



## **2012 Annual Report and Financial Statements**

**DENTISTS'  
PROVIDENT**

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# Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that the twentieth Annual General Meeting of the Members will be held at 91 - 94 Saffron Hill, London EC1N 8QP on Friday 17 May 2013 at 1.00 p.m. precisely for the following purposes, namely:

The following business to be transacted as Ordinary Business:

**1. To elect the Officers of the Society:**

The following Directors retire by rotation and have indicated their willingness to offer themselves for re-election:

- 1 Miss K F Woollass
- 2 Mr F M Mirza
- 3 Mr M E Green
- 4 Miss H M Harrison
- 5 Mr G E Kidner
- 6 Mr T R King
- 7 Mr D S Kooner
- 8 Mr R K Raja Rayan, OBE
- 9 Mr A G Weightman

**2. To appoint the following as Arbitrators of the Society:**

1. Mr R F Austin
2. Miss H Cain
3. Mr D M Lambert
4. Prof R T Lee
5. Mr S Malhan
6. Mr S Malik
7. Mr S B Pabary
8. Mr P B Protheroe
9. Mr R Rattan
10. Mrs S Sanderson
11. Mr J Staffurth
12. Mr R Toone

**3. To adopt the Remuneration Report of Dentists' Provident Society Limited for the year ended 31 December 2012**

**4. To adopt the Annual Report and Financial Statements of Dentists' Provident Society Limited for the year ended 31 December 2012**

**5. To appoint Buzzacott LLP as Auditors and to authorise the Board of Directors to fix their remuneration**

By order of the Board of Directors  
15 March 2013

**Simon Elliott**  
Secretary

**Note**

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.

# Performance and Key Metrics

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## Key Performance Headlines

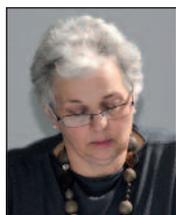
	2012 £	2011 £	2010 £	2009 £
<b>Group Operating Highlights</b>				
Membership Premium Income	<b>13,583,542</b>	12,975,258	12,175,370	11,412,218
Sickness Claims Paid	<b>(4,210,805)</b>	(3,404,184)	(3,193,050)	(3,208,827)
Net Surplus from Investments	<b>15,589,062</b>	7,005,715	16,466,554	17,427,089
Bonuses Paid to Members	<b>(6,632,075)</b>	(6,121,869)	(5,943,097)	(5,698,820)
Operating Expenses	<b>(3,620,652)</b>	(4,425,878)	(4,595,459)	(4,014,224)
Total Assets	<b>191,381,227</b>	174,337,506	167,359,043	151,148,702
Investment Assets	<b>172,920,006</b>	172,164,164	164,800,990	148,228,272
Members' Bonus Accounts	<b>80,312,758</b>	78,365,764	77,254,258	76,023,911

## Year End Bonus Declarations

Dividends				
Insured Members	<b>£1.44</b>	£1.56	£1.56	£1.56
Commuted Members	<b>£1.80</b>	£1.80	£1.80	£1.80
Interest on Members' Bonus Accounts	<b>5.00%</b>	4.00%	4.00%	4.00%
Terminal Bonus - Surrenders	<b>15.00%</b>	15.00%	15.00%	10.00%
Terminal Bonus - Death Payments	<b>15.00%</b>	15.00%	25.00%	25.00%

# Directors

## Directors



**Miss K F WOOLASS, BDS, FDS, DOrth (58)**

**Non-Executive Director, Chairman, Member of the Nomination / Remuneration Committee**

Miss K F Woollass has been a Director since 1984 and was elected as Chairman in May 2010. She is a specialist orthodontic practitioner in South Yorkshire, an examiner for the Royal College of Surgeons for the Diploma in Orthodontic Therapy and past Treasurer and Chair of the Rotherham Local Dental Committee. She is also a past member of the South Yorkshire Council of the British Dental Association, past Secretary of the South Yorkshire branch of the British Society for Paediatric Dentistry, past Secretary of the Local Orthodontic Committee of the South Yorkshire Strategic Health Authority, past Postgraduate Dental Tutor for Doncaster, Barnsley and Rotherham and past member of the Rotherham Oral Health Advisory Group.



**F M MIRZA, FCA (42)**

**Executive Director, Chief Executive, Chairman of the Investment Committee**

F M Mirza joined the Society as Head of Finance in 1999. He was appointed to the Board in January 2008 and as Chief Executive in May 2008. A Chartered Accountant, with a background in insurance and banking, he has previously worked for Fraser Russell (now part of Baker Tilly), PricewaterhouseCoopers and BayernLB.



