND DENTOLEGAL ADVICE

In relation to nearly 33,000 calls received during working hours into our medicolegal and dentolegal advice lines during the year, over 88% of calls were answered within our SLA.

MEMBER OPERATIONS

In relation to the 189,000 calls received into Member Operations during the year, over 99% of the calls were answered without the need for a call-back against an internal target of 97%; and 90% of the calls were answered within 20 seconds against an internal target of 80%.

In relation to the 66,000 items of correspondence received into Member Operations during the year, 100% of complex items were dealt with within five business days against our internal target of 90%; and for more routine correspondence 100% of items were dealt with within two business days against a target of 85%. Both these results show a very strong performance by our Member Operations team.

In 2015 and 2016 the Member Operations team entered assessment for the ICMI Top 50 UK Companies for Customer Service Recognition. This was for telephony-delivered services and we achieved a Top 50 placing both years. During 2017, the Member Operations team entered two categories: telephony and, for the first time, e-mail. The department achieved a Top 20 placing in both disciplines. This was the third year in succession that the team has achieved recognition for the service we offer our members, and reflects our dedication to maintaining and improving on the high service standards we set ourselves.

EDUCATIONAL SERVICES

Worldwide, MPS offered just under 900 educational workshops during the year, for members and non-members, which was 96% of targeted activity. As part of our surveys, we also ask attendees

whether they will change their working practices as a result of taking part in the workshop. For this year, the average response for this question was 6.4 out of 7, exceeding our target.

KEY MARKETS

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

MPS's key markets are:

- United Kingdom • Hong Kong
- Caribbean and Bermuda • Ireland
- Singapore • Australia* • South Africa
- Malaysia • New Zealand

* Non-indemnity dental membership

MPS has a strong presence in all of the above key markets, and in 2018 will continue to invest in these key markets to develop our membership offering and the quality of service we provide to members.

FUTURE DEVELOPMENTS

The Chief Executive and Finance Director reports refer to developments during the year and touch on future developments in specific areas.

MPS will continue to focus on members' needs by delivering a high-quality, cost-effective service, along with the development and provision of education and risk management courses to members, and the continued strengthening of our relationship with regulators, legislators and professional representative bodies. As noted in previous reports, to ensure these aims are met now, and in the future, we have undertaken a strategic change programme over recent years and, through this, continue to seek the best solutions to service our members.

MPS has mobilised a number of initiatives that will improve member experience around the globe, from a review of our service capabilities through to creating enhanced digital capability that will allow both our members and key suppliers to engage with us in their preferred medium. Going forward, members will experience improved service speed and quality whilst having more control over how, when and where they engage with the business, whilst enabling MPS to tailor our professional services and risk products to the needs of both our individual and

corporate members.

One of our ongoing key projects will deliver a new member administration system that will continue to ensure our processes are as effective as possible. This system has now been implemented and a second phase will deliver additional functionality, allowing us to continue to support members with an exceptional experience for many years to come.

Alongside this, we have commenced a further project to enhance the way we handle the data we hold in preparation for the new EU-mandated General Data Protection Regulation. Protecting the personal data and sensitive personal data of our members and employees is of the utmost importance to MPS.

Following a successful redesign and improvement of our claims process, we piloted a new approach to the processes for handling other types of cases such as assistance to members dealing with their regulator. This pilot was well received by members who valued the increased efficiency and having a multi-disciplinary team at their disposal, and we have initiated a full implementation of the new approach.

Recognising the UK Government's decision to introduce state-backed indemnity for GPs working in England, we have initiated a series of projects that will enable us to meet the changing needs of this group of members in the future.

We anticipate that our members will be able to see and experience the considerable benefits that these developments will deliver far into the future, both directly and via our increased service capabilities.

EMPLOYEES

MPS employees are dedicated to providing high-quality service to members, and we focus strongly on recruiting and retaining the best.

MPS values an empowered culture where everyone's contributions are supported. Building leadership capability is a strategic priority, together with identifying and nurturing key talent. We invest in continuous training to maintain technical and professional excellence across the organisation and embedding a performance management framework is core to our pay policy.

We strongly believe in the value of diversity and inclusion in the workforce and foster a diverse culture that is

inclusive of gender, disability, religious belief, sexual orientation and ethnicity. We firmly believe that people's individual backgrounds, personal perspectives, experiences and interests fuel innovation and consequently add value to the service that we provide to the membership. We seek to strengthen this commitment by ensuring all recruitment advertising and selection methods are objective and free from bias, adopting flexible working practices, training and promotion opportunities are available to all and that leaders are trained to respect and understand the importance of diversity and equal opportunities.

We have a newly formed Employee Consultative Group, which gives employees an opportunity to raise issues that are important to them directly with their Executive Directors and ultimately with the Chief Executive.

The Employee Survey results continue to perform strongly against other benchmark organisations. This is particularly pleasing against the challenging backdrop of the government's announcement of its intention to implement a state-backed indemnity scheme for English GPs, and the uncertainty this may have on employees of affected medical defence organisations. All categories outperformed the benchmark with the Enablement section scoring 10% above benchmark and Reward, Leadership and Engagement index all scoring at least 5% above the comparators. Positive feedback was also received on the annual Investors in People review who commented on the progress made in the areas of HR Strategy, Induction arrangements, developments in HR metrics, the Leadership framework, Talent Management process, new Recognition Scheme, coaching strategy and developments to e-learning provision.

The policy for the employment of the disabled is that full and fair consideration is given to their aptitudes and abilities. Adjustments are made for employees who become disabled whilst employed by MPS, in order for them to continue in their current role. Where this is not possible, MPS will try to find alternative solutions and employees are also assisted in applying for other suitable alternative roles within MPS.

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 key risks and relevant mitigating factors are detailed below and the process of the management of risk is detailed in the section on Internal Control in the Report of the Council.

RESERVING RISK

MPS provides indemnity to members for the costs and damages associated with claims of negligence and the costs associated with other claims. At any time there are, as a result of past adverse incidents, claims that have already been reported and claims that have not yet been reported (unreported potential claims). Subject to discretion, MPS will be responsible for all of these claims.

For us to be responsible for paying these claims, we need to be able to assess their value and ensure that MPS has sufficient assets ('reserves') to meet the expected total costs. The value of these claims is estimated by MPS and the reserving risk is that the eventual payments required to meet the claims may exceed the sums estimated.

The uncertainty around estimating the value of all claims is greater for unreported potential claims than for those that have been reported. For unreported potential claims, the uncertainties include the number and severity of claims arising, how long it is likely to take from the date of an adverse incident to the reporting of a claim, and how many of these may become large claims. The uncertainties for the reported claims are a little narrower, but still considerable.

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 in the past, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodical payment orders and the reduction in the UK personal injury discount rate. This is the interest 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 personal injury discount rate in England and Wales is set by the Lord Chancellor, who revised the rate early in 2017. This revision from 2.5% to - 0.75% came into force in March 2017. MPS gave oral evidence to the Justice Committee of the House of Commons on 1 November 2017 to set out our support for the Government's proposals

to reform how the discount rate is set for England and Wales. The Government have subsequently introduced legislation within the Civil Liability Bill to Parliament that would introduce these reforms. If enacted, it would result in a further change in the PIDR and then also a review of the rate every three years based on what we believe are more accurate assumptions about how claimants invest lump sum payments.

Mitigation

The likelihood that our estimates for reported claims and unreported potential claims vary from the eventual payments required diminishes with the increasing size of the portfolio of risk. The geographical diversity of the portfolio also helps to reduce the overall variation between our estimates and the eventual payments required. A larger, more diversified portfolio of risk is less likely to be affected overall by a change that affects a subset of that portfolio.

MPS maintains a large geographically diverse portfolio of risk and this is a key step in helping to reduce the variation of outcome around the expected mean.

A further step relates to ensuring the accuracy 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. At MPS, we use the skill of our internal staff to determine accurate estimates for individual claims and ensure that levels of skill are maintained by supporting ongoing training initiatives. We also have many checks and balances in our internal systems to allow regular review and monitoring of these estimates to help ensure a high degree of accuracy and consistency. MPS's internal Actuarial team use the internal individual claim estimates and relevant membership data to advise on an appropriate statistical reserve for the likely cost of all reported claims, and estimates of the potential future costs of unreported requests for assistance (See note 22 to the financial statements).

UNDERWRITING RISK

MPS charges a subscription based, in part, on the expected volume and value of claims that may arise against those members paying the subscription. There is a risk that the volume or value of claims brought against those members will turn out to exceed the expectations contained within the subscriptions, with the result that MPS will not have collected sufficient subscription income.

Mitigation

Again, the skill of staff and advisers is important, as is the quality of internal systems. In addition, MPS carefully reviews all applications for membership 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. In a limited number of cases, members are not accepted into, or do not continue in membership, as we consider their risks to be too high. We continue to invest in improving and developing the systems, resources and processes involved in the management of member risk, and we purchase insurance to reduce the impact of the highest value claims made against its members.

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 we can achieve from these investments, the less we would theoretically need to charge in subscriptions. However, the greater the investment return that we try to achieve from these invested assets, the greater the fluctuations in the value of those assets, and thus, the greater 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 historically adopted a prudent investment strategy that carefully identifies and sets limits on the levels of risk acceptable in its portfolio of assets, thereby reducing the likely volatility of returns. These limits necessarily restrain the potential returns achievable from the portfolio, but help safeguard against significant deterioration in the strength of the balance sheet. 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, a significant portion of assets is held in bonds and short-term money market

funds, which generally have a lower level of volatility. Secondly, those assets held primarily to achieve an investment return are invested in a diverse portfolio. The equity element of these assets is held in a number of different portfolios, each investing in different geographic areas; and the equities are augmented by other return-seeking assets which help to reduce volatility further, because returns from these assets are less than perfectly correlated with the returns from equities.

CURRENCY RISK

MPS holds assets to meet the costs of reported claims and potential future requests for assistance. Given that MPS supports members in several different countries, these costs may fall due in a number of different currencies. If the assets are not held in the same currency as the costs, then there is a risk that movement in exchange rates will alter the relative value of the assets to the costs.

Mitigation

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

LIQUIDITY RISK

This is the risk that MPS may have insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to meet a required payment or the need to realise an illiquid investment before maturity, which could be costly.

