



2007 Report and  
Financial Statements

DENTISTS'  
PROVIDENT

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# Financial Summary

Dentists' Provident | Report and Financial Statements | 31 December 2007

## Key Performance Headlines

	2007 £	2006 £	change
<b>Operating Highlights</b>			
Premium Income	<b>10,139,692</b>	9,543,052	6.3 %
Sickness Claims Paid	<b>(2,729,239)</b>	(2,756,974)	- 1.0 %
Surplus / (Deficit) on Non-Investing Activities	<b>5,072,546</b>	(620,371)	- 917.7 %
Surplus on Investing Activities	<b>10,912,482</b>	12,502,515	-12.7 %
Bonuses Paid to Members	<b>(7,677,866)</b>	(6,653,625)	15.4 %
Operating Expenses	<b>(2,437,907)</b>	(2,319,449)	5.1 %
Total Assets	<b>164,783,018</b>	154,930,050	6.4 %
Investment Assets	<b>162,338,138</b>	153,417,155	5.8 %
Members Capital Accounts	<b>74,267,987</b>	73,158,089	1.5 %
Operating Expense Ratio (of Total Assets)	<b>1.48%</b>	1.50%	- 1.3 %

## Bonus Rates

Apportionment			
Ordinary Members	£ 1.68	£ 1.56	7.7 %
Deferred 26 Members	£ 0.84	£ 0.72	16.7 %
Commutated Members	£ 1.80	£ 1.80	- %
Interest on Members' Accounts	<b>5.50%</b>	5.00%	10.0 %
Terminal Bonus	<b>25.00%</b>	25.00%	- %

## Market Performance

FTSE Actuaries All Share Total Returns Index	<b>3,938.25</b>	3,739.46	5.3 %
Bank Base Rate	<b>5.50%</b>	4.75%	15.8 %

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**Non-Executive Directors**


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**M C Mace, MB, BS, FDS, MRCS, Chairman (62) †**

A Director since 1982. Vice-Chairman 1982 - 1998. Chairman 1998 - date. Consultant in oral and maxillofacial surgery (part time) Stoke Mandeville Hospital 1978 - 2003. Private oral and maxillofacial practice in London and Buckinghamshire. Member and past president of the Council, Craniofacial Society of Great Britain and Ireland. Past examiner for the Fellowship of The Royal College of Surgeons. Honorary member and former trustee and director, The Healing Foundation.

**J P Scott, BDS, MPhil, MFGDP (UK), Vice-Chairman (61) † ■**

Member of the Board of Directors since 1987. Vice-Chairman 1998 - date. General Dental Practitioner for 27 years. Regional Advisor in GDP 1987 - 1995, Research Fellow Institute of General Practice Exeter University, Founding Board member FGDP RCS (Eng.), Founding Editor "Primary Dental Care", appointed to Dental Practice Board as Dental Reference Officer in 1996, appointed as full-time Clinical Probity Officer in 2000.

**K W Alexander, BDS, MGDSRCS Eng., FFGDP (UK) (62) † ✕**

Appointed to the Board in 1993. In general dental practice 1968 - 2005. Advisor on general dental practice to NIMDTA 1987 - 2005. Examiner MGDSRCS (Irl.) 1991 - 1999. Core examiner MFGDP (UK) 1992 - 1998. FGDP Board member 1995 - 1997. Admitted to specialist list in Orthodontics 2002. Orthodontics only practice from 2005. Awarded honorary FFGDP (UK) in 2008.

**Miss K F Woollass, BDS, FDS, DOrth (53) ✕**

A Director since 1984. Specialist Orthodontic Practitioner South Yorkshire. Past Treasurer and Chair of Rotherham LDC. Past member of South Yorkshire Council BDA. Past Secretary of South Yorkshire British Society for Paediatric Dentistry. Past Secretary Local Orthodontic Committee South Yorkshire Strategic Health Authority. Postgraduate dental tutor for Doncaster, Barnsley and Rotherham and past member Rotherham Oral Health Advisory Group.

**C E C Lewis, BDS, DGDP, LDS (64)**

A Director since 1994. General Dental Practitioner in Cardiff for 40 years. Part-time clinical tutor in conservation department of Cardiff Dental School for 30 years. Dental advisor to South Glamorgan Health Authority 1989 - 1994. Honorary dental surgeon to Welsh Rugby Union since 1989. Examiner and past Vice-Chairman of Dental Nurse Exam Board. Former Chairman of Mid-Glamorgan LDC and District Dental Committee. Member of Denplan Professional Review Committee since 1998. Current member of Bro-Taf LDC.

**R K Raja Rayan, OBE, MSc, BDS, MGDS, DRD, LDS, MRD, FDS, FFGDP (54)**

Appointed to the Board in 1989. Former Dean, Faculty of General Dental Practitioners (UK) of the Royal College of Surgeons of England and has served as Chairman of Finance, Chairman of Examinations and as Vice Dean. He has examined for the Diploma, Membership and Fellowship examinations of the College. Associate Dean, London Deanery. Elected Council member of the General Dental Council.

**P B F Swiss, BDS, LDS, DGDP (UK) (64) ■**

Appointed to the Board of Directors in 1983. In general dental practice until 1982. Head of Dental Division of the Medical Defence Union from 1983 - 1994 and subsequently joined the board of Denplan Limited as Dental Director 1994 - 1997, Chairman of the Advisory Board 1996 - 2000. Formerly President of the BDA, a member of the BDA Council, Chairman of BDA Ethics Committee and BDA Benevolent Fund. Currently Chairman of FDI Committee on Ethics and Dental Legislation.

**T R King, BDS, FPC (59)**

A Director since 1998. A dental surgeon with the Royal Navy for 15 years and later ran a successful locum service in Peterborough. Subsequently joined the insurance profession and worked for 20 years as an independent financial advisor. He is currently a Dental Consultant to Lloyd & Whyte Limited.

# Directors

## **G E Kidner, BDS, MSc, LDS, FDS (Orth), MOrthRCS (42)**

Appointed to the Board in 2004. Consultant Orthodontist at Buckinghamshire and Oxford Radcliffe Hospitals NHS trusts since 2000 also part time Private Practice. Currently clinical director for head and neck services and a lead orthodontist for the regional cleft lip and palate service. Formerly a Postgraduate dental tutor.

## **D S Kooner, BDS, LDSRCS, MGDSRCS, DGDP (UK), Dip MDE (Lond) (52) ■**

Appointed as Director in 2004. General Dental Practitioner since 1981. Regional Advisor in General Dental Practice and VT Advisor (Barnet Scheme), London Deanery. Professional member of the Family Health Service Appeals Authority and General Commissioner of Income Taxes. Fellow of the Pierre Fauchard Academy. Justice of Peace since 1990. Examiner Royal College of Surgeons of England for the MFGDP examination. Examiner National Examination Board for Dental Nurses. Professional member of the Fitness to Practice panel of the GDC. Member of Ealing, Hammersmith and Hounslow LDC and Hounslow Primary Care Trust.

## **Miss H M Harrison, BDS, MFGDP (44) ✕**

Joined the Board in 2004. Principal of a multidisciplinary general and specialist dental practice in Cambridge. Past Secretary and current Chairman Eastern Counties Branch BDA. Member Representative Body of the BDA since 1997 and BDA Council, Ethics, Practice Management and Healthcare Policy committees. Past member Cambridgeshire LDC and member of Cambridge Postgraduate Education Committee. Past Dental Nursing tutor and examiner.