**D S KOONER, JP, BDS, LDSRCS, MGDSRCS, DGDP(UK), Dip MDE(Lon) (58)**

**Non-Executive Director, Vice-Chairman, Member of the Audit Committee, Member of the Nomination / Remuneration Committee**

D S Kooner was appointed as Director in 2004. He has been a General Dental Practitioner since 1981 and is Regional Advisor in General Dental Practice and DF1 Vocational Training Programme Director (Northwick Park Scheme) for the London Deanery. He has been a Justice of the Peace since 1990 and previously served as a General Commissioner of Income Taxes (Middlesex Division) from 2000 to 2009. He served as a member of the Health, Education and Social Care Chamber of the First-tier Tribunal from 2001 to 2011. He is a Fellow of the Pierre Fauchard Academy, an Examiner for the National Examination Board for Dental Nurses and the Royal College of Surgeons of England for the Diploma of Membership of the Faculty of General Dental Practice. He is a member of the Ealing, Hammersmith and Hounslow Local Dental Committee and was dental representative on Hounslow Primary Care Trust and a professional member of the Fitness to Practice Panel of the General Dental Council from 2003 to 2010. He also sits on the Board of Dental Protection Limited.



**M E GREEN, BDS, FDSRCPs, MFGDP(UK), DPDS (59)**

**Non-Executive Director, Chairman of the Nomination / Remuneration Committee**

M E Green was appointed to the Board in October 2010. He has been a practice owner in NHS general dental practice since 1984. He has been a member of the General Dental Council's Fitness to Practise Panel since 2003 and a Chairman since 2006. In the South West Deanery he was a Vocational Trainer from 1990 to 1994, was appointed as Vocational Training Advisor in 1994, Regional Advisor in General Dental Practice in 1997 and Associate Postgraduate Dental Dean until July 2012. He is a past President of the Christian Dental Fellowship and is on the Advisory Board of the dental charity Bridge2Aid. He is a member of the Health, Education and Social Care Chamber of the First-tier Tribunal.



**Miss H M HARRISON, BDS, MFGDP (49)**

**Non-Executive Director, Chairman of the Risk Committee**

Miss H M Harrison joined the Board in 2004. She is the Principal of a multi-disciplinary general and specialist dental practice in Cambridge. She has previously been a member of the Representative Body of the British Dental Association (BDA) and the BDA Council, Ethics, Practice Management and Healthcare Policy Committees and Chairman of the Eastern Counties Branch. She is also a past member of the Cambridgeshire Local Dental Committee, a member of the Cambridge Postgraduate Education Committee and a past dental nursing Tutor and Examiner.



**G E KIDNER, BDS, MSc, LDS, FDS(Orth), MOrthRCS (47)**

**Non-Executive Director, Chairman of the Audit Committee**

G E Kidner was appointed to the Board in 2004. He has been a Consultant Orthodontist at the Buckinghamshire Healthcare and Oxford University Hospitals NHS Trusts since 2000 and also works part-time in private practice. He is a lead orthodontist for the regional cleft lip and palate service, examiner for the Intercollegiate Membership in Orthodontics and a member of the British Orthodontic Society and British Dental Association.



**T R KING, BDS, FPC (64)**

**Non-Executive Director**

T R King has been a Director since 1998. He was a dental surgeon with the Royal Navy for 15 years and later ran a successful locum service in Peterborough. He subsequently joined the insurance profession and worked for 20 years as an IFA, specialising in all aspects of health insurance.



**R K RAJA RAYAN, OBE, MA (ClinEd), MSc, BDS, FDS, FFGDP, MRD, MGDS, DRD, LDS, MIRP, RPF, Cert P (59)**

**Non-Executive Director, Member of the Risk Committee**

R K Raja Rayan was appointed to the Board in 1989. He is also the current Chairman of the charity AOG Foundation Limited. He is a former Dean of the Faculty of General Dental Practice at the Royal College of Surgeons of England and has served as Chairman of Finance, Chairman of Examinations and Vice Dean. He has also served as an elected Council Member of the General Dental Council and examined for the Diploma, Membership and Fellowship examinations of the College and is a Former member of the Standing Dental Advisory Committee to the Secretary of State for Health and the Lord Chancellor, on Judicial Appointments. He is currently Associate Dean at the London Deanery.



**A G WEIGHTMAN, BDS (47)**

**Non-Executive Director, Member of the Audit Committee**

A G Weightman was appointed to the Board in May 2011. He has been a general dental practitioner since 1987. He is a Dental Practice Advisor for the South Yorkshire Area Team of the National Commissioning Board and is a Clinical Support Manager for Integrated Dental Holdings in the North East region. He is a member of the Doncaster LDC and a past Treasurer of the North Lincolnshire LDC. He is a former Dental Practice Advisor for Doncaster PCT and North Lincolnshire PCT. He is a past Clinical Assistant in Orthodontics and a former Vocational Trainer.