Mitigation

In managing liquidity risk, MPS needs to balance the ability to gain an investment return on its assets and the ability to have sufficient funds to pay liabilities as they fall due. MPS operates a sophisticated system through major clearing banks to ensure that an appropriate level of funds is available on a daily basis when required, but that these are invested in pooled money market and liquidity funds at other times. In addition, these cash funds are supplemented by substantial holdings in liquid assets.

CREDIT RISK

This is the risk that a third party, who owes money to MPS, will fail to pay. MPS has little risk from a failure by members to pay subscriptions, because if payments are not made, the non-paying members will not be entitled to the benefits of membership (such as advice or assistance with claims). MPS's main credit risk arises

from a failure of its insurers, a failure of a bank with which it holds deposits, or a failure of some of the counterparties involved in certain investments, including defaults within the direct lending portfolio and derivative financial instruments that form part of the investment portfolio.

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

Mitigation

MPS has a stated policy on the acceptable risk profile for its insurers. This policy states the requirement to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. Bank credit ratings are reviewed before deposits are made with specific institutions, and deposits are spread across a number of counterparties to mitigate against bank failure. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties. However, MPS does receive collateral on revalued derivative positions when appropriate. For the direct lending fund the main mitigant against default risk is that the fund aims to be, and is, heavily weighted to senior secured debt, and as such direct lending benefits from better recovery rates than bond investors.

Following a review of investment strategy and independent advice, MPS considered that it could increase its investment in credit funds to achieve a modest increase to contractual returns, and reduce market risk, and has built up a portfolio of credit funds with experienced credit fund managers. Credit risk is managed by careful portfolio selection and diversification across managers.

INTEREST RATE/INFLATION RISK

MPS currently holds a significant, though reducing, portion of its invested assets in bonds. An increase in interest rates will cause a fall in the price (value) of bonds, as bond prices move inversely to changes in interest rates.

The impact on MPS's liabilities is more complicated. The main influences on the cost of large claims (in the UK) are those elements that reflect compensation for future costs or losses: these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to the personal injury discount rate. The discount rate

might be expected to change with changing interest rate expectations, but, as noted above in the Reserving Risk section, in the UK it is in fact fixed, by the Lord Chancellor.

Specific comment on the interest risk in relation to derivative financial instruments is provided on below.

Mitigation

Interest rate exposure for bond assets has historically been mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements; and secondly by holding a predominance of index-linked bonds, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount. Further mitigation is provided by the ability to reduce the tax charge as a result of indexation. MPS has also previously used interest rate swaps as a means of protecting bond assets against rising interest rates. MPS's response to the risk inherent in its liabilities 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. As the proportion of bonds in the portfolio is reduced under the revised strategy, so too are exposures to interest rate and inflation movements, which could increase the risk that the asset portfolio does not adequately match the associated risks arising from its liabilities. A derivative swap programme has been introduced to ensure that the overall portfolio maintains an appropriate level of interest rate and inflation expectation exposure matching for the associated liability risks.

DERIVATIVE FINANCIAL INSTRUMENTS

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

During 2017, the credit default swap programme, which MPS established as part of the ongoing strategic transitioning of the overall investment portfolio in 2016, was closed out as the strategic allocation to credit assets was built up.

Also during 2017, MPS established a new swap programme to further manage the matching of interest rate and inflation expectation risks of MPS's liabilities by the portfolio.

Additionally, the company's investment managers held derivative financial

instruments to enhance investment returns. The net recognised gains and losses arising from holding these contracts are included in note 6 to the financial statements, under other investment income.

All gains and losses from derivative financial instruments are reported in the statement of comprehensive income.

RISK CHARACTERISTICS OF DERIVATIVE FINANCIAL INSTRUMENTS

INTEREST RATE RISK

Some of MPS's derivatives, used by its investment managers within the funds, are sensitive to interest rate movements; so it is necessary to determine the interest rate risk to which such contracts will be exposed. This is done by comparing the risk of the underlying asset against the risk of the derivative, using a formula to determine the number of contracts that need to be held. This risk is then considered together with the risk of interest rate-sensitive investments where derivatives are held for full or partial hedging of the risk.

CREDIT RISK

Credit risk encompasses all forms of counterparty risk. The company manages this risk through its investment policy, which sets out the type and quality of investments that can be held, diversity of investment managers where funds are invested, and the maximum exposure to any particular investment or investment manager. Derivatives held to enhance returns are short-term in nature with low credit risk. For longer-term derivative contracts, credit risk is managed by utilising collateral accounts between the respective counterparties, which are selected in agreement with the investment managers.

Whilst holding credit default swaps MPS was exposed to the credit risk of a collection of companies in return for a fixed premium. The risk of a default and resulting permanent loss of capital was mitigated by the spread of credit protection to a number of companies split across multiple counterparties. In addition, the identified risk of default was incorporated into the pricing structure to compensate for any loss.

OPERATIONAL RISK

We actively seek to identify and manage our operational risks which could arise from inadequate or failed internal processes, people or systems or from external events. We utilise technology to achieve our business objectives and therefore remain focussed on maintaining a robust and secure IT environment to avoid loss of member, employee or confidential data, and interruption of service to our Members. We procure the services of suppliers to execute our business and are continuing to introduce additional controls and monitoring of suppliers, as well as identify internal capabilities to drive commercial value.

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 and processes, to ensure that they are sufficiently robust, to ensure accuracy of the data on which business decisions are based, and to mitigate the risks of error, fraud and theft.

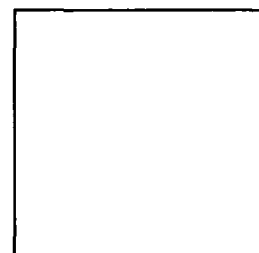
APPROVAL

This report was approved by the Council on 25 April 2018 and signed on its behalf by:

David Wheeler
Company Secretary



REPORT OF THE COUNCIL



The Council, which for the purposes of the Companies Act 2006 is the Board of Directors, presents its annual report for the year ended 31 December 2017.

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, subject to reporting, oversight and review by the Council, this is delegated to the executive management and employees.

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.

MEMBERS OF THE COUNCIL

The names of the members of the Council of MPS who served during the year are set out on page 14.

GOVERNANCE OF MPS

The Listing Rules of the Financial Conduct Authority require listed companies to apply the Main Principles of the UK Corporate Governance Code (the Code) prepared by the Financial Reporting Council and report to their shareholders on how they have done so. As MPS is not a listed company, does not have any shareholders and is not required to comply with the Code, it has not opted to voluntarily apply the Code in full. However, MPS believes that it should apply a level of governance appropriate to the size and nature of the company in running its business; the following sections set out the governance structure that it has in place and the steps MPS takes to meet its aims in this area.

THE COUNCIL

The Council currently consists of a non-executive Chairman, a non-executive Vice-Chairman, the MPS Chief Executive, the MPS Executive Director – Finance and 11 other non-executive members. MPS's constitution requires that the majority of Council members are Medical or Dental Members of MPS and that the Chairman is either a Medical or Dental Member.

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

MPS continues to review the transparency of the independence of its non-executive directors and to provide appropriate guidelines for all directors on their ethical conduct as a director of

MPS. To this end, MPS has, for MPS and its subsidiary Boards, a register of interests and also publishes internally a Code of Ethical Conduct for all staff, which applies equally to members of the Council.

MPS has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the business. The Council considers that the non-executive members of the Council as a group are of sufficient calibre and number to bring strength and independence to the Council; this is further supported by the Vice-Chairman role.

All Council members, except for the Chief Executive and the Chairman of Dental Protection Limited, are subject to election by members at the first opportunity after their appointment by the Council, and to re-election (again excepting the Chief Executive and the Chairman of Dental Protection Limited) at general meetings at least every three years. The Chief Executive is appointed by the Council and can be removed by the Council. The Council believes that not subjecting the Chief Executive to re-election does not compromise the independence or integrity of the Council. The Chairman of Dental Protection Limited is a member of the Council ex officio. They are appointed to both the Dental Protection Limited Board, together with their fellow directors, and the post of Chairman, by the Council of MPS. Non-executive members of the Council usually serve for a maximum of eight full years.

The Council met formally five times during 2017. In addition to its regular meetings, the Council also devoted one meeting to conduct a detailed review of the organisation's business objectives and strategy. The attendance record of members of the Council at the eight meetings is shown in the table below (eligible meetings for attendance shown in brackets):

MEMBER OF THE COUNCIL	APPOINTED OR RETIRED	NUMBER OF MEETINGS ATTENDED	
		2017	2016
Richard Brennan		5 (5)	8 (8)
Fiona Cornish	Appointed 13 September 2017	2 (2)	(-)
Mark Davis	Retired 26 July 2017	3 (3)	7 (8)
Yasmin Drabu	Retired 26 July 2017	3 (3)	6 (8)
Ian Eardley		5 (5)	7 (8)
Patrick Forbes		5 (5)	6 (8)
John Gibson	Resigned 15 February 2017	1 (1)	7 (8)
Simon Kayll		5 (5)	8 (8)
Howard Kew		5 (5)	8 (8)
Kay-Tee Khaw		5 (5)	7 (8)
James McLenachan		5 (5)	8 (8)
Simon Pashby		5 (5)	8 (8)
Alexander Scott	Appointed 1 August 2016	5 (5)	3 (5)
Sally Scutt		4 (5)	7 (8)
Graham Stokes	Appointed 13 September 2017	2 (2)	(-)
Martin Thomas	Appointed 1 September 2016	5 (5)	2 (3)
Michael Urmston	Appointed 1 August 2016	5 (5)	2 (3)
Tom Weitzman	Appointed 1 August 2016	4 (5)	3 (3)
Callum Youngson	Appointed 26 April 2017	3 (4)	(-)

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

Non-executive members of the Council met on occasions during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman and executive if they wish; this was not thought necessary during 2017 (2016: none).

SUB-COMMITTEES OF THE COUNCIL

The Council has a Management Oversight, Remuneration and Nominations, Asset and Liability, and Medical Committee, the members of which are listed on page 14. The Committees met in accordance with the following schedule:

COMMITTEE	SCHEDULED MEETINGS*
Council	February, April, July, September and October
Asset and Liability	January, April, July, September and November
Audit and Risk	March, July, September and November
Medical	March, June, October
Management Oversight	February, April, July, October and December
Remuneration and Nominations	February, July, October and December

* Additional meetings can be held if required.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is chaired by the Vice-Chairman of Council, Simon Pashby (formerly a senior audit partner with KPMG), and met four times in the year. MPS's external auditors, Chairman, Chief Executive, Executive Director – Finance, Director of Finance, Director of Risk and Compliance and internal auditors also attend the meetings. The Committee meets with internal audit and the external auditor at least annually without management present. Other senior managers may attend for specific agenda items at the request of the Committee. The Audit and Risk Committee reviews the adequacy and effectiveness of risk management and control systems, and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. In addition, the Committee also receives referrals for ethical guidance, provides oversight of MPS's anti-bribery and corruption policies has responsibility for the 'anti-bribery' risk assessment including the risk of management override, and has oversight of the whistleblowing policy. It also reviews, prior to publication, the annual financial statements and the other information included in the Annual Report. The Audit and Risk Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit and Risk Committee is shown in the table below (eligible meetings for attendance shown in brackets). The Committee met in March, July, September and November in 2017.