## **Executive Directors**

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### **I Passey, FCIB, ACol, Chief Executive (62) ✕**

Appointed to the Board on 1 January 2008 and Chief Executive since 1997. Senior Partner Vaughan Passey, Management and Compliance Consultants, since 1991. Chief Executive and Company Secretary Lancastrian Insurance and Financial Services Ltd. subsidiary of the Lancastrian Building Society, 1989 - 1991. Assistant General Manager Lancastrian Building Society 1981 - 1991. Previously Head of Internal Audit, Branch Manager and Accountant Midshires Building Society.

### **F M Mirza, ACA, Deputy Chief Executive and Secretary (37) ✕**

Joined the Society in 1999. Appointed to the Board on 1 January 2008. A Chartered Accountant, he has previously worked with BayernLB Group and PricewaterhouseCoopers.

†	A member of the Remuneration Committee
■	A member of the Audit Committee
✕	A member of the Risk / Nomination Committee

## Arbitrators

R F Austin, MBE, LDS, MGDS

I Gardner

M A Kettle, FDS, DOrth

P B Protheroe, BSc (Hons), FCIB

D M Lambert, BA (Hons), ACA

## Actuarial Function Holder

D Gulland, BA, FIA

Deloitte & Touche LLP, Stonecutter Court, 1 Stonecutter Street, London, EC4A 4TR

## External Auditors

Baker Tilly UK Audit LLP

2 Bloomsbury Street, London, WC1B 3ST

## Internal Auditors

Mazars LLP

24 Beavis Marks, London, EC3A 7NR

## Bankers

National Westminster Bank PLC

250 Regent Street, London, W1A 4RY

## Investment Advisors

Mercer Investment Consulting

Tower Place, London, EC3R 5BU

## Investment Managers

Invesco Perpetual

Perpetual Park, Perpetual Park Drive, Henley-on-Thames, RG9 1HH

AXA Framlington Unit Management LTD

155 Bishopsgate, London, EC2M 3FT

Alliancebernstein LTD

50 Berkley Street, London, W1J 8HA

First State Investments (UK) LTD

23 St Andrew Square, Edinburgh, EH2 1BB

Morley Fund Management

PO Box 87, 22 Grenville Street, Jersey, JE4 8PX

Insight Investment Funds Management LTD

PO Box 23630, Edinburgh, EH7 5GR

Barclays Global Investors LTD

Murray House, 1 Royal Mint Court, London, EC3N 4HH

## Property Advisors

Dornay Hubbard, FRICS

10 Gayfere Street, London, SW1P 3HN

## Solicitors

Lovells

Atlantic House, Holborn Viaduct, London, EC1A 2FG

Kirbys

Milburn House, Floor A, Dean Street, Newcastle-upon-Tyne, NE1 1LE

# Notice of Annual General Meeting

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Notice is hereby given that the fifteenth Annual General Meeting of the Members will be held at 9 Gayfere Street, London SW1P 3HN on Friday 16 May 2008 at 2.00 p.m. precisely for the following purposes, namely:

1. **To elect the Officers** of the Society.
  - A. the following Directors retire by rotation and have indicated their willingness to offer themselves for re-election:
    - i. Mr M C Mace
    - ii. Mr J P Scott
    - iii. Mr K W Alexander
    - iv. Miss K F Woollass
    - v. Mr C E C Lewis
    - vi. Mr R K Raja Rayan
    - vii. Mr T R King
    - viii. Mr G E Kidner
  - B. Mr F M Mirza was co-opted to the Board of Directors on 1 January 2008 and under the Society's rules has offered himself for election.
2. **To appoint the Arbitrators** of the Society.
3. **To adopt the Remuneration Report** of The Dentists' Provident Society Limited for the year ended 31 December 2007.
4. **To adopt the Annual Report and Financial Statements** of The Dentists' Provident Society Limited for the year ended 31 December 2007.
5. **To re-appoint Baker Tilly UK Audit LLP** as Auditors and to authorise the Board of Directors to fix their remuneration.

By order of the Board of Directors  
25 March 2008

**F M Mirza**  
Deputy Chief Executive and Secretary

All members are entitled to attend, take part and vote on any item on the Agenda. Members who wish to attend shall be admitted subject to satisfactory evidence of their membership and identity being produced. Members unable to attend may avail themselves of the Form of Proxy, which is to be found at the back of the Annual Report and Financial Statements.

## Modernisation Project

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I am delighted to inform you that we have made significant progress during 2007. Our modernisation project is progressing well and there have been many significant achievements, but there are still many challenges ahead.

In October, we wrote to all our members with our proposals for enhancing the Society's product offering and it gives me great pleasure to report that our proposals received overwhelming support from our members. This was evident in the form of the record number of votes cast at the Special General Meeting and I would like to thank the members for their show of support.

In January 2008, we successfully launched our new contract accompanied by a simple and elegant new organisational design. This ambitious project entailed conversion of our entire book of business to the new contract. We believe that as a result of the changes our product is simpler than before and allows us greater scope to expand easily the range of benefits in the future. Building on this success, we intend to launch a secure online business facility in mid 2008, which will allow our members to track the progress of their applications, request claim forms and partial withdrawal of funds and obtain up to the minute details of their membership, including the latest balance on the bonus accounts.

Your Board has invested significant time and resource in planning a smooth delivery of the changes. However, even with the best-laid plans, there can be gaps and if this is the case, I would ask for your patience as once our product and processes are fully integrated, you will notice tangible improvements in all aspects of your dealings with the Society.

## Results

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The Society's membership at 31 December 2007 stood at 13,204 and our new business continues to perform strongly. The results for the year reflect the investment we have made in our people, processes and systems, in particular in the claims and underwriting functions. However, like the previous two years, a higher than average number of retiring members chose to realise their investment in the Society rather than continue as Commuted Members.

Commuted Membership of the Society remains a valuable proposition. The tax status of the benefits and the instant accessibility of the funds combined with security and stability of returns, means that Commuted Membership is often a superior alternative to many other competing propositions. Our Commuted Members will be pleased to note that it is now also possible to write the balance on the bonus account into trust, thus increasing the flexibility of membership even further.

The Society's premium income increased by 6.3% to £10.1m. Our overall profitability continues to reflect the impact of investment in our processes and systems and the costs of modernising our brand. We anticipate the majority of these costs to begin tailing off from the middle of 2008. In spite of the higher than average costs, our income from insurance outpaced the growth in associated costs.

The total assets of the Society reached £165m. Our portfolio again performed strongly, meeting our performance expectations for the full year. 2007 was literally a year of two halves. Equities performed strongly in the first half of the year, however starting with the sub-prime issues in the United States, the second half of the year saw a dramatic rise in risk aversion and a flight towards safe havens and since the year-end, the outlook remained challenging. However, I am pleased to inform you that in spite of the volatile markets, our managers continue to produce encouraging results and we remain very positive about our business and our capital strength.

## Bonuses

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Reflecting the strength of our business and your Board's confidence, we are recommending an increase in:

- the rate of interest from 5% to 5.5%;
- the rate of apportionment for Ordinary Members from £1.56 per Share to £1.68; and
- the rate of apportionment for Deferred Members from £0.72 per Share to £0.84.

# Chairman's Report

Your Board has considered the impact of the recent turmoil in the equity markets on the Society's terminal bonus. I can confirm that our conservative distribution policy in recent years, combined with the impact of the investment portfolio restructuring means that our assets remain comfortably in excess of requirements and at present, we do not consider it necessary to propose any changes to our bonus rates. The Society's terminal bonus therefore remains unchanged at 25%.

## Our People

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Our continued success is based on the talent and dedication of all our people. The skill, knowledge and commitment of our staff are essential in delivering the highest standards of service to our members and managing the resources of the Society effectively. I would like to thank all our staff for their hard work, especially their instrumental role in effecting the wide-ranging changes over the last two years.