# Chairman's Statement

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I find myself once more, in the happy position of being able to report that our Society performed strongly in another year of financial and economic uncertainty. Our prudent investment strategy continues to make a significant contribution to our surpluses and this has enabled us to increase our rate of interest on Bonus Accounts to 5.0%. However, a year in which our claims experience increased by 24%, good stewardship of our business necessitated a modest reduction in the Dividend rate for our Insured Members to £1.44. The Dividend rate for our Commuted members, and the Terminal Bonus rate, remain unchanged at £1.80 and 15.0% respectively.

Our operational strategy is, as it always will be, to put you, our members, first. At a time of falling incomes and rising costs, to burden you further with the impact of the regulatory changes of 2012, would be inconceivable. As a result, we have made fundamental changes to our contract, to ensure we are able to continue subsidising the cost to our Members of obtaining independent financial advice. In addition, we decided to fully absorb the cost of gender neutral premium rates, rather than passing these on to existing and prospective Members.

I continue to meet with our Members at industry events and despite having been personally involved with the Society since 1984, I still find myself overwhelmed by our Members' goodwill towards the Society. Your views and experiences help shape your Society's future, so please, never hesitate to share them with me.

## Your Board

Part of my role as your Chairman, is to ensure we conform to the highest standards of Corporate Governance. Following an independent review in 2011, we continue to work constructively and effectively in developing and delivering upon our strategy to safeguard the long term success of your Society.

Your Board and I strongly feel that boards perform better if they comprise of competent, high calibre individuals with a mix of skills, experience and backgrounds. I firmly believe this already exists within your Board. Our current composition provides a balance of deep knowledge of the Society, wide industry experience, and unparalleled insight into the pressures you, our Members, face. It is these qualities which I believe are fundamental to our Board's effectiveness.

## Acknowledgements

Despite the increased regulatory and financial pressures placed upon the financial services industry, we have been able to deliver a healthy surplus, as well as strengthen our balance sheet. None of this would have been possible without the hard work and dedication of our Chief Executive, Farrukh Mirza and his colleagues. My thanks, along with those of the whole Board, go to him and our employees for their continued commitment to our Society.

## Kathryn Woollass

Chairman  
15 March 2013

## Market Overview

The UK's economic environment remained challenging over the past year, with weak consumer spending and growth failing to gain traction. Although the financial markets have raced ahead in recent months, the real economy has stubbornly refused to gain momentum and we expect this to continue for some time. Indeed, in December, the Treasury downgraded its 2013 GDP forecast from 2% to 1.2%.

Against this background, it is unsurprising that dental incomes have been hit hard over the last few years. We are seeing a picture of lower earnings and an upward pressure on costs, which is creating extraordinary pressures for our Members.

Globally, early 2012 was dominated by fears over the future of the Eurozone and the potential impact of the US fiscal cliff. ECB's decisive action, following Mario Draghi's promise to do whatever it takes to save the Euro, spurred an impressive rally in global risk assets. The compromise on the US fiscal cliff has allowed the markets to maintain the strong momentum well into 2013.

We are conscious that the fundamental and structural issues in Europe which contributed to this crisis of confidence still remain and resolving these economic challenges will take some considerable time. In addition, the way the US economy copes with the significant fiscal consolidation will be key to how the global economy and financial markets perform in 2013.

## Business Review

In an exacting environment, I am very pleased with the Group's performance. We produced an overall surplus after bonuses of £10.9m (2011: £6.9m). Our core surplus, excluding realised and unrealised gains on investments, changes in sickness provision and bonuses, increased 15% to £5.5m (2011: £4.8m).

At this stage in the economic cycle, we expect business to be challenging, in particular for high-end propositions like ours. In spite of the weakness in our core market, our business levels over the last few years have remained resilient. During 2012, we wrote gross new Members' annual premium income of £687,000 (2011: £780,000). Overall, our Membership premium income increased 4.7% to £13.6m.

Our benefit claims increased 24% to £4.2m (2011: £3.4m). Although the headline change is significant, our actual versus expected claims experience remains in line with long term averages. Much of the change is attributable to the rising average levels of cover subscribed by our Members and to a lesser extent, a minor increase in the duration of medium term illnesses.

We consider ourselves to be a fundamentals driven investor with a strong bias towards quality. This approach has served us well over the last few years and our total income from investments rose to £15.8m (2011: £7.4m) on the back of active management and strong market momentum in the second half of the year.