MEMBER OF THE AUDIT AND RISK COMMITTEE	APPOINTED / RETIRED	NUMBER OF MEETINGS ATTENDED	
		2017	2016
Keith Bradley	Retired June 2016	-	1 (1)
Richard Brennan		4 (4)	4 (4)
Ian Croxford	Retired June 2016	-	1 (1)
Yasmin Drabu	Retired July 2017	1 (1)	3 (4)
Simon Pashby (Chairman)		4 (4)	4 (4)
Alexander Scott	Appointed September 2016	4 (4)	2 (2)
Sally Scutt		4 (4)	3 (4)
Michael Urmston	Appointed September 2016	4 (4)	- (2)

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

MEDICAL COMMITTEE

The Medical Committee is chaired by a non-executive member of the Council, James MacLenachan. The Medical Committee advises Council on developments within medicine, sharing experience which may impact on MPS and the membership of its Medical members. This Committee also advises Council on engagement with Medical members, and their issues and needs.

MANAGEMENT OVERSIGHT COMMITTEE

The Management Oversight Committee is chaired by a non-executive member of the Council, Alexander Scott. The Committee is responsible for overseeing all aspects of MPS's day-to-day business operations, where such operations are not otherwise covered by other Council committees or subsidiary boards.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee is chaired by a non-executive member of the Council, Sally Scutt, and is responsible for making recommendations to the Council concerning matters relating to remuneration policy. See 'Remuneration report' below. The Committee also keeps under review the composition of Council and makes recommendations concerning all new appointments of non-executive members.

ASSET AND LIABILITY COMMITTEE

The Asset and Liability Committee is chaired by a non-executive member of the Council, Michael Urmston, and provides governance oversight of the strategic management and oversight of the assets and liabilities of MPS. Several members of the Council are members of the Board of MPI (London) Limited, and the Asset and Liability Committee, via common membership, jointly manages MPS's investment portfolio with the Board of MPI (London) Limited. The Board of MPI (London) Limited is chaired by the Chairman of the Council Kay-Tee Khaw.

The Boards and Committees on which members of the Council sit are set out on page 14.

BOARD EVALUATION

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

INTERNAL CONTROL

The Council has overall responsibility for MPS's system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement the Council's policies on risk and control. During the year, MPS has appointed a Director of Risk and

Compliance, responsible for fostering a member-focused and appropriate risk culture across the business which supports the delivery of financial security of our membership fund. The system of internal controls 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. 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 significance, based on the likelihood of each risk occurring and the potential impact on MPS if it were to do so. Management then determines what action can be taken cost-effectively.

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

- discusses with Internal Audit a plan of work each year, agrees the resource commitment and reviews findings of their work
- 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 auditor's 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.

MPS engages the services of KPMG to provide an Internal Audit function, 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 co-ordinated by the Audit and Risk Committee. The Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the Internal Auditors about their work at each Committee meeting; the Committee also monitors and, where appropriate, challenges the business's timely progress in the clearance of agreed audit recommendations.

The Council recognises the need to regularly review and monitor the appropriateness of its approach to overseeing the systems of risk management and control operated at MPS. With this in mind, the Council has continued to adapt its approach during the year to take into account the economic climate of recent years, the revisions and ongoing consultations relating to corporate governance standards and guidance, and the recommendations of the Sharman Inquiry ('Going Concern and Liquidity Risks'). The Audit and Risk Committee itself maintains focus on the many facets of risk management and control at one of its annual meetings during the year, the key remit of which is to review and assess management's approach to strategic risks.

REMUNERATION REPORT

The Remuneration and Nominations Committee met five times in 2017. Its constitution comprises Sally Scutt (Chairman), Kay-Tee Khaw, Simon Pashby, Ian Eardley, Tom Weitzman and Martin Thomas. Mark Davis left the Committee in July 2017 on retiring from Council. In addition, the MPS President Ravinder Maini, the Chief Executive and Executive

Director of Human Resources are also in attendance at the meetings. The Chief Executive takes no part in discussions concerning his own remuneration.

The Committee is responsible for:

- recommending to Council the overarching principles and parameters of remuneration policy for MPS and working with management to oversee the operation of a reward approach in line with these principles
- establishing the salary and performance reward for the Executive Members of Council, and for receiving and reviewing the salary and performance reward for other senior employees
- overseeing the effectiveness, capability and development of Council and its members and for approving the remuneration of Council, its Committees and subsidiary
- succession planning for Council and its Sub-Committees and ensuring the balance, structure and composition of Council and its Committees, and for recommending new Council appointments, appointments to subsidiary boards and Committees.

GUIDING REMUNERATION PRINCIPLES

MPS seeks to apply a remuneration policy appropriate for a mutual society ensuring it is:

- aligned to the business strategy and goals
- applied consistently
- differentiated for performance
- flexible in its delivery
- competitive.

BASE PAY POLICY

MPS is committed to pay equity and the principle that equal work deserves equal pay. At each pay review MPS considers the base salary and variable pay for all employees and moves to close the gap for similar roles and performance. MPS will continue its work to make sure pay equity is maintained.

In November 2017, MPS published information on our gender pay gap and gender bonus gap. As required, the pay and bonus information was based on data taken from a snapshot date of 5 April 2017 and the bonus information was based on the preceding 12-month period leading up to 5 April 2017. A full report can

be found using the following link: <https://www.medicalprotection.org/uk/about-mps/our-approach-to-business>.

It is important to stress that a gender pay gap is not the same as pay inequality and we are confident that our men and women are paid equally for doing equivalent jobs at MPS. All roles at MPS are evaluated and benchmarked against an external benchmark database. 98.5% of our employees are paid within the established pay ranges set for each role – with no individual paid below the market rate. We pay new starters from a competitive position; those developing their skills, knowledge and experience are paid towards the lower end of the salary range and will progress through the salary range on demonstrating the required level of competence. Our gender pay gap reflects the fewer number of females in senior roles in MPS. Over the coming years we will continue to work to build a strong pipeline of talented female leaders as we believe that this is the most effective way to address any gaps.

In 2016, a triennial full benchmarking exercise was undertaken for all roles including the Executive and Non-Executive Council Members. This benchmarking exercise was completed with advice from independent reward consultants, Innecto, who reviewed MPS roles against comparable roles in data sources of NHS Pay Scales, Pay Data Associations and Institutes Salary Survey, and Willis Towers Watson All Companies Salary Surveys. The outcome of the benchmarking exercise was reported in the 2016 Statutory Annual Report. Pay awards in March 2017, relating to performance in 2016, continued in line with current Pay Policy.

VARIABLE PAY POLICY

Our Variable Pay Policy and Framework was introduced in 2015; it rewards both positive behaviour and achievement of agreed objectives and targets. The bonus pay levels vary reflecting the requirement of employees' grades to influence outcomes. Increased responsibility brings higher expectations, and higher reward potential for achieving challenging targets. Accordingly, the more senior roles have more variable pay at risk if targets are not met. The Executive leadership roles have half of their variable pay reward deferred for between three and six years, subject to MPS achieving certain financial thresholds, to ensure that the main focus is on protecting the long-term financial strength of the organisation. If the overriding financial targets are not met, the deferred element is lost and will not be paid out.

	OPERATION	MAXIMUM OPPORTUNITY
Base salary	Reviewed annually, taking into account market data, individual responsibilities and skills, performance and experience. A more detailed external benchmark analysis is undertaken every three years, against a comparator group of mutual organisations of similar size and complexity, the last such exercise being in 2016.	No maximum opportunity.
Core benefits	Includes car allowance, healthcare, insurance benefits and buying/selling up to five days annual leave per annum.	No maximum opportunity.
Pension	The final salary scheme closed to new members in November 2013, and a new defined contribution scheme was introduced for all employees. Executive directors may take a pay allowance with regard to pension contribution foregone.	For final salary calculations, pensionable pay is capped at £150,600 per annum. This cap is linked to RPI and set annually.
Variable pay	Rewards annual performance against core behaviours, challenging financial and strategic measures and key individual objectives. A balanced scorecard approach is used to blend the measures for each executive, which includes shared team objective measures. Weightings are: 50% team objectives, 25% core behaviours and 25% individual objectives. Team measures include member advocacy, leadership effectiveness and team effectiveness. Individual objectives vary according to line responsibilities. 50% of variable pay is deferred, and is subject to clawback.	For executives, the maximum additional reward for exceptional performance is an additional 50% of base salary. For "on target" performance the expected reward is 25% of base salary. Half of the above amount is deferred for 3-6 years subject to satisfactory financial gates being cleared by MPS at the time of payment. The deferred portion is at risk and is not paid if key financial measures are not met regarding the strength of financial reserves of the organisation.

Full details of amounts paid are disclosed in note 8 to the Financial Statements.

NON-EXECUTIVE MEMBERS OF COUNCIL

The Non-Executive Council Members' remuneration has also been reviewed as part of the 2016 triennial benchmarking exercise. The Remuneration and Nominations Committee consider proposed changes in accordance with the MPS pay policy; the 2017 fee level was increased to bring the fee level towards the lower quartile paid then by similar organisations with effect from 1 March 2017.

Non-Executive Council Members do not receive any incentive or performance-related remuneration.

Non-Executive Council Members are reimbursed travel and accommodation expenses for attending Council and Committee meetings. All reimbursement in relation to meetings held in London is treated as part of taxable gross pay through payroll, as London is deemed to be their normal place of work. Expenses are paid in line with the MPS expenses policy applicable to all employees and directors.

Further information can be found in note 8 to the Financial Statements.

RELATIONS WITH MEMBERS

MPS values its dialogue with members throughout the year on a diverse range of subjects. In particular, the Council uses the Annual General Meeting to communicate financial performance to members and encourage their participation. Members of the Audit and Risk, Nominations, Remuneration and Asset and Liabilities 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.