## The Board

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I would like to thank my colleagues on the Board for their dedication and support.

Peter Swiss retires from the Board of Directors this year and I would like to pay tribute to his sound advice to the Board over the last 25 years. We have all respected Peter's knowledge of the members' needs and his continuing advocacy in supporting them. His guidance has been invaluable and his commitment, even when he had so many other competing responsibilities as a leader of our profession, has been admirable.

I have known Peter since we were students together and I, and I know the rest of the Board, will miss his wise counselling and his excellent company. We wish you a long and happy retirement.

Ian Passey, our Chief Executive and member of the Board of Directors, is also retiring this year. I would like to pay tribute to his enormous contribution to the Society. Ian arrived at a time of increasing regulation within the industry. However, Ian with his intimate knowledge of our business and the industry has ensured that we not only kept pace with the changing regulatory environment but also achieved our business objectives swiftly and the structures he has put in place will ensure this continues to be the case.

He has also been a tremendous support to me and I know I speak for all members of the Board in wishing him a very well earned and happy retirement.

I am delighted to announce the appointment of Farrukh Mirza as Chief Executive following Ian's retirement and the rest of the Board and I wish him every success in his new role.

**Martin Mace**

25 March 2008

The Society is committed to the highest standards of Corporate Governance for the benefit of its members, employees and other stakeholders. The concepts of ethics, integrity and accountability are firmly embedded in the Society's activities and structures. This report describes how the Society applies the principles of good governance to its business.

## **The Board of Directors**

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The Board of Directors provides leadership and control for the Society. It has delegated the management and day-to-day running of the Society to the Chief Executive and the Deputy Chief Executive but keeps specific items for its decision. These include agreement of strategic objectives, annual plans and targets, monitoring performance against key financial and non-financial objectives, overseeing the systems for risk management, setting standards in governance matters, review of the performance of the various sub-committees of the Board and authorisation of senior appointments.

The Board comprises the Chairman, ten non-executive members and two executive directors. The directors and their biographies appear on pages 2 and 3.

## **Appointment and Reappointment of Directors**

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The Rules of the Society require that any newly appointed member of the Board be subject to election at the next Annual General Meeting. In addition, any individual who has served as a director for a period of nine years or more shall retire by rotation every year. Each Director with less than nine years service must submit themselves to re-election at regular intervals and at least once every three years.

The Board has put in place a clear and rigorous process for the appointment of new members. All appointments to the Board are based on merit and objective criteria. Induction is provided to all members of the Board on appointment and in-house seminars are held on a regular basis to enable the Directors to refresh their knowledge and skills and to ensure that they are fully informed of issues of relevance for the Society and its operations.

The terms and conditions of appointment of new Directors are available for inspection at the registered office of the Society during normal business hours and at the Annual General Meeting.

The Risk / Nomination Committee has considered the members standing for re-election at this year's Annual General Meeting and it recommends to the members of the Society the election and re-election of the Directors listed on the Notice of the Annual General Meeting based upon their professional standing and previous contribution to the Society.

The Directors have access to the Society's Secretary, who is responsible for ensuring that the Board complies with the appropriate procedures. The Directors may also take independent professional advice at the Society's expense, if necessary, for furtherance of their duties as members of the Board or of any of its sub-committees.

## **Independence of the Directors**

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All Non-Executive Directors are independent of the Executive and have varied backgrounds, skills and experience. The Non-Executive Directors bring independent judgement to bear on key issues of strategy, performance, resources, appointments and governance.

The background, balance of skills and experience, the independence of the individual Directors and the overall size of the Board is kept under review by the Risk / Nomination Committee. The Board has specifically considered the independence of each Director, taking into account the length of service, other directorships, business interests and their benefits with the Society. The Board considers all Non-Executive Directors to be independent in character and judgement, including those who have been members of the Board for more than nine years. However, Lloyd & Whyte Limited, a firm of independent financial advisors, with whom the Society has a business relationship, employs Mr King as a consultant. The Board recognises that Mr King may not be perceived to be independent and accordingly he has not been classified as an Independent Director.

# Corporate Governance

## Roles of the Chairman and Chief Executive

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The roles of the Chairman and Chief Executive are separate, with a clear division of responsibilities. The job descriptions of the Chairman and Chief Executive are set out in writing and have been approved by the Board.

The Chairman is responsible for leading the Board of Directors and for ensuring that each Director is able to make an effective contribution. The Chairman is also responsible for monitoring the information distributed to the Board to ensure that it is sufficient, accurate, timely and clear, to enable the Directors to discharge their duties.

The Chief Executive is responsible for ensuring that the strategic direction agreed by the Board is followed and formulates policy proposals for the Board to consider. He provides leadership through the day-to-day management of the affairs of the Society including the management of human resources and financial capital.

## Performance Appraisal

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The Board undertakes an annual evaluation of its performance. The Chairman conducts evaluations of the performance of the individual members and their performance on the various Committees annually.

The Vice-Chairman, taking into account the views of the other members of the Board, carries out an evaluation of the performance of the Chairman.

The Chairman meets the rest of the directors at least once a year without the Chief Executive and Deputy Chief Executive being present and has a private discussion with each member of the Board on a wide range of matters, including their performance and any matters that the individual members wish to raise with the Chairman.

The Board discusses the results of the performance appraisal and uses the results to improve the efficiency and effectiveness of the Board in managing the affairs of the Society.

## Sub-Committees of the Board of Directors

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There are three Sub-Committees of the Board and each has specific terms of reference, which are reviewed periodically.

### Audit Committee

The members of the Audit Committee during the year ended 31 December 2007 were Julian Scott (Chairman), Davinderpal Kooner and Peter Swiss.

The Audit Committee receives reports on various aspects of control, reviews the Society's financial statements, determines whether proper books and records have been maintained in accordance with the Friendly Societies Act and ensures that no restrictions are placed on the scope of the statutory audit or on the independence of the Internal Audit function.

The Audit Committee has unrestricted access to the Society's internal and external auditors. It meets with the external auditors at least once a year. The independence and objectivity of the external auditors is considered periodically along with the scope and results of the audit and its cost effectiveness.

The Audit Committee's terms of reference are available on the Society's website or upon request from the Society's Secretary.

### Risk / Nomination Committee

The members of the Risk / Nomination Committee during the year ended 31 December 2007 were Ken Alexander (Chairman), Helen Harrison, Kathryn Woollass, Ian Passey and Farrukh Mirza.

The Committee's primary purpose is to oversee the management and development of the Society's investment strategy and to define the Society's risk appetite, agree policy and oversee the risk management process. The Committee has developed a list, which prioritises key risks together with actions to monitor and mitigate these risks. The Society considers risk management as essential in achieving its business objectives and continues to integrate the risk management into its systems and processes.

The Risk / Nomination Committee is also responsible for recommending the appointment of members to the Board and for reviewing senior management succession plans. The Risk / Nomination Committee makes recommendations for all appointments to and removals from the Board as well as reappointments. As part of this process, the Committee ensures that suitable induction programmes are in place for any new members of the Board and adequate succession plans are in place for all key members of the management team, in particular the Chairman and Chief Executive. The terms of reference for the Risk / Nomination Committee are available on the Society's website or upon request from the Society's Secretary.

## Remuneration Committee

The current members of the Remuneration Committee are Martin Mace (Chairman), Julian Scott and Ken Alexander.

The Committee is responsible for formulating the Society's policy on remuneration of senior executives. The report of the Remuneration Committee on behalf of the Board is set out on pages 13 and 14.