Over the last three years, the Group has also made direct strategic investments in commercial property and I am delighted to report our property-holding subsidiary has now begun to generate profits. We expect 1908 Property Holdings Limited to make a fuller contribution to the Group's results in 2013. We intend to continue building our self-managed portfolio over the coming years, seeking out assets offering an attractive combination of yields and capital appreciation potential.

Group administrative expenses fell 23%, primarily as a result of lower depreciation charges. Excluding the impact of depreciation, Group administrative expenses remained unchanged at £2.3m.

In March 2011, the European Court of Justice ruled against the use of gender as a risk factor by insurers in pricing insurance contracts. The ruling meant that gender specific premium rates could no longer be used for any contracts of insurance sold after 21 December 2012. In response to this, the Society, along with the rest of the protection industry, has repriced its contract.

Under normal circumstances, this exercise would have led to a reduction in premiums for our female Members and an increase for males. However, we are cognisant of the financial pressures our Members are currently facing and we have decided that the cost of the gender equalisation exercise should be absorbed within our Sickness Business Provision. Therefore, although our female rates have reduced, our existing male rates have remained unchanged. In addition, unlike many in the industry, we have also applied gender-neutral rates to our existing contracts, delivering significant cost savings to our Members.

## Bonuses

Our distribution policy remains unchanged. We are committed to a fair and sustainable bonus strategy, tempered by a degree of prudence. In the year ended 31 December 2012, we crystallised some of our investment gains. This has allowed us to increase the rate of interest on Members' bonus accounts to 5% (2011: 4%). However, the increased level of claims has meant that we have had to reduce the rate of dividends for Insured Members to £1.44 (2011: £1.56) per share. The rate of dividends for Commuted Members remains unchanged at £1.80 per share.

# Chief Executive's Review

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As I noted earlier, investment markets have rallied strongly in recent months, but our view is that this is more of a relief rally, driven by receding concerns over the Eurozone, as opposed to significantly improved global economic prospects. We have taken the view that, until the global recovery becomes firmly entrenched, it would be imprudent to increase our rate of terminal bonus and it remains unchanged at 15%.

The success of our Society is predicated on the support of our Members and the dedication and commitment of our Board and employees. I would like to express my sincerest gratitude to our Members and my colleagues for helping to ensure the Society remains the strong and successful institution it is.

## **Farrukh Mirza**

Chief Executive

15 March 2013

The Group Board is responsible for ensuring that the key risks and uncertainties facing the Group are identified and managed. A strong internal control environment, supported by sound risk management practices, is fundamental to the success of the Group. Significant resources have been dedicated to embedding robust risk management across the Group, as the Board realises that inadequate risk management exposes the Group not only to financial losses and regulatory sanction, but also to damage to its most important asset - the Group's reputation.

The Executive team has responsibility for the day-to-day management of risks. The Executive team works alongside departmental heads, who are responsible for implementing risk management policies and procedures and reacting to emerging risk issues. Oversight responsibility is delegated to the various Sub-Committees of the Board, which provide regular reports to the Board on risk matters within their remit.

The risk identification and management process ensures all key risks are centrally collated within the risk register, which clearly identifies the risk owners. Regular monitoring, augmented by internal audit and compliance reviews, is designed to identify the effectiveness of the control environment. The status of the risks is reviewed periodically and a comprehensive reporting process is in place to communicate key risk indicators and other relevant information to the Sub-Committees and the Board.

## Principal Risks

The key risks facing the Group include insurance, credit, liquidity, market, operational and strategic risks. Further details regarding risk management and sensitivity analysis are set out in Note 20 to the financial statements.

### Insurance Risk

The primary activity of the Group is the provision of Holloway income protection insurance to dentists in the UK and the Republic of Ireland. The principal risks for this business activity comprise the risk of adverse financial impact on the Group, due to inappropriate pricing of the income protection insurance contracts, the risk of claims experience being worse than anticipated and the associated impact on the sickness benefit reserve.

The risk appetite for insurance risk is set by the Group Board and the Group Chief Executive is responsible for the ownership of insurance risk within the Group.

Actuarial models are the primary tool used to objectively derive the pricing of the contracts. The models are produced by in-house staff and are subject to external peer review. In addition, senior management work closely with the underwriting and claims staff to ensure the day-to-day decisions are aligned to the Group's strategic objectives and risk appetite. Further assurance is provided by regular independent audits by industry experts.

The reserving for claims requires a degree of estimation and subjective judgement. The Group's results are sensitive to the accuracy of these. The Group Board is responsible for reviewing the critical assumptions and judgements