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.

In forming this view, members of the Council have considered the UK's Financial Reporting Council guidance. In addition to reviewing and approving short-term financial plans, they have received and discussed a report detailing the current financial position of MPS, the implications of this over various time periods, and the actions being taken by MPS to ensure that it remains a going concern.

Executive variable pay achieved in 2017

NAME	PAID AND DEFERRED ELEMENTS
Chief Executive Simon Kayll	£89,177
Finance Director Howard Kew	£50,760

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 Strategic Report, the Report of the Council and the financial statements in accordance with applicable law and regulations.

Company law requires the Council to prepare financial statements for each financial year. Under that law the Council has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland". 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 of the total comprehensive income of the group and company for that period.

In preparing these financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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, 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. It is also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council members confirm that:

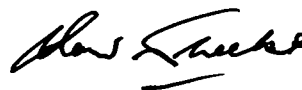
- so far as each Council member is aware, there is no relevant audit information of which the company's auditor is unaware
- the Council members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of 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

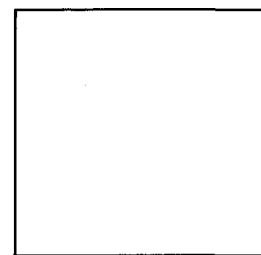
This report was approved by the Council on 25 April 2018 and signed on its behalf by:

David Wheeler
Company Secretary



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF THE MEDICAL PROTECTION SOCIETY LIMITED



OPINION

We have audited the financial statement of The Medical Protection Society Limited (the 'parent company' and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's net contribution for the year then ended, to funds available for members;
- 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

WHO WE ARE REPORTING TO

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.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Council for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Council have been prepared in accordance with applicable legal requirements.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

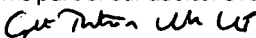
As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.


Michael Redfern

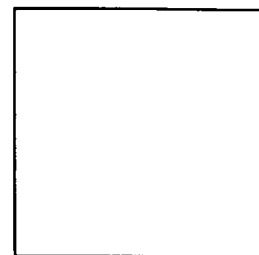
Senior Statutory Auditor
for and on behalf of Grant Thornton
UK LLP, Statutory Auditor, Chartered
Accountants
Leeds

25 April 2018

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NON-STATUTORY INFORMATION (IMAGES) NOT REQUIRED
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FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Income: continuing operations			
Members' subscriptions and other income		476,815	453,520
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	18	105,510	302,005
Movement in projected insurance recoveries	4(k)	(4,695)	(27,253)
Advisory costs and associated legal costs	18	102,513	72,469
Education, publications and external relations	5a	10,809	10,590
Administration expenses	5b	38,139	36,563
Finance cost (unwinding of discount)	18, 4(k)	33,670	32,834
Gain on exchange movements	5c	(331)	(24,478)
		285,615	402,730
Surplus of members' subscriptions and other income over expenditure: continuing operations		191,200	50,790
Net income from investments	6	75,097	38,162
Other finance income	10	303	817
Change in fair value of investments	13	98,984	321,622
Change in fair value of derivatives	13	(3,572)	(24,418)
Contribution from ordinary activities before taxation: continuing operations		362,012	386,973
Tax charge on investment income and gains/(losses)	7a	(22,146)	(57,311)
Net contribution for the year to funds available for members		339,866	329,662
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension scheme	10	871	(13,462)
Total comprehensive income for the financial year		340,737	316,200

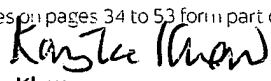
The notes on pages 34 to 53 form part of these financial statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS
Year ended 31 December 2017

	Notes	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Fixed assets					
Intangible assets	11	17,252	11,010	17,498	11,271
Tangible assets	12	38,428	34,277	38,418	34,267
Investments	13a	2,798,907	2,484,044	1,536,051	1,461,050
Derivative assets	13a	3,940	10,548	-	-
Pension asset	10	10,168	8,145	10,168	8,145
		2,868,695	2,548,024	1,602,135	1,514,733
Current assets					
Debtors - due within one year	15	35,338	36,976	121,972	123,983
- due after one year	15	59,124	55,847	59,124	55,847
Bank deposit accounts		128,723	184,281	56,332	22,726
Cash at bank and in hand		15,731	17,098	15,459	16,136
		238,916	294,202	252,887	218,692
Creditors: amounts falling due within one year	16	(98,294)	(98,127)	(83,662)	(81,156)
Net current assets		140,622	196,075	169,225	137,536
Total assets less current liabilities		3,009,317	2,744,099	1,771,360	1,652,269
Creditors: amounts falling due after one year	17	(787)	(3,224)	(787)	(3,224)
Provision for liabilities	18	(1,046,450)	(1,116,496)	(974,916)	(1,050,350)
Derivative liabilities	13a	(1,373)	(4,409)	-	-
Net assets		1,960,707	1,619,970	795,657	598,695
Accumulated funds					
Income and expenditure		1,960,707	1,619,970	795,657	598,695
Funds available for members	22	1,960,707	1,619,970	795,657	598,695

The parent company's total comprehensive income for the financial year was a profit of £196,962k (2016: £27,838k).
The financial statements were approved and authorised for issue by the Council and were signed on its behalf on 25 April 2018.

The notes on pages 34 to 53 form part of these financial statements.


Kay-Tee Khaw
Chairman of the Council


Simon Kay
Chief Executive

The Medical Protection Society Limited
Registered Company No. 36142

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Net contribution for the year to funds available for members	339,866	329,662
Adjustments for:		
Amortisation of intangible assets	827	805
Depreciation of tangible assets	2,033	1,678
Foreign exchange translation	(331)	(22,229)
Interest received	(1,615)	(1,187)
Dividends received	(73,482)	(36,974)
Taxation expense	22,146	57,311
Net fair value gains recognised in statement of comprehensive income	(95,412)	(297,204)
Losses on disposal of tangible fixed assets	280	238
Decrease/(increase) in debtors	(2,815)	(24,382)
(Decrease)/increase in creditors	(6,639)	25,264
(Decrease)/increase in claims provisions	(78,922)	119,987
Increase in pension asset	(1,152)	(4,061)
Cash from operations	104,784	148,908
Income taxes paid	(8,061)	(6,089)
Net cash generated from operating activities	96,723	142,819
Cash flows from investing activities		
Purchase of intangible assets	(7,069)	(4,773)
Proceeds from sale of tangible fixed assets	1	-
Purchase of tangible fixed assets	(6,465)	(16,430)
Proceeds from sale of fixed asset investments	999,001	327,053
Purchase of fixed asset investments	(1,111,887)	(348,292)
Purchase of derivatives	-	(100,257)
Interest received	1,615	1,187
Dividends received from fixed asset investments	73,482	36,974
Net cash from investing activities	(51,322)	(104,538)
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	45,401	38,281
Foreign exchange translation	667	22,229
Cash and cash equivalents at beginning of year	241,867	181,357
Cash and cash equivalents at end of year	287,935	241,867

The notes on pages 34 to 55 form part of these financial statements.

Analysis of changes in net funds	At	Cash flow	Foreign	At
	1 Jan 2017	movement	exchange	31 Dec 2017
	£'000	£'000	£'000	£'000
Cash at bank and in hand	17,098	(3,329)	1,962	15,731
Bank deposit accounts	184,281	(49,980)	(5,578)	128,723
Cash with investment managers	40,488	98,710	4,283	143,481
Net funds	241,867	45,401	667	287,935

Of the net funds held by MPS, £16.6m (2016: £13.8m) is held in trust on behalf of the MPS Periodical Payments Trust, which was established to provide security for payments to be made in satisfaction of periodical payment orders. The Trust's funds, which are invested in a segregated managed cash portfolio, can only be used to meet liabilities resulting from periodical payment orders and are not available to settle any other MPS liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Income and Expenditure
	£'000
At 1 January 2016	1,303,770
Net contribution for the year	329,662
Actuarial losses	(13,462)
Total comprehensive income for the year	316,200
At 31 December 2016	1,619,970
Net contribution for the year	339,866
Actuarial gains	871
Total comprehensive income for the year	340,737
At 31 December 2017	1,960,707

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Income and Expenditure
	£'000
At 1 January 2016	570,857
Net contribution for the year	41,300
Actuarial losses	(13,462)
Total comprehensive income for the year	27,838
At 31 December 2016	598,695
Net contribution for the year	196,091
Actuarial gains	871
Total comprehensive income for the year	196,962
At 31 December 2017	795,657

The notes on pages 34 to 53 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY INFORMATION

The Medical Protection Society Limited is a private company limited by guarantee registered in England with company number 36142 at Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for the modification to a fair value basis for certain financial instruments and investment property as specified in the accounting policies below.

The financial statements are presented in Sterling (£) and are rounded to the nearest £'000.

The group's financial statements consolidate the financial statements of The Medical Protection Society Limited and all its subsidiary undertakings, with the exception of Victoria Place Management Company (Leeds) Limited, which is not included in consolidation on grounds of materiality. This is drawn up to 31 December each year.

The group has adopted the disclosure exemption relating to the exposure to, and management of, financial risks on financial instruments as the financial instruments are held as part of an active investment portfolio.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Preparation of the financial statements requires management to make significant judgement and estimates. The items in the financial statements where these judgements and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Provision for the future cost of claims (note 18)

Provision is made, as appropriate, for estimated future costs and damages, legal costs and claims handling costs expected to arise from all requests for assistance 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. These provisions require management's best estimate of the costs that will be incurred. The timing of cash flows and the discount rates used to establish the net present value of the future settlement values require management's judgement and are detailed in the accounting policy, note 4(k).

No provision is made in the financial statements for the potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date. This is a key judgement area, which the Council has considered in detail, concluding that these potential claims do not constitute a liability as recognition is dependent on the exercise of discretion

by the Council; and there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of discretion by the Council is set out in the Articles of Association in paragraph 40.

In reaching this judgement, the Council considered whether members have a valid expectation that assistance will be provided in full with regards all submitted claims. Having considered how discretion is exercised by MPS, the Council conclude that there cannot be a valid expectation that all requests for assistance will be met in full, and that it is not appropriate to make a provision for potential claims that have not been reported by 31 December. However, the Council believes it is appropriate to make an estimate of the cost of these potential future claims when assessing the adequacy of MPS's funding position. This estimate is disclosed and discussed in note 22.