All members of the Remuneration Committee are Non-Executive Directors. The Committee's terms of reference are available on the Society's website or upon request from the Society's Secretary.

## Internal Controls

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The Board acknowledges its overall responsibility for the Society's system of internal control and for reviewing its effectiveness. Such a system can provide only reasonable and not absolute assurance against material financial misstatement or loss.

The Board confirms that, during the year under review and up to the date of approval of the financial statements, processes were in place for the identification, evaluation and management (including internal controls) of significant risks faced by the Society and that those processes were regularly reviewed by the Board. The key elements of the procedures established to provide effective internal controls include:

- a clearly defined organisational structure with defined authority limits and reporting mechanisms to the Board, which supports the maintenance of a strong control environment;
- an annual budgeting and quarterly financial reporting system, which enables progress against long term objectives and annual budgets to be monitored, trends to be evaluated and variances acted upon;
- a Risk Management function for ensuring that risks are identified, assessed and managed throughout the Society;
- the Society's Internal Audit function reports to the Chief Executive and the Audit Committee and assists the Society in achieving its control objectives by evaluating and improving the effectiveness of risk management control and governance processes;
- a set of policies and procedures relating to capital expenditure, IT security, business continuity and business risk management;
- the Audit Committee and the Risk / Nomination Committee, which on behalf of the Board, review the effectiveness of the systems of internal control;
- the reports of the Sub-Committees to the Board on the compliance, internal audit and risk management programmes and the circulation of the minutes of the meetings of the Sub-Committees to all Directors.

Controls are reviewed systematically by Internal Audit. Emphasis is placed on areas of greatest risk as identified by risk analysis. In addition, the activities of the Society are subject to regulatory supervision by the Financial Services Authority.

The effectiveness of the Society's internal controls is reviewed periodically by the Audit Committee and Risk / Nomination Committee. This is achieved primarily through the review of the Internal Audit reports and of the management letters provided by the external auditors, which include details of any material internal control issues highlighted in the course of their normal audit work.

# Corporate Governance

The Board confirms that with the assistance of reports from the Audit Committee and the Risk / Nomination Committee, they have reviewed the effectiveness of the systems of internal control in existence during the year ended 31 December 2007 and up to the date of approval of the financial statements. The review covered all significant controls including financial, operational and risk management.

## Going Concern

The Directors are satisfied that the Society has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Relations with Members

The Society is committed to continuing open dialogue with its members and Independent Financial Advisors in order to raise understanding and awareness of the Society's products, strategy, operations, management and plans.

The senior staff of the Society attend a number of industry events and these provide an excellent forum for hearing the views of the members and other key stakeholders directly.

All members are encouraged to attend the Annual General Meeting and notice is sent at least 21 days in advance of the meeting. At the Annual General Meeting, separate resolutions are proposed on each substantive issue. When an issue has been determined at the meeting by a show of hands, the Chairman confirms the number of proxy votes for and against the resolution. The Chairmen of the Remuneration, Audit and Risk / Nomination Committees are also available to answer relevant questions at the Annual General Meeting.

## Attendance at scheduled meetings during 2007

Name	Committee of Management	Audit Committee	Risk / Nomination Committee	Remuneration Committee
M C Mace	4 / 4			1 / 1
J P Scott	3 / 4	3 / 4		1 / 1
K W Alexander	4 / 4		4 / 4	1 / 1
Miss H M Harrison	3 / 4		4 / 4	
G E Kidner	3 / 4			
T R King	3 / 4			
D S Kooner	4 / 4	4 / 4		
C E C Lewis	4 / 4			
R K Raja Rayan OBE	2 / 4			
P B F Swiss	4 / 4	4 / 4		
Miss K F Woollass	4 / 4		4 / 4	
T A M Fisher	-			
I Passey <sup>1</sup>	4 / 4	4 / 4	4 / 4	
F M Mirza <sup>1</sup>	4 / 4	4 / 4	4 / 4	

1 Messrs Passey and Mirza were not appointed to the Board until 1 January 2008 but participated in the meetings of the Board and the Audit Committee upon request by the Chairmen

This report provides details of the remuneration of both the members of the Board of Directors and the Chief Executive and will be put to a vote of the members of the Society at its Annual General Meeting to be held on 16 May 2008.

## Introduction

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The Remuneration Report has been prepared by the Remuneration Committee on behalf of the Board and contains the following information:

- A description of the role of the Remuneration Committee;
- A summary of the Society's remuneration policy, including a statement of policy on members of the Board and Chief Executive; and
- Details of the terms of service contracts and remuneration of members of the Board and Chief Executive.

## Role of the Remuneration Committee

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The Committee's principal terms of reference are:

- Determine the policy on remuneration and main terms and conditions of employment;
- Oversee the contractual arrangements for the Executive and approve the principal terms and conditions of employment of Executives;
- Review and determine total remuneration packages for each member of the Executive;
- Review salaries using comparisons against appropriate market indicators; and
- Approve the design of, and determine targets for, any performance related pay schemes operated by the Society and approve the total annual payments made under such schemes.

All members of the Remuneration Committee are Non-Executive Directors. The current members are Martin Mace (Chairman) Julian Scott and Ken Alexander. The Committee's role in respect of the Executive is to determine the remuneration and employment policy, oversee contractual arrangements, review salaries and approve any incentive schemes and payments under such schemes.

The members of the Remuneration Committee have no involvement in the day-to-day business of the Society and they have no personal financial interest in the Committee's decisions. The Committee met once in the period under review.

To ensure that the Remuneration Committee receives independent guidance on pay and contractual arrangements, advice is sought from external consultants.

## Remuneration Policy

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In determining the remuneration policy for the Executive, the committee has considered a number of factors including:

- The importance of attracting, retaining and motivating senior management of suitable calibre to further the success of the Society;
- Ensuring that the interests of the Executive are aligned with those of the Society; and
- Rewarding individuals for their contribution to the Society.

The current policy is to remunerate the Executive in line with the market rates for similar roles in comparable organisations, within the financial services sector.

The Executive remuneration package comprises a basic salary, which is designed to be appropriate and competitive for the responsibilities involved. The Executive salary is reviewed annually having regard to

# Remuneration Report

current market practice, business and individual performance in the year. The normal salary review date for the Executive is 1 January each year. Each Executive also participates in the Society's defined contribution pension plan. The basic salary is fully pensionable.

Remuneration for the Non-Executive Directors is a matter for the Chairman in consultation with the Society's Executive. Non-Executive Directors are entitled to claim Session Charges whilst on Society business. Neither the Chairman nor any Director is involved in decisions, which directly affect their remuneration except decisions about the remuneration of Directors generally. Fees paid to the Non-Executive Directors are not pensionable.

It is the Society's policy that the notice period for Executives should not exceed one year. The contract is terminable by the individual by giving three months notice.

Details of remuneration for members of the Board and the Chief Executive are as follows:

<b>Name</b>	<b>Basic Salary / Fees £</b>	<b>Pension Contribution £</b>	<b>Benefits in Kind £</b>	<b>Total £</b>
M C Mace	6,362	-	-	6,362
J P Scott	1,992	-	-	1,992
K W Alexander	5,615	-	-	5,615
Miss H M Harrison	3,422	-	-	3,422
G E Kidner	856	-	-	856
T R King	1,976	-	-	1,976
D S Kooner	-	-	-	-
C E C Lewis	1,960	-	-	1,960
R K Raja Rayan OBE	739	-	-	739
P B F Swiss	1,960	-	-	1,960
Miss K F Woollass	3,904	-	-	3,904
T A M Fisher	-	-	-	-
I Passey	147,293	58,929	1,753	207,975
	<b>£176,079</b>	<b>£58,929</b>	<b>£1,753</b>	<b>£236,761</b>

The normal retirement age for the Chief Executive and members of Board is 65.

# Annual Report of the Board of Directors

Dentists' Provident | Report and Financial Statements | 31 December 2007

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## Business Review

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As at 31 December 2007, the membership of the Society stood at 13,204. During 2007, the premium income increased 6.3% (2006: 6.0%) to £10,139,692. Sickness claims fell by 1% to £2,729,239 (2006: £2,756,974). The sickness business provision was reduced by £100,000 on the advice of the Society's actuary. The Society incurred significant costs in connection with the new business initiatives and as a result, operational expenses have remained higher than average.

The Society's portfolio has produced a return of 6.4% in line with our benchmark expectations.

The strong investment performance in 2007 has allowed the Board to increase the rate of interest from 5% to 5.5% and maintain the rate of terminal bonus at 25%.

Our capital position remains very strong and our current investment strategy puts us in a significantly improved position to meet the challenges of the investment markets in the future.

Our income protection contract continues to perform strongly and in view of the continued strength of our insurance business, your Board has decided to increase the rate of apportionment for Ordinary Members to £1.68 per share (2006: £1.56 per share) and for Deferred Members to £0.84 (2006: £0.72) per Deferred Share. The rate of apportionment for Commuted Members remains unchanged at £1.80 per share.

## Directors and Chief Executive

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The following were Directors during the year ended 31 December 2007:

M C Mace - Chairman	D S Kooner
J P Scott – Vice-Chairman	C E C Lewis
K W Alexander	R K Raja Rayan OBE
Miss H M Harrison	P B F Swiss
G E Kidner	Miss K F Woollass
T R King	T A M Fisher (Resigned 10 January 2007)

The Chief Executive for the year was Ian Passey.

## Objectives of the Society

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The objectives of the Society are to provide the members with replacement of income lost as a result of sickness or accident, together with the accumulation of any surplus contributions, after the provision of such insurances. No activities carried out by the Society are believed to be outside its powers.

## Solvency

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Throughout the financial year, the Society maintained its solvency in excess of the required margin for its relevant class of business.

## Future Developments

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The Board is of the opinion that future business developments will include enhancements to the existing range of protection products and expansion of the product range to cater for the changing needs of the dental profession.

## Changes in Fixed Assets

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Details of significant changes in the fixed assets of the Society are detailed in Note 13 to the financial statements.

# Annual Report of the Board of Directors

Dentists' Provident | Report and Financial Statements | 31 December 2007

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## Donations

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During the financial year, the Society made the following charitable donations.

	£
British Dental Association Benevolent Fund	10,000
Dentaid	6,000
	<b>£16,000</b>

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The Board considers that the above donations were paid in furtherance of the general interests of the dental profession. No political donations were made.

## Complaints Policy

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The Society takes all complaints extremely seriously. Formal procedures are in place for handling complaints.

The Society deals with all complaints as a matter of urgency and all complaints are handled by suitably qualified managers within the Society.

Serious complaints are dealt with by the Executive. In the event a complaint cannot be resolved to the complainant's satisfaction, they are provided with written details of the dispute resolution mechanisms available. Members can choose to refer the complaint to a panel of independent arbitrators or alternatively, request the Financial Ombudsman Service for a ruling on the complaint.

## Responsibilities of the Directors in the Preparation of Financial Statements

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The Directors are responsible for preparing financial statements for each financial year which comply with the provisions of the Friendly Societies Act 1992 and the regulations made under it. In preparing those financial statements, the Board is required to:

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

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the financial statements comply with the provisions of the Friendly Societies Act 1992 and the regulations made under it. The Directors are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors of  
Dentists' Provident Society Limited on 25 March 2008  
and signed on its behalf.

**Farrukh Mirza**

Deputy Chief Executive and Secretary

# Income and Expenditure Account

Dentists' Provident

Report and Financial Statements

31 December 2007

## Technical Account - Long Term Business

	Notes	2007 £	2006 £
Earned Premiums	2	<b>10,139,692</b>	9,543,052
Investment Income	3	<b>2,614,651</b>	5,923,012
Unrealised Gains on Investments	4	<b>8,977,272</b>	6,868,464
		<b>21,731,615</b>	22,334,528
Claims Incurred	5	<b>(8,011,761)</b>	(6,265,293)
Change in Other Technical Provisions			
Long Term Business Provisions			
Members' Withdrawals		<b>5,282,522</b>	3,508,319
Sickness Business Provision	15	<b>100,000</b>	(5,087,000)
		<b>5,382,522</b>	(1,578,681)
Bonuses	6	<b>(7,677,866)</b>	(6,653,625)
Net Operating Expenses	7	<b>(2,437,907)</b>	(2,319,449)
Investment Expenses and Charges			
Investment Management Expenses		<b>(679,441)</b>	(288,961)
Transfer to Fund for Future Appropriations	14	<b>£8,307,162</b>	£5,228,519

### Continuing Operations

The amounts stated above relate to the continuing operations of the Society

### Recognised Gains and Losses

All recognised gains and losses in relation to long term business are dealt with in the Income and Expenditure Account - Long Term Business.

# Balance Sheet

Dentists' Provident | Report and Financial Statements | 31 December 2007

	Notes	2007 £	2006 £
<b>Assets</b>			
Investments			
Land and Buildings	10	<b>4,500,000</b>	2,455,000
Other Financial Investments	11	<b>157,838,138</b>	150,962,155
		<b>162,338,138</b>	153,417,155
Debtors			
Other Debtors	12	<b>126,099</b>	260,794
Other Assets			
Tangible Fixed Assets	13	<b>2,296,029</b>	1,223,367
Prepayments and Accrued Income			
Other Prepayments and Accrued Income		<b>22,752</b>	28,734
		<b>£164,783,018</b>	£154,930,050
<b>Liabilities</b>			
Fund for Future Appropriations	14	<b>66,036,385</b>	57,729,223
Technical Provisions			
Long Term Business Provision	17	<b>96,984,987</b>	95,975,089
Creditors			
Bank Overdraft		<b>401,997</b>	134,079
Accruals and Deferred Income		<b>1,359,649</b>	1,091,659
		<b>£164,783,018</b>	£154,930,050

Approved and authorised for issue by the Board of Directors of Dentists' Provident Society Limited on 25 March 2008 and signed on its behalf.

**Ian Passey**  
Chief Executive

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 1. Accounting Policies

### Basis of Preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and land and buildings and in accordance with applicable accounting standards and the guidance on Accounting for Insurance Business issued by the Association of British Insurers. The financial statements are presented in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

### Land and Buildings

Land and buildings are included in the financial statements at fair value on the basis of independent valuations. No depreciation is provided on buildings as the Directors consider the remaining useful economic life of the buildings to significantly exceed 50 years and any accumulated depreciation and annual depreciation charge would be immaterial.

### Other Financial Investments

Other financial investments comprise listed investments, unit trusts and secured mortgage loans to staff. Investments in unit trusts and listed investments are stated at fair value as at the balance sheet date. Secured mortgage loans to staff are included at cost.

### Foreign Currencies

Foreign currency transactions are translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange prevailing at the balance sheet date. All exchange gains and losses are included in the income and expenditure account.

### Tangible Fixed Assets

Depreciation is provided on all tangible fixed assets to write off the cost less estimated residual value at the following rates:

Office equipment	25% per annum on a straight line basis
Computer equipment	25% per annum on a straight line basis

No depreciation is provided on assets in the course of construction.