Defined benefit pension scheme (note 10)

The group has obligations to pay pension benefits to current and past employees who are members of the defined benefit contribution pension scheme. The cost of these benefits and the present value of the obligation are dependent on a number of factors such as life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors with guidance from external actuaries, in order to determine the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Valuation of unlisted investments (note 13a)

Some of the investments held by the company are not traded on active markets, so it is not possible to value the asset or liability using a quoted price in an active market. Where there is no quoted price available it is sometimes possible to use observable market data for valuation, examples include forward foreign exchange contracts and interest rate swaps. Where there is an absence of quoted prices and observable market data the company relies on the valuation methodology applied by the investment manager to ascertain the fair value of the assets, these are disclosed in level 3 of the fair value hierarchy in note 13(d).

The Council have judged that the valuation policies and controls, which the investment managers have in place for unlisted investments, are sufficient to be able to use the valuations provided to account for the investments at fair value.

Further details on the valuation of investments and derivatives are disclosed in the accounting policies section in notes 4(h) and 4(i).

Deferred tax

In preparing the financial statements the directors made the assumption that the equity investments as shown in note 13(a) would not be disposed of in the near future as there are no plans to sell any of these holdings in the current investment strategy. The deferred tax payable on the change in fair value that would be taxable on disposal has been calculated at 17%, the latest UK Corporation Tax rate enacted as at the balance sheet date which

applies from 1 April 2020. Should any holdings be disposed of in the intervening period the tax charge would be at a higher tax rate.

4 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The group financial statements comprise a consolidation of the financial statements of the parent company (the "company") and all of its subsidiary undertakings (together, the "group") as at 31 December and as identified in note 14. As a consolidated Statement of Comprehensive Income is published, the parent company has taken advantage of the exemption in section 408 of the Companies Act 2006 and has not included its own Statement of Comprehensive Income in these financial statements. Also, as a consolidated Statement of Cash Flows is published, the parent company has taken advantage of the exemption in paragraph 1.12(b) of FRS 102 and has not included its own Statement of Cash Flows in these financial statements.

(b) Subscriptions

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

No geographical analysis of subscription income is shown because, in the opinion of the Council, it would be seriously prejudicial for the group to do so.

(c) Intangible fixed assets and amortisation

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

Intellectual property rights	- 20% per annum
Copyrights	- 4.5% per annum
Software licences	- 20% per annum
Case management system	- 14.3% per annum

(d) Tangible fixed assets and depreciation

All tangible fixed assets are included at cost. Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down is recognised immediately in net contribution to funds. The principal rates used for tangible fixed assets are:

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

(e) Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in net contribution to funds.

(f) 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. Any gains or losses are taken to net contribution to funds.

(g) Net investment income

Investment income is made up of interest, dividends, realised gains/losses, and derivative income. Interest receivable is brought into account on an accruals basis under the effective interest method, with derivative income and realised gains/losses accounted for when received/paid. As equity investments are in pooled funds and unit trusts, dividend income is reinvested rather than distributed. Such income is therefore included within fair value movement on investments rather than being recorded as dividend income.

(h) Investments

Investments are recognised initially at fair value which is normally the transaction price. They are then subsequently measured as follows:

Listed investments (which include cash held by the investment managers awaiting investment) are subsequently measured at fair value through net contribution to funds using bid price. Changes in fair value are recognised in net contribution to funds.

Unlisted investments, for which an independent market valuation is available, are measured at fair value through net contribution to funds.

Unlisted infrastructure funds are measured at fair value using a discounted cash flow valuation methodology. In this methodology the future cash flows that are expected to be generated by an asset and made available to the fund, for example through dividends or loan repayments, are estimated, and these are discounted back to the valuation date. The discount rate comprises a risk premium reflecting the uncertainty associated with the cash flows, and the risk-free interest rate applicable in the country in which the asset is located. The risk premium is determined as the implied risk premium at acquisition, unless there is an inherent change in the risk profile of the business which may necessitate a change. Foreign assets are converted using the exchange rate on the valuation date. Changes in fair value are recognised in net contribution to funds.

Unlisted direct lending funds are measured at par value including any deferred interest which has been capitalised up to the valuation date. If the senior debt or bond has a credit rating of S&P Rating of "CCC+" or lower, a fair value is determined by applying a standardized valuation approach. Thereby, the fair enterprise value of the respective company is derived based on a fair enterprise value ("EV") determination. The EV is computed using a variety of techniques including, but not limited to, determination based on latest EBITDA figures (or forecast / budgeted EBITDA figures) using public and private transaction multiples as comparables. Where the fair enterprise value determined above is smaller than the underlying company's net debt position, the investment is written down to the fair value calculated correspondingly.

The inflation opportunities portfolio and multi-asset credit investments are measured using the net asset values provided by the fund managers. The funds contain a variety of assets that are measured at fair value through net contribution to funds. The fair value of the underlying financial instruments is based on their quoted mid-market prices at the reporting date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, pricing models, or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. Collective Investment Schemes (CIS) are priced based on the valuation supplied by the administrator of the CIS. Financial assets include investments in open-ended investment funds. Fair value is based on the underlying fund administrator's calculation of net asset value per share which will be the latest mid prices published by the collective investment schemes, unless any adjustments are required for illiquidity, low trading volumes or any such factors that indicate that the mid price may not be fair value.

For real estate debt funds, any underlying properties are valued in accordance with Practice Statement 4.2 of the Appraisal and Valuation Manual (1995) of the Royal Institution of Chartered Surveyors (RICS). For the ground rent element where the investment is in "strips", the fair value is deemed to be equal to the historical cost, adjusted for amortisation and other payments received, less any impairment.

Investments in subsidiaries are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount.

(i) Derivative financial instruments

Derivative financial instruments are recognised at fair value using a specified valuation technique (see below) with any gains or losses being reported in the statement of comprehensive income. Outstanding derivatives at the reporting date are included under the appropriate format heading depending on the nature of the derivative.

Interest rate swaps are valued on a daily basis by MPS's investment managers using a detailed valuation methodology for a zero coupon interest rate swap. Interest rate curves using real-time quotes from a number of market sources are used to value the swaps along with interpolation required to calculate the cash flow due or payable on each swap's floating rate leg. The investment manager reconciles the valuations on a daily basis between their own systems and those of the counterparty. In addition an independent third party agent is also used to value the trades. The three-way reconciliation process ensures that the valuations are in line with the market on any given day and enables variations in valuation between the investment manager and the counterparty to be investigated in a timely fashion.

Credit default swaps are valued on a daily basis by MPS's investment managers using Markit credit default swap levels. Euro swap curves using real-time quotes from a number of market sources are used to value the swaps.

A third party currency management system is utilised by MPS's investment managers to obtain valuations for foreign exchange forward contracts. This system uses WM Reuters Fix rate to value the open market contracts against the traded rate. The number of contracts and market value difference is reconciled against counterparties daily and material variances flagged for further investigation.

In addition, the group's investment managers are permitted to hold derivative financial instruments to enhance investment returns. These instruments are measured at fair value with any changes in value and gains or losses credited or charged to net contribution to funds.

The credit default and currency swaps are not designed to be a perfect hedge, and the Group has not adopted any form of hedge accounting.

(j) Cash deposits

Cash deposits (consisting of bank deposit accounts, and cash at bank and in hand) are held to meet working capital requirements and when awaiting long-term investment within MPS's managed portfolios. A range of deposit accounts and cash equivalents such as liquidity funds are used for this purpose. The funds are kept liquid with the vast majority available on call.

(k) Costs and damages for claims

Provision is made, as appropriate, for estimated future costs and damages, legal costs and claims handling costs expected to arise from all 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 provided on an individual basis by claims managers along with an estimation of the likelihood that MPS will have to settle the claim. These estimates are 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. These estimated recoveries are reassessed annually.

The discounted future settlement values are deemed to be the best estimate of these costs. The unwinding of the discount is separately identified in the claims provision (note 18) and is disclosed within finance costs in net contribution to funds. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 3.6% (2016: 3.5%) per annum.

The principal financial assumptions used in the calculation of the claims provision are that claims inflation will be RPI plus 3.9% (2016 RPI plus 3.9%) per annum over the period to payment, and that investment return, used to discount future claims payment to the balance sheet date, will be RPI plus 1.1% (2016 RPI plus 1.1%). The average period to payment is estimated as 2.5 years (2016 2.5 years). The payment delay is estimated by the internal Actuarial team. Net claims inflation is estimated by the internal Actuarial team in discussion with MPS's Asset & Liability Committee.

(l) Tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods, using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except otherwise as indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date, that are expected to apply to the reversal of the timing difference.

The tax charge/(credit) is presented either in net contribution to funds or equity, depending on the transaction that resulted in the tax charge/(credit).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if the company has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

(m) Pensions

MPS operates two pension schemes: a defined benefit scheme and a defined contribution scheme.

The assets of both schemes are invested and managed independently of MPS's finances. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current cost period to calculate current service cost, and to the current and prior periods to determine the present value of defined benefit obligations, and is based on actuarial advice. When a settlement or a curtailment occur, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss, which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate at the start of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in net contribution to funds as other finance income or cost.

Re-measurements, including actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to net contribution to funds in subsequent periods.

The defined benefit pension asset or liability in the balance sheet comprises the total present value of the defined benefit obligation, calculated using a discount rate based on UK gilts, less the fair value of plan assets, out of which the obligations are to be settled. Fair value is based on market price information, and in the case of quoted securities, is the published bid price.

Defined benefit pension scheme surpluses are limited to the extent they are considered recoverable either through reduced contributions or agreed refunds from the scheme.

The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of the scheme, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the company considers the rate of return from UK gilts and future RPI inflation by deriving a single-weighted average over the appropriate Bank of England curve (extrapolated for years beyond 25) taking account of the scheme's projected benefit cash flows at each duration. The mortality rate is based on publicly available mortality tables for the UK. Future salary increases are based on expected future UK inflation rates.

Further information on the structure of the defined benefit scheme is contained within note 10 to these accounts.

Contributions to the defined contribution pension scheme are charged to the statement of comprehensive income in the year to which they relate.

(n) 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 net contribution to funds 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 term of the lease.

(o) Current assets and liabilities

Current assets and liabilities (except in relation to the defined benefit pension scheme) are measured at the present value of future cash flows. These amounts are tested for impairment, with any impairment found taken to net contribution to funds.

(p) 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.

In forming this view, members of the Council have considered the UK's Financial Reporting Council guidance. In addition to reviewing and approving short-term financial plans, they have received and discussed a report detailing the current financial position of MPS, the implications of this over various time periods, and the actions being taken by MPS to ensure that it remains a going concern.