### Fund for Future Appropriations

The fund for future appropriations represents all funds, which have not been allocated to the members by the end of the financial year. Any surplus or deficit arising on the technical account is transferred to or from the fund on an annual basis.

### Long Term Business Provision

The Long Term Business Provision has been calculated by the Actuarial Function Holder having due regard to the requirements of The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

The following table summarises the main elements of the method and basis. These are the same as used to calculate the mathematical reserves required by IPRU(INS), GENPRU and INSPRU.

Summary of Valuation Basis			
	Deferred 0 Weeks Reducing	Deferred 26 Weeks Level	Deferred 52 Weeks Level
Method	Gross Premium	Gross Premium	Gross Premium
Interest Rate	3.50%	3.50%	3.50%
Allowance for Expenses	25% of Gross Premium	25% of Gross Premium	25% of Gross Premium
Mortality	Nil	Nil	Nil
Morbidity	Prudent assessment based on Society's recent experience	Prudent assessment based on Society's recent experience	Prudent assessment based on Society's recent experience

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## Acquisition Costs

Acquisition costs represent the direct and indirect costs relating to the obtaining and processing of new business. Having regard to the future premium levels, the Directors do not consider the deferred acquisition costs to be material. Consequently, all acquisition costs are recognised in the income and expenditure account in the period they are incurred.

## Pension Scheme

The Society operates defined contribution schemes for its employees. The contributions payable to the schemes are charged to the income and expenditure account as incurred.

## Premiums

Premiums are credited to the income and expenditure account as they become due.

## Investment Income

Investment income includes dividends, interest, rent, gains and losses on realisation of investments and related expenses. Dividends are included as investment income on the date that shares become ex-dividend. Interest and rent are recorded on an accruals basis. Realised gains and losses on investments are calculated as the difference between the net sales proceeds and original cost in the case of investments purchased in the year and otherwise as the difference between the net sales proceeds and prior year's valuation.

## Sickness Benefit Payments

Claims are recorded on the basis of notifications received.

## 2. Earned Premiums

	2007 £	2006 £
Gross premiums written comprise:		
Basic subscriptions	<b>3,692,876</b>	3,641,901
Supplementary subscriptions	<b>6,446,816</b>	5,901,151
	<b>£10,139,692</b>	£9,543,052

The premiums arise from direct insurance business relating to individual premiums primarily from within the UK, but also from the Republic of Ireland, the Channel Islands and the Isle of Man.

## 3. Investment Income

	2007 £	2006 £
Income from land and buildings	<b>27,974</b>	27,111
Income from listed investments	<b>1,693,487</b>	2,482,434
Income from other financial investments	<b>282,596</b>	185,485
Gains on realisation of investments	<b>610,594</b>	3,227,982
	<b>£2,614,651</b>	£5,923,012

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 4. Unrealised Gains on Investments

	2007	2006
	£	£
Freehold land and buildings	<b>2,045,000</b>	-
Other financial investments	<b>6,932,272</b>	6,868,464
	<b>£8,977,272</b>	£6,868,464

## 5. Claims Incurred

	2007	2006
	£	£
Withdrawals from members' capital accounts	<b>5,282,522</b>	3,508,319
Sickness claims paid	<b>2,729,239</b>	2,756,974
	<b>£8,011,761</b>	£6,265,293

## 6. Bonuses

	2007	2006
	£	£
Apportionment and interest to ordinary members on withdrawal	<b>21,649</b>	21,558
Interest to ordinary members	<b>1,893,134</b>	1,705,306
Apportionment to ordinary members	<b>1,928,034</b>	1,770,577
	<b>£3,842,817</b>	£3,497,441
Apportionment and interest to commuted members on withdrawal	<b>102,929</b>	57,267
Interest to commuted members	<b>1,854,551</b>	1,696,166
Apportionment to commuted members	<b>592,123</b>	563,457
	<b>£2,549,603</b>	£2,316,890
Total apportionment and interest to members on withdrawal	<b>124,578</b>	78,825
Total interest to members	<b>3,747,685</b>	3,401,472
Total apportionment to members	<b>2,520,157</b>	2,334,034
Terminal bonus	<b>1,285,446</b>	839,294
	<b>£7,677,866</b>	£6,653,625

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 7. Net Operating Expenses

	2007 £	2006 £
Acquisition costs	874,205	829,448
Administrative expenses	1,563,702	1,490,001
	<b>£2,437,907</b>	<b>£2,319,449</b>
Net operating expenses include:		
Commissions on direct business	£387,166	£390,278
Auditors remuneration - Audit services	£38,305	£33,931
Actuarial fees	£94,304	£144,034
Depreciation	£45,489	£50,330

## 8. Staff Costs

	2007 £	2006 £
Wages and salaries	815,955	681,205
Social security costs	87,999	72,709
Other pension costs	184,931	185,711
	<b>£1,088,885</b>	<b>£939,625</b>

The average number of persons employed, including the Board of Directors, was as follows:

	Number	Number
Acquisition	6	5
Management and Administration	21	23
	<b>27</b>	<b>28</b>

The emoluments of the Board of Directors comprised:

	£	£
Remuneration	177,832	178,378
Pension Contributions	58,929	59,280
	<b>£236,761</b>	<b>£237,658</b>

Chairman's emoluments	£6,362	£6,319
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Emoluments of the highest paid Director:

Remuneration	149,046	142,690
Pension contributions	58,929	59,280
	<b>£207,975</b>	<b>£201,970</b>

The emoluments, excluding pension contributions, of the other members of the Board fell in the following bands:

	Number	Number
£Nil - £5,000	9	10
£5,001 - £10,000	1	1

The emoluments of the Board of Directors include the emoluments of the Chief Executive, who has been deemed a member of the Board for the purposes of these disclosures in accordance with Schedule 4 (12) of the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 9. Taxation

The existing activities of the Society are not chargeable to income or corporation tax under the Income and Corporation Taxes Act 1988.

## 10. Land and Buildings

	2007 £	2006 £
Freehold land and buildings at valuation	<b>£4,500,000</b>	£2,455,000
Freehold land and buildings at cost	<b>£3,205,747</b>	£3,205,747

The freehold properties were revalued as at 31 December 2007 by Messrs Dornay Hubbard, Chartered Surveyors, on an open market value basis and in accordance with the RICS Appraisal and Valuation Manual. The valuation represented an increase of £2,045,000 from the previous valuation in 2004.

The value of land and buildings occupied by the Society for its own use amounted to £2,800,000 (2006: £2,415,000).

Land and buildings above include land at a valuation of £2,430,000 (2006: £1,130,000).

## 11. Other Financial Investments

	Shares and other variable yield securities	Debt and other fixed interest securities	Loans to staff secured by mortgages	Total
<i>At 31 December 2006</i>	<i>£98,027,578</i>	<i>£52,886,577</i>	<i>£48,000</i>	<i>£150,962,155</i>
At 31 December 2007	<b>£105,836,816</b>	<b>£51,953,322</b>	<b>£48,000</b>	<b>£157,838,138</b>

The other financial investments exceeded cost by the following amounts:

<i>At 31 December 2006</i>	<i>£6,448,923</i>	<i>£419,541</i>	<i>-</i>	<i>£6,868,464</i>
At 31 December 2007	<b>£11,017,670</b>	<b>£2,392,513</b>	<b>-</b>	<b>£13,410,183</b>

The other financial investments include £127,869,393 (2006: £112,206,853) relating to investments listed on a recognised stock exchange.

## 12. Other Debtors

	2007 £	2006 £
Other Debtors	<b>£126,099</b>	£260,794

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 13. Tangible Fixed Assets

	Office equipment	Computer equipment	Total
<b>Cost</b>			
<i>At 1 January 2007</i>	393,514	1,652,932	2,046,446
Additions	5,970	1,112,181	1,118,151
<b>At 31 December 2007</b>	<b>£399,484</b>	<b>£2,765,113</b>	<b>£3,164,597</b>

### Depreciation

<i>At 1 January 2007</i>	369,730	453,349	823,079
Charge for the year	13,689	31,800	45,489
<b>At 31 December 2007</b>	<b>£383,419</b>	<b>£485,149</b>	<b>£868,568</b>

### Net book value

<i>At 1 January 2007</i>	£23,784	£1,199,583	£1,223,367
<b>At 31 December 2007</b>	<b>£16,065</b>	<b>£2,279,964</b>	<b>£2,296,029</b>

Computer equipment includes assets in the course of construction of £2,164,371 (2006: £1,006,364).

## 14. Fund for Future Appropriations

	2007 £	2006 £
<i>At 1 January</i>	<b>57,729,223</b>	52,500,704
Transfer from income and expenditure account	<b>8,307,162</b>	5,228,519
<b>At 31 December</b>	<b>£66,036,385</b>	£57,729,223

## 15. Sickness Business Provision

	2007 £	2006 £
<i>At 1 January</i>	<b>22,817,000</b>	17,730,000
Transfer (to) / from income and expenditure account	<b>(100,000)</b>	5,087,000
<b>At 31 December</b>	<b>£22,717,000</b>	£22,817,000

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

## 16. Members' Capital Accounts

	2007 £	2007 £	2006 £	2006 £
	Ordinary	Commuted	Ordinary	Commuted
At 1 January	36,847,674	36,310,415	35,368,342	35,483,735
Members' capital transferred	(1,433,052)	1,433,052	(1,346,823)	1,346,823
Bonuses (Note 6)	3,842,817	2,549,603	3,497,441	2,316,890
Withdrawals	(1,016,100)	(4,266,422)	(671,286)	(2,837,033)
At 31 December	<b>£38,241,339</b>	<b>£36,026,648</b>	£36,847,674	£36,310,415
<b>Total members' capital accounts</b>		<b>£74,267,987</b>		£73,158,089

## 17. Long Term Business Provision

	2007 £	2006 £
<b>Analysis of Insurance Liabilities</b>		
Members' capital accounts (Note 16)	74,267,987	73,158,089
Sickness business provision (Note 15)	22,717,000	22,817,000
<b>Total long term business provision</b>	<b>£96,984,987</b>	£95,975,089

## 18. Insurance Liabilities

	2007 £	2006 £
<b>Capital Statement</b>		
	<b>Holloway With-Profits Business</b>	<i>Holloway With-Profits Business</i>
<b>Available Capital Resources</b>		
Fund for Future Appropriations	66,036,385	57,729,223
Adjustments onto regulatory basis:		
FFA Adjustment	-	-
Adjustment to Assets	-	(73,650)
Adjustment for Subsidiary Values	-	-
Other Adjustments	(1,600,000)	(1,600,000)
Total Available Capital Resources	<b>£64,436,385</b>	£56,055,573
<b>Holloway With-Profit Liabilities on a Statutory Basis</b>		
Policyholder Obligations	96,984,987	95,975,089
Technical Provision in the Balance Sheet	96,984,987	95,975,089

## Summary

As at 31 December 2007, the total available capital resources of the Society's Holloway With-Profits business amounted to £64,436,385 (2006: £56,055,573), its capital resource requirements amounted to £11,795,383 (2006: £11,443,527) resulting in a surplus of available capital resources over regulatory capital of £ 52,641,002 (2006: £44,612,046).

# Notes to the Financial Statements

Set out below are the details of how the available capital resources have been calculated, the restrictions in place over the available capital resources, the basis of calculating the regulatory capital requirements and an explanation of the change in available capital.

## **Basis of Calculation of Available Capital Resources**

The available capital of the Holloway With-Profits Fund has been determined in accordance with the Financial Services Authority's (FSA) regulations and includes the Funds for Future Appropriations (FFA). The FFA represents surplus funds of the Society, which have not been allocated to members and are available to meet regulatory and solvency requirements of the Society. Adjustments have been made to restate the assets and liabilities in line with FSA regulations.

The significant assumptions used to determine the sickness provision can be found in Note 1 - Accounting Policies. These assumptions has been derived based on recent operating experience with appropriate allowances for prudence as well as any FSA requirements within INSPRU and GENPRU.

## **Restrictions on Available Capital**

The available surplus held in the Society's Holloway With-Profits Fund can only be applied to meet the requirements of the fund itself or be distributed to the Members.

## **Basis of Calculation of Capital Requirements**

The capital resource requirements amounted to £11,795,383 (2006: £11,443,527) and are determined in accordance with capital requirements as defined by FSA regulations, namely the Resilience Capital Requirement and the Long Term Insurance Capital Requirement.

As at 31 December 2007, the Society's total available capital resources had increased by £8,380,812 to £64,436,385.

The increase in the Society's total available capital resources was primarily attributable to investment performance over the year.

## **19. Risk Management Objectives and Policies**

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The Society's risk management policies and processes include identification and control of business risks, the key components of which are:

- **Market Risk** - the risk of losses arising from changes in the value of assets or in the income from the assets.
- **Insurance Risk** - the risk of loss due to uncertainties over timing, amounts and occurrence of events insured by the Society.
- **Credit Risk** - the risk of loss due to default by a counterparty in meeting its financial obligations.
- **Liquidity Risk** - the risk that the Society, although solvent, is unable to meet its obligations as they fall due.
- **Operational Risk** - the risk of losses due to inadequate systems and controls, error or management failure.

The Society has a clearly defined risk appetite for each category of risks and business policies are set accordingly. A summary of each material risk and mitigating actions are set out below.

### **Market Risk**

The key risks faced in this area are equity risk, property risk, foreign exchange risk and interest rate risk. The Society manages market risk so that the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives.

# Notes to the Financial Statements

For assets backing member liabilities, market risk is managed by matching, within broad parameters, duration and profile of the assets with the underlying liabilities.

The Society's Risk Committee oversees the investment policy and strategy, which the Society implements through the use of investment mandates. Each mandate aims to manage the market risk using some or all of the following mechanisms:

- defined performance benchmarks;
- limits on asset allocation by asset type, market capitalisation and geographical spread;
- limits on duration of the fixed interest portfolio.

The members of the Society bear the majority of the equity, property and foreign currency risk and changes in asset values are broadly reflected in declared bonuses to members.

The Society is exposed to interest rate risk where changes in interest rates result in changes to fair values or cash flows. The members of the Society bear the majority of the interest rate risk, as changes in fair values and cash flows are broadly reflected in the annual bonuses allocated to members.

## Insurance Related Risk

Insurance related risks include mortality risk, morbidity risk, persistency risk and renewal expense risk. The Society manages insurance risk by:

- following standard underwriting policies which take into account the risk the Society is prepared to accept;
- structured approach to product development and pricing;
- formal analysis of the performance of the insurance portfolio, which feeds into the development of products and policies.

The Society does not have, within its product range, any embedded options or guarantees.

The key morbidity risks affecting the Society are an increase in the inception rates and a reduction in recovery rates. Part of the morbidity risks are mitigated by the fact that the Society's income protection contracts allow for the premiums to be reviewed.

The impact of a 5% increase in the valuation assumption for morbidity would be to increase the sickness provision by £5,406,000.

The persistency experience of the Society varies over time but has remained high in the past.

Factors affecting persistency include members' perception of the Society and the insurance industry, regulatory changes in the dental profession, investment performance and the general economic environment.