5a 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.

5b ADMINISTRATION EXPENSES

	2017 £'000	2016 £'000
Included under this classification are:		
Operating lease rentals:		
- Land and buildings	3,742	2,973
- Motor vehicles	179	178
- Office equipment	245	174
Depreciation of fixed assets	2,033	1,678
Amortisation of Intangible assets	827	805
Employer contributions to DC pension schemes	3,749	2,808
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	186	102
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	31	27
Other services:		
- Taxation compliance	-	46
- Taxation advice	7	38
- Accounting advice	-	24
- Audit related assurance services	2	-
<i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	8	4
Other services – accounting advice	-	1

The audit fee of £186k (2016: £102k) includes £60k which related to the completion of the audit of the 2016 accounts, following changes made to those accounts as a result of the UK personal injury discount rate change and other external announcements made after 2016 year end.

5c EXCHANGE MOVEMENTS

The majority of the losses on exchange movements relate to the restatement of cash assets held to match international liabilities. These losses are substantially offset by a corresponding decrease in international claim liabilities, which are included in claims costs and associated legal costs in the statement of comprehensive income.

6 NET INCOME FROM INVESTMENTS

	2017 £'000	2016 £'000
Bond and gilt interest	30,509	27,433
Bank interest	1,615	1,187
Other investment income	26,225	9,038
Derivative receipts	16,748	504
	75,097	38,162

Other investment income includes distributions from the infrastructure, real estate debt, multi-asset credit and inflation opportunities funds.

As noted in 4(g), dividend income from MPS's equity investments is not distributed but is reinvested and included in the change in fair value of investments rather than as net income from investments.

7a TAX ON INCOME AND GAINS FROM INVESTMENTS

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax	12,948	12,631
Adjustments in respect of prior years	190	1
Overseas taxation	138	109
Double taxation relief	(6)	(9)
Total current tax	<u>13,270</u>	<u>12,732</u>
Deferred tax:		
Origination and reversal of timing differences	11,001	44,534
Adjustment in respect of prior years	(2,125)	45
Total deferred tax	<u>8,876</u>	<u>44,579</u>
Tax on investment income and gains/(losses) in the statement of comprehensive income for the year	<u>22,146</u>	<u>57,311</u>

7b FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 19.25% (2016: 20%). The differences are explained as follows:

	2017 £'000	2016 £'000
Contribution before tax	362,012	386,972
Income and net gains/(losses) from investments multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20%)	69,675	77,394
Indexation allowances	(998)	(613)
RPI linked indexation	(5,082)	(4,169)
Non-taxable dividend income	(508)	1,088
Adjustment in respect of prior years - current tax	190	46
Adjustment in respect of prior years - deferred tax	(2,125)	-
Non-taxable contribution	(37,175)	(7,633)
Difference in tax rates	(1,514)	(8,891)
Foreign tax	133	100
FRS 102 transitional adjustments brought into tax	-	(11)
Transfer pricing adjustments	3	-
Expenses not deductible for tax	8	-
Deferred tax previously not recognised	(2)	-
Deferred tax not recognised	(459)	-
Tax charge for the year	<u>22,146</u>	<u>57,311</u>

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

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £nil (2016: £nil).

7c FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

A reduction in the UK corporation tax rate from 20% to 19% took effect from 1 April 2017. Following the Budget 2016 announcement, there will be a further reduction in the main rate of UK corporation tax rate to 17% in 2020.

8 EMOLUMENTS OF MEMBERS OF THE COUNCIL

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £25,308 (2016: £21,848). In addition, most non-executive members of the Council receive fees for appointments to various Boards and Committees. Details of Council member appointments can be found on page 14. The total fees payable to all members of the Council are analysed below:

	Salary/ fees £'000	TB £'000	PR ¹ £'000	PEN £'000	Total £'000	2016 £'000
Executive members						
Simon Kayll (Chief Executive)	350	14	45	61	470	420
Howard Kew (Executive Director – Finance)	236	14	25	42	317	286
Kevin Lewis (Dental Director) (Retired 8 June 2016)	-	-	-	-	-	116
Non-executive members						
Kay-Tee Khaw (Chairman)	59	-	-	-	59	53
Keith Bradley (Retired 8 June 2016)	-	-	-	-	-	15
Richard Brennan	33	5	-	-	38	31
Fiona Cornish (Appointed 13 September 2017)	9	-	-	-	9	-
Ian Croxford (Retired 8 June 2016)	-	-	-	-	-	16
Mark Davis (Retired 26 July 2017)	19	4	-	-	23	28
Yasmin Drabu (Retired 26 July 2017)	18	-	-	-	18	27
Ian Eardley	33	2	-	-	35	23
Patrick Forbes	33	1	-	-	34	26
John Gibson ² (Resigned 15 February 2017)	6	-	-	-	6	49
James McLenachan	39	3	-	-	42	27
Simon Pashby	57	4	-	-	61	51
Alexander Scott (Appointed 1 August 2016)	43	3	-	-	46	12
Sally Scutt	44	-	-	-	44	28
Graham Stokes (Appointed 13 September 2017)	10	1	-	-	11	-
Martin Thomas (Appointed 1 September 2016)	37	3	-	-	40	10
Michael Urmston (Appointed 1 August 2016)	43	1	-	-	44	12
Tom Weitzman (Appointed 1 August 2016)	37	-	-	-	37	10
Callum Youngson (Appointed 26 April 2017)	32	2	-	-	34	-
	1,138	57	70	103	1,368	1,240

Key:

TB	Taxable benefits – includes car allowance, medical benefits, and taxable expenses
PR	Performance reward for 2016, payable in the current year or in the following March
PEN	Employer pension contributions into DC schemes or via alternative arrangements

Notes:

- 1 An additional performance award, equal to the PR award paid, is deferred and payable in three years subject to further objectives being met
- 2 Fees are paid via a third party, and include an uplift of 13.8% in lieu of national insurance

During 2017 there were two (2016: three) executive members of the Council who were members of MPS's defined benefit pension scheme, details of which are set out in note 10. During the same period, no members of Council were members of the defined contribution pension scheme, which was introduced on 1 November 2013.

The highest paid director, the Chief Executive, transferred out of the MPS defined benefit pension scheme during the year and has accrued annual defined benefit pension rights in the year of £nil (2016: £55,429).

In addition, as stated in the Report of the Council on page 21, nine (2016: nine) non-executive members of the Council had personal membership of MPS.

9 EMPLOYEES

The average number of people employed in the provision of services to members during the year was 944 for the group (2016: 868) and 934 for the company (2016: 864). Costs in respect of these employees were:

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Wages and salaries	46,410	42,961	45,730	42,522
Social security costs	5,063	4,663	4,980	4,662
Pension costs	9,956	7,688	9,871	7,686
	61,429	55,312	60,581	54,870

10 PENSIONS

MPS operates two pension schemes: a funded defined benefit pension scheme, which is administered under Trust and a defined contribution pension scheme, which is overseen by the Defined Contribution Oversight Committee. The assets of both schemes are held independently of MPS's finances. Contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate. Contributions to the defined benefit scheme are paid to the scheme in accordance with the Schedule of Contributions agreed between the Trustees and MPS.

The defined benefit scheme was closed to new entrants on 1 November 2013, at which time the defined contribution scheme was introduced.

The following tables set out the key assumptions used for the defined benefit 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. The surplus is shown as "Pension asset" on the face of the balance sheet.

The funding of the defined benefit scheme is based on triennial valuation. The last full actuarial valuation completed and agreed was as at 31 December 2014. This valuation has then been further updated to the accounting date by an independent qualified actuary. The next full actuarial valuation is being carried out as at 31 December 2017.

Actuarial assumptions

	At 31 December 2017 % pa	At 31 December 2016 % pa
Price RPI inflation	3.4	3.5
Discount rate	2.4	2.6
Pension increases (LPI 5%)	3.2	3.3
Pension increases (LPI 3%)	2.5	2.5
Salary growth	4.4	4.5

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 29.4 years (2016: 29.3 years) and a female pensioner currently aged 60 would be expected to live for a further 31.7 years (2016: 31.6 years). Allowance is made for future improvements in life expectancy.

Movement in net defined benefit asset

	At 31 December 2017 £'000	At 31 December 2016 £'000
Opening net defined benefit asset	8,145	17,546
Cost in net contribution to funds	(6,047)	(3,998)
Employer contributions	7,199	8,059
Amount recognised in other comprehensive income	871	(13,462)
Closing net defined benefit asset	10,168	8,145

Amounts recognised in the balance sheet

	At 31 December 2017 £'000	At 31 December 2016 £'000
Fair value of scheme assets	186,853	172,605
Defined benefit obligation	(176,685)	(164,460)
Net defined benefit asset	10,168	8,145

It is envisaged that the current surplus on the plan would be recovered through reduced future contributions to the scheme.

10 PENSIONS (CONTINUED)

Plan Assets

	At 31 December 2017		At 31 December 2016	
	%	£'000	%	£'000
Equities	31	56,953	28	49,060
Liability driven investment	40	74,541	41	70,092
Diversified growth fund	29	54,933	31	54,202
Cash and net current assets	-	426	-	(749)
Total	100	186,853	100	172,605

Amounts recognised in net contribution to funds

	2017	2016
	£'000	£'000
Employer's part of current service cost	6,350	4,566
Interest income	(303)	(817)
Past service cost and settlements	-	249
Total expense recognised in net contribution to funds	6,047	3,998

The defined benefit obligation moved over the year as follows:

	2017	2016
	£'000	£'000
Opening defined benefit obligation	164,460	116,364
Interest on obligation	4,181	4,366
Employer's part of current service cost	6,350	4,566
Contributions by scheme members	11	273
Benefits paid	(7,421)	(4,758)
Past service cost and settlements	-	249
Actuarial gain	9,104	43,400
Closing defined benefit obligation	176,685	164,460

Movement in fair value of plan assets

	2017	2016
	£'000	£'000
Opening fair value of scheme assets	172,605	133,910
Interest on assets	4,484	5,184
Contributions by scheme members	11	273
Contributions by the employer	7,199	8,059
Benefits paid	(7,421)	(4,758)
Actual return on plan assets less interest	9,975	29,937
Closing fair value of scheme assets	186,853	172,605
 Actual return on assets	 14,459	 35,151

Over the year to 31 December 2017, MPS made contributions of £7.2m (2016: £8.1m) to the scheme. As part of the full actuarial valuation effective as at 31 December 2014, it was agreed that employer contributions would be at a rate of 27.4% of pensionable salaries for 88th scale members from 1 January 2015 to 5 April 2016 and 24.4% after 5 April 2016. For 63.8th scale members, employer contributions were agreed at 35.3% for the period from 1 January 2015 to 1 April 2015, 33.5% for the period 1 April 2015 to 5 April 2016 and 30.9% from 6 April 2016.

Estimated total contributions payable to the defined benefit scheme by MPS for 2018, including deficit funding contributions, are £7.3m.

Amounts recognised in other comprehensive income:

	2017 £'000	2016 £'000
Re-measurements	871	(13,462)

11 INTANGIBLE FIXED ASSETS

Group	Software Licences £'000	Copyrights £'000	Total £'000
Cost or valuation			
At 1 January 2017	16,060	16	16,076
Additions	7,069	-	7,069
Disposals	(109)	-	(109)
At 31 December 2017	23,020	16	23,036
Amortisation			
At 1 January 2017	5,059	7	5,066
Provided in year	824	3	827
Released on disposal	(109)	-	(109)
At 31 December 2017	5,774	10	5,784
Net book value			
At 31 December 2017	17,246	6	17,252
At 31 December 2016	11,001	9	11,010
Company			
Cost or valuation			
At 1 January 2017	15,859	394	16,253
Additions	7,069	-	7,069
Disposals	(109)	-	(109)
At 31 December 2017	22,819	394	23,213
Amortisation			
At 1 January 2017	4,858	124	4,982
Provided in year	824	18	842
Released on disposal	(109)	-	(109)
At 31 December 2017	5,573	142	5,715
Net book value			
At 31 December 2017	17,246	252	17,498
At 31 December 2016	11,001	270	11,271

Software licences include £14.8m (2016: £8.6m) of capital expenditure relating to the build phase of a new member administration IT system. It is expected that the system will go live during 2018, no amortisation will be charged until the system is in use.

The group intangible fixed assets include intellectual property rights acquired by a group company, The Cognitive Consulting Group Pty Limited (CCG) (see note 14).

The company intangible fixed assets include copyrights for educational training material purchased by the parent company from CCG.

12 TANGIBLE FIXED ASSETS

	Investment property	Freehold property	Leasehold property	Computers, furniture, fittings and office equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
Cost or valuation						
At 1 January 2017	-	30,487	4,042	10,121	33	44,683
Additions	3,230	673	1,556	1,006	-	6,465
Disposals	-	-	(1,716)	(1,258)	-	(2,974)
At 31 December 2017	3,230	31,160	3,882	9,869	33	48,174
Depreciation						
At 1 January 2017	-	1,584	1,962	6,839	21	10,406
Provided in year	-	633	322	1,070	8	2,033
Released on disposals	-	-	(1,640)	(1,053)	-	(2,693)
At 31 December 2017	-	2,217	644	6,856	29	9,746
Net book value						
At 31 December 2017	3,230	28,943	3,238	3,013	4	38,428
At 31 December 2016	-	28,903	2,080	3,282	12	34,277
Company						
Cost or valuation						
At 1 January 2017	-	30,487	4,042	10,053	33	44,615
Additions	3,230	673	1,556	1,006	-	6,465
Disposals	-	-	(1,716)	(1,254)	-	(2,970)
At 31 December 2017	3,230	31,160	3,882	9,805	33	48,110
Depreciation						
At 1 January 2017	-	1,584	1,962	6,781	21	10,348
Provided in year	-	633	322	1,070	8	2,033
Released on disposals	-	-	(1,640)	(1,049)	-	(2,689)
At 31 December 2017	-	2,217	644	6,802	29	9,692
Net book value						
At 31 December 2017	3,230	28,943	3,238	3,003	4	38,418
At 31 December 2016	-	28,903	2,080	3,272	12	34,267

All the leasehold properties held at 31 December 2017 are short leaseholds.

The investment property was acquired during the year in an open market arm's length transaction and the members of the council believe that the fair value of the investment property at 31 December 2017 to have not changed from the acquisition cost. There has been no independent valuation of the property at this date.

The historical cost of investment properties held at fair value is £3,182k (2016: £nil).

Capital commitments

Capital expenditure approved and contracted for amounted to £797k on investment property (2016: £nil) and £7,387k for the new member administration system included in intangible assets (2016: £nil)

13a INVESTMENTS AND DERIVATIVES

Group

	Total investments £'000	Total derivatives £'000
Valuation at 1 January 2017	2,484,044	6,139
Investment additions	1,111,887	-
Disposals at carrying value	(999,001)	-
Movement in cash balances	102,993	-
Fair value adjustments	98,984	(3,572)
At 31 December 2017	2,798,907	2,567

Company

	Total investments £'000
<i>Investment in subsidiaries (note 14)</i>	
Cost as at 1 January 2017	1,461,050
Additions in the year	75,001
As at 31 December 2017	1,536,051

Investments comprise

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Listed investments	1,894,143	1,900,008	-	-
Unlisted investments	761,283	543,548	-	-
Shares in group undertakings	-	-	1,536,051	1,461,050
	2,655,426	2,443,556	1,536,051	1,461,050
Cash	143,481	40,488	-	-
	2,798,907	2,484,044	1,536,051	1,461,050
<i>Derivative financial instruments (13b):</i>				
- assets	3,940	10,548	-	-
- liabilities	(1,373)	(4,409)	-	-
	2,567	6,139	-	-

Note 13b contains further information on derivative financial instruments.

All other fixed asset investments are measured at fair value with changes in value reflected in the statement of comprehensive income.

13b DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments, recognised in note 13a, were held at the end of the year:

Credit Default Swaps

Duration	Nature of contract	Notional value £'000	Asset £'000	Liability £'000
2yrs-10yrs	Pay fixed for floating	625,000	<u>1,314</u>	<u>(769)</u>

As noted in the Strategic Report on page 19, the credit default swap programme, which MPS established as part of the ongoing strategic transitioning of the overall investment portfolio in 2016, was closed out as the strategic allocation to credit assets was built up.

During the year a credit default swap programme was established as part of the ongoing strategic transitioning of the overall investment portfolio with the aim of enhancing investment returns.

Forward Foreign Exchange Contracts

Duration	Nature of contract	Notional value '000	Asset £'000	Liability £'000
3 months	Sell USD Buy ILS	USD 43,272	187	-
3 months	Sell USD Buy HKD	USD 194,506	-	(464)
3 months	Sell USD Buy MYR	USD 28,119	912	-
3 months	Sell USD Buy SGD	USD 113,950	1,526	-
2 months	Sell EUR Buy GBP	EUR 22,675	-	(140)
			<u>2,626</u>	<u>(604)</u>

As noted in the Strategic Report on page 19, the group maintains a currency hedging programme to mitigate currency risks where it does not hold sufficient assets in a particular currency to match MPS's liabilities in that currency. As this is not an exact hedge, and there is inherent volatility in the liabilities that MPS is seeking to match, a degree of currency risk will be retained.

13c COLLATERAL AMOUNTS GIVEN/RECEIVED

The following collateral balances at fair value were held at the end of the year, relating to amounts given/received against unrealised losses/gains respectively on derivative financial instruments shown in note 13b.

Derivative held	Form of collateral	Given £'000	Received £'000
Interest rate swaps	Cash	<u>730</u>	<u>1,430</u>

13d FAIR VALUE HIERARCHY

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2017				
Equities	777,145	-	-	777,145
Government and other bonds	1,116,998	-	-	1,116,998
Infrastructure	-	-	140,132	140,132
Multi-asset credit	-	-	195,461	195,461
Inflation opportunities portfolio	-	-	210,356	210,356
Real estate debt and ground rent	-	-	83,227	83,227
Direct Lending	-	-	132,107	132,107
	1,894,143	-	761,283	2,655,426
Derivative financial instruments	-	3,940	-	3,940
	1,894,143	3,940	761,283	2,659,366

At 31 December 2016				
Equities	713,555	-	-	713,555
Government and other bonds	1,186,453	-	-	1,186,453
Infrastructure	-	-	134,552	134,552
Multi-asset credit	-	-	168,972	168,972
Inflation opportunities portfolio	-	-	194,000	194,000
Real estate debt and ground rent	-	-	46,024	46,024
	1,900,008	-	543,548	2,443,556
Derivative financial instruments	-	10,548	-	10,548
	1,900,008	10,548	543,548	2,454,104

Financial liabilities at fair value through net contribution to funds

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2017				
Derivative financial instruments	-	1,373	-	1,373
At 31 December 2016				
Derivative financial instruments	-	4,409	-	4,409

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 Valued using quoted prices in active markets for identical assets.

Level 2 Valued by reference to valuation techniques using observable inputs other than quoted prices included in level 1.

Level 3 Valued by reference to valuation techniques using inputs that are not based on observable market data.

14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

MPS has the following direct interests in subsidiary undertakings:

Name	Interest ¹	Cost (£'000)	Registered office address	Nature of business
Dental Protection Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To provide insight on dental issues which impact MPS.
MPI (London) Limited	100%	1,525,001	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To manage the investment portfolio for MPS
DPL Australia Pty Limited	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To manage the administrative affairs of dental members in Australia.
MPS Risk Solutions Limited	100%	11,000	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	The provision of general insurance contracts to organisations in the healthcare sector.
MPS Periodical Payment Trustee Limited	100%	40	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Corporate Trustee.
MPS Holdings Australia Pty Limited	100%	10	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	Holding company.
The Cognitive Consulting Group Pty Limited ²	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To provide communication skills and risk management training to healthcare professionals in Australia.
Victoria Place Management Company Limited ³	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To oversee the management of the common areas of Victoria Place, Leeds.
The Dental Protection Society Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Dormant company.
MP Properties Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Dormant Company.
MPS (Singapore Services) Pte Ltd ⁴	100%	-	10 Changi Business Park Central 2, #05-01, Hansapoint @CBP, Singapore (486030).	To provide administration, training and oversight functions relating to Singapore members of MPS.
MPS South Africa (Pty) Ltd ⁵	100%	-	Executive City, Cnr Cross Str and Charmaine Ave, President Ridge, Randburg, Gauteng, 2194, South Africa.	To provide administration, training and oversight functions relating to South Africa members of MPS.
MPS (Hong Kong Services) Pte Ltd ⁶	100%	-	Units 1603-4, 16th Floor, Causeway Bay, Plaza 1, 489 Hennessy Road, Hong Kong.	To provide administration, training and oversight functions relating to Hong Kong members of MPS.
		1,536,051		

1 Parent and group interest in ordinary shares and voting rights

2 Indirectly owned by MPS

3 Not included in consolidation on grounds of materiality

4 Acquired on incorporation of the company on 14 August 2017

5 Acquired on incorporation of the company on 18 September 2017

6 Acquired on incorporation of the company on 29 November 2017

All the subsidiaries listed operate in their country of registration.