Given the high level of persistency, a large proportionate increase in lapses will have an immaterial effect on the Society.

The members of the Society bear the impact of any changes in expense levels, as the expenses affect the amounts available for distribution to members as bonuses. An increase in the allowance for expenses, from 25% to 30% of contributions, will increase the sickness provision by £6,152,000.

The valuation rate of interest to determine the sickness provision has been calculated in accordance with FSA requirements. An increase in the valuation rate of interest of 75 basis points will decrease the sickness provision by £1,620,000.

# Notes to the Financial Statements

## Credit Risk

The Society takes on investment credit risk when it is considered beneficial to do so in support of the Society's strategic objectives. The Society seeks to minimise other forms of credit risk, in particular those related to deposit takers.

The Society has taken the following steps to mitigate credit risk:

- bond funds adhere to minimum credit rating criteria;
- a diversified portfolio of investments reduces the potential impact of a credit event;
- counterparty limits are in place for cash deposits.

## Liquidity Risk

The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day-to-day cashflow requirements.

Liquidity risk is managed as follows:

- budgets are prepared to forecast the short term and medium term liquidity requirements;
- assets of suitable marketability and maturity are held to meet the member liabilities as they fall due;
- credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.

## Operational Risk

Operational risk includes all risks to which the Society is exposed, other than the risks described previously. These include, amongst others, information technology and security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks.

In accordance with the Society's policies, individual departments have primary responsibility for the effective identification, management, monitoring and reporting of risks to the Executive. The Executive are responsible for implementing the Society's risk management methodologies and frameworks.

The Risk / Nomination Committee provides support and independent challenge on the completeness, accuracy and consistency of risk assessments and the adequacy of mitigating action plans.

Operational risks are assessed according to the potential impact and probability of the event concerned. The impact assessments are made against financial, operational and reputational criteria. Operational risks are reported to the Risk Committee on a quarterly basis to:

- assess and monitor overall operational risk;
- monitor progress in mitigating operational risk; and
- verify that aggregate operational risk exposures remain within limits.

## 20. Pension Contributions

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The Society operates defined contribution pension schemes for the benefit of its employees.

The contributions for the year amounted to £184,931 (2006: £185,711).

## 21. Actuaries

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The Actuarial Function Holder of the Society up to 31 December 2007 was Mr D. Gulland, an Associate Partner in Deloitte & Touche LLP. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Gulland has confirmed that neither he nor his family, nor any of the partners in Deloitte & Touche LLP were members of the Society, nor have they any financial or pecuniary interest in the Society, with the exception of fees paid to Deloitte & Touche LLP for professional services, which amounted to £94,304 (2006: £144,034).

# Notes to the Financial Statements

Dentists' Provident | Report and Financial Statements | 31 December 2007

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## **22. Related Party Transactions**

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All members of the Board are members of the Society and are required to pay premiums to the Society. Individuals practising dentistry are entitled to claim sickness benefits in the event of being unable to carry out their normal duties. Any such payment would be made under the same terms and conditions as those applicable to all other members of the Society. Premiums paid by the Directors amounted to £27,153 (2006: £25,653). Sickness payments to the Directors amounted to £1,530 (2006: £500).

## **23. Valuation Report**

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The actuarial valuation required under the Regulations has been prepared as at 31 December 2007. The valuation report is available for inspection at the registered office of the Society.

# Independent Auditors' Report

Dentists' Provident | Report and Financial Statements | 31 December 2007

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## To the members of Dentists' Provident Society Limited

We have audited the financial statements on pages 17 to 29. We are also required to report on the Report of the Directors for the year ended 31 December 2007 on pages 15 to 16.

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' 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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Directors and Auditors

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The Board of Directors is responsible for preparing the Annual Report and the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities of the Directors in the Preparation of Financial Statements.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. In addition we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Report of the Directors has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the accounting records and the financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Summary, the Report on Corporate Governance, the Remuneration Report, the Annual Report of the Board of Directors and the Chairman's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

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### In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2007 and of its income and expenditure for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.
- the Report of the Directors has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

**Baker Tilly UK Audit LLP**  
Chartered Accountants and Registered Auditor  
25 March 2008

2 Bloomsbury Street  
London  
WC1B 3ST

# Form of Proxy

Dentists' Provident | Report and Financial Statements | 31 December 2007

## FORM OF PROXY

Please read the Notice of the Annual General Meeting before completing this form.

To: **The Dentists' Provident Society Limited** 9 Gayfere Street, London, SW1P 3HN

I \_\_\_\_\_ Membership Number: \_\_\_\_\_  
of \_\_\_\_\_ hereby appoint the Chairman of the meeting  
\_\_\_\_\_ or failing him or her  
of \_\_\_\_\_

as my proxy to attend, speak and vote in my name and on my behalf at the meeting of the Society to be held on 16 May 2008 and at any adjournment thereof.

Unless instructed to vote for or against the resolutions (as set out in the notice convening the meeting) by the placing of a ✓ in the boxes below, the proxy will abstain or vote at his/her discretion.

Resolution Number	For	Against
1 – A i	<input type="checkbox"/>	<input type="checkbox"/>
1 – A ii	<input type="checkbox"/>	<input type="checkbox"/>
1 – A iii	<input type="checkbox"/>	<input type="checkbox"/>
1 – A iv	<input type="checkbox"/>	<input type="checkbox"/>
1 – A v	<input type="checkbox"/>	<input type="checkbox"/>
1 – A vi	<input type="checkbox"/>	<input type="checkbox"/>
1 – A vii	<input type="checkbox"/>	<input type="checkbox"/>
1 – A viii	<input type="checkbox"/>	<input type="checkbox"/>
1 – B	<input type="checkbox"/>	<input type="checkbox"/>
2	<input type="checkbox"/>	<input type="checkbox"/>
3	<input type="checkbox"/>	<input type="checkbox"/>
4	<input type="checkbox"/>	<input type="checkbox"/>
5	<input type="checkbox"/>	<input type="checkbox"/>

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008 Signature \_\_\_\_\_

A Member entitled to attend and vote at the Special General Meeting may appoint a proxy to attend the Meeting and any adjournment thereof and on a poll vote on their behalf. A proxy need not be a Member. Proxy forms must be received by the Society not later than 48 hours before the Meeting to be effective.

Only those Members registered in the Society's Membership Register at 12.00 pm on 16 May 2008 and not in arrears at that date shall be entitled to attend or vote at the Meeting.

Completion of the Form of Proxy does not prevent the Member from attending the Special General Meeting and voting in person. In such circumstances, the proxy will be automatically revoked.

## NOTIFICATION OF ATTENDANCE

If you intend to attend the Annual General Meeting, please detach this form and return it to us as soon as possible.

I \_\_\_\_\_ Membership Number: \_\_\_\_\_  
of \_\_\_\_\_

will attend the meeting of the Society to be held on 16 May 2008 and at any adjournment thereof.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008 Signature \_\_\_\_\_

For Security reasons, please bring some form of personal identification to the Meeting. We encourage arrival in time for the necessary checks.

## Dentists' Provident Society Limited

Registered office:  
9 Gayfere Street  
London  
England  
SW1P 3HN



Telephone number: **+44 (0) 20 7222 2511**  
We may monitor calls to improve our service.

Fax number: **+44 (0) 20 7222 5312**  
Website: **[www.dentistsprovident.co.uk](http://www.dentistsprovident.co.uk)**

Dentists' Provident is the trading name of Dentists' Provident Society Limited which is incorporated in the United Kingdom under the Friendly Societies Act 1992 (Registration Number 407F) and is Authorised and Regulated by the Financial Services Authority (Firm Reference Number 110015)