As noted in the Strategic Report on page 15, MPS Risk Solutions Limited withdrew from the insurance market during 2012. Consequently, at the end of 2017 a review was carried out to ensure that MPS's investment in the company was not impaired, which it was found not to be.

15 DEBTORS

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Debtors				
<i>Receivable within one year</i>				
Corporation tax repayable	8	-	-	-
Membership debtors	17,483	18,674	17,483	18,674
Other trading debtors	307	900	39	375
Recoverable insurance claims	6,569	6,205	6,569	6,205
Amounts owed by subsidiary undertakings	-	-	89,547	90,618
Other debtors	3,456	5,156	831	2,074
Prepayments	7,515	6,041	7,503	6,037
	35,338	36,976	121,972	123,983
<i>Receivable after one year</i>				
Recoverable insurance claims	59,124	55,847	59,124	55,847
	59,124	55,847	59,124	55,847
Total debtors	94,462	92,823	181,096	179,830

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Corporation tax	11,813	6,596	375	399
Other taxes and social security	2,883	2,893	2,858	2,868
Other creditors and accruals	22,485	23,735	19,316	12,986
Deferred subscription income	61,113	64,903	61,113	64,903
	98,294	98,127	83,662	81,156

17 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Other creditors and accruals	787	3,224	787	3,224

18 PROVISION FOR LIABILITIES

	Deferred tax	Reported negligence claims	Reported other claims	Claims handling	Total
	£'000	£'000	£'000	£'000	£'000
Group					
At 1 January 2017	60,302	943,703	63,773	48,718	1,116,496
Movements in the year:					
Charged to the statement of comprehensive income					
- Reported negligence claims	-	67,401	-	38,109	105,510
- Reported other claims	-	-	47,248	55,265	102,513
- Deferred taxation	8,876	-	-	-	8,876
- Finance cost (unwinding of discount)	-	31,345	2,325	-	33,670
Paid	-	(226,393)	(37,787)	(56,435)	(320,615)
At 31 December 2017	69,178	816,056	75,559	85,657	1,046,450

No amounts charged in the year for deferred tax related to items of other comprehensive income.

	Reported negligence claims	Reported other claims	Claims handling	Total
	£'000	£'000	£'000	£'000
Company				
At 1 January 2017	938,138	63,773	48,439	1,050,350
Movements in the year:				
Charged to the statement of comprehensive income				
- Reported negligence claims	69,683	-	38,225	107,908
- Reported other claims	-	47,248	55,265	102,513
- Finance cost (unwinding of discount)	31,345	2,325	-	33,670
Paid	(225,354)	(37,787)	(56,384)	(319,525)
At 31 December 2017	813,812	75,559	85,545	974,916

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 other claims notified by 31 December. The claims handling provision is the estimated cost of managing all reported claims to conclusion. Finance costs reflect the unwinding of discount in the provision.

MPS uses its internal staff to determine accurate estimates for individual claims, based on past experience and factors relevant to each claim. In addition, MPS uses the experience of its internal Actuarial team, to use the internal individual claim estimates, and membership data, to arrive at a statistical reserve for the likely cost of all reported claims.

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

19 DEFERRED TAXATION

Deferred taxation provided at 17% (2016: 17%) in the financial statements is set out below:

	2017 Group	2016 Group	2017 Company	2016 Company
Timing differences on fixed asset equity investments (note 15)	69,178	60,302	-	-

No reversal of the deferred tax liability is expected to occur during the year to 31 December 2018, as there are no plans to dispose of these holdings at present, and it is anticipated that they will increase in value.

The company and the group have unused miscellaneous losses of £673k (2016 £713k). Deferred tax has not been recognised on these losses as it is not likely that taxable profits or gains will be made to offset these losses in the near future.

20 COMMITMENTS

Capital commitments are shown in note 12. For operational commitments, the future minimum operating lease payments for the group and company under ordinarily non-cancellable commitments are as follows:

	2017 Group £'000	2016 Group £'000	2017 Company £'000	2016 Company £'000
Operating lease annual commitments				
Land and buildings:				
Within one year	2,662	3,633	2,644	3,633
Between one and five years	9,578	9,333	9,578	9,333
Over five years	19,596	21,836	19,596	21,836
	31,836	34,802	31,818	34,802
Office equipment:				
Within one year	214	141	214	133
Between one and five years	442	103	442	103
	656	244	656	236

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

MPS has issued a letter of credit to MPS Risk Solutions Limited in the sum of £20m (2016 £20m).

21 FINANCIAL ASSETS AND LIABILITIES

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
<i>Financial assets measured at fair value through net contribution to funds</i>				
- Listed investments	1,894,143	1,900,008	-	-
- Unlisted investments	761,283	543,548	-	-
- Credit default swaps	-	10,305	-	-
- Interest rate swaps	1,314	-	-	-
- Forward foreign exchange contracts	2,626	243	-	-
	2,659,366	2,454,104	-	-
<i>Financial assets that are equity instruments measured at cost less impairment</i>				
- Investment in subsidiaries	-	-	1,536,051	1,461,050
<i>Financial assets measured at amortised cost</i>				
- Amounts due from subsidiary undertakings	-	-	89,547	90,618
- Amounts due from investment managers	2,623	3,073	-	-
- Cash held within fixed asset investments	143,481	40,488	-	-
- Bank deposit accounts	128,723	184,282	56,332	22,726
- Cash at bank and in hand	15,731	17,097	15,459	16,136
- Membership debtors	17,483	18,674	17,483	18,674
- Trade debtors	307	900	39	375
- Other debtors	832	2,083	831	2,074
	309,180	266,597	179,691	150,603
<i>Financial liabilities at fair value through net contribution to funds</i>				
- Credit default swaps	-	(4,135)	-	-
- Interest rate swaps	(769)	-	-	-
- Forward foreign exchange contracts	(604)	(274)	-	-
	(1,373)	(4,409)	-	-
<i>Financial liabilities measured at amortised cost</i>				
- Amounts due to investment managers	-	(8,701)	-	-
- Other creditors	(9,766)	(8,174)	(9,698)	(8,128)
- Accruals	(9,375)	(5,448)	(6,446)	(3,604)
	(19,141)	(22,323)	(16,144)	(11,732)

The group purchases forward foreign currency contracts to hedge specific currency exposure. The assets and liabilities are held at fair value through net contribution to funds at the balance sheet date and are determined using quoted prices. Further details on the valuation of derivatives are provided in note 4(i).

22 MEMBERS' FUNDS

MPS seeks to hold a long-term surplus which is available to support requests for assistance which are likely to arise in the future from both current and past members. The principal reason that this surplus is held is to meet the cost of potential claims on members for incidents that have already occurred, but which have not been notified to MPS prior to the year end. The cost of these potential claims is not recognised as a liability until MPS exercises its discretion to assist. However, the Council needs to take these potential future costs into careful consideration when managing the financial position of the company.

MPS estimates the expected cost of future requests for assistance arising from incidents already incurred by reference to past experience and projected trends of the potential number and magnitude of these requests. As discretionary indemnity is provided on an occurrence year basis and the period for actual claims to be made can be many years, the estimated projections require financial modelling over long emergence periods.

MPS Council engages its internal actuaries to help model and determine likely levels of future claims in accordance with relevant actuarial guidance. The work performed is peer-reviewed by an external actuarial consultancy for material segments of business including all UK business. The level of future claims is however, an estimate, and given the long-term nature of these potential requests, the actual costs of assisting with those matters, where assistance is granted, could vary considerably. MPS retains the absolute right not to assist, but seeks to act in the interests of members as a whole when deciding to accept liability for claims emerging, and for the purposes of this disclosure has modelled the acceptance of requests at levels projected in line with prior years.

At the end of 2017, the Council's estimate of this potential future cost, if it agrees to assist, was £1,626m (2016: £1,590m). This estimate does not include any impact of the likely change to future claims for relevant primary care members attributable to the change in the personal injury discount rate for England, Wales and Scotland announced in February 2017. This is the interest rate used to calculate the present value of future costs relating to claims, with any downward change in this rate causing an increase in the cost of UK claims that require lifetime payments for medical care or loss of earnings. This will have a significant impact on the cost

of settling claims against UK primary care members, who constitute c 10% of paying members worldwide.

At around the same time as the March 2017 personal injury discount rate change, the UK Government announced that it would consider measures to mitigate the impact of this rate increase, which followed previous commitments to protect primary care members from the general rising cost of indemnity. At the time of signing these accounts, the UK Government has not specified the exact nature of the provision of financial support for primary care members and how that would relate to the indemnity sector. Discussions on this issue are continuing in confidence with the Department of Health and Social Care in respect of English primary care members, with engagement also commencing in respect of Wales, Scotland and Northern Ireland. The Council believe that it would be potentially misleading to include the impact of the change in the personal injury discount rate from March 2017 on relevant primary care members within the estimate of potential future costs before these arrangements are finalised.

These potential costs do not constitute a liability, contingent or otherwise, and are therefore not recognised in the balance sheet, because recognition of the liability is subject to MPS exercising its discretion to assist or not (see accounting policy note 4(k) for further details). These potential requests may, to the extent to which the Council exercises that discretion to indemnify, become an MPS liability over time, under the occurrence basis of indemnity that MPS provides to its members.

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.

25 RELATED PARTY TRANSACTIONS

The parent company has taken advantage of the exemption in s33.1A of FRS 102 from disclosing transactions with wholly owned subsidiaries of The Medical Protection Society.

As noted in the Report of the Council on page 21, nine (2016: nine) non-executive members of the Council have personal membership of MPS, which is purchased on a basis consistent with that of other members.

MPS considers Council and the Executive Committee together to be its Key Management Personnel. The Executive Committee includes the executive members of Council (as detailed in note 8), plus other executive directors of MPS that are not members of Council. This combined group has aggregate remuneration of £3,332k (2016: £2,575k).

NOTES

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The Medical Protection Society Limited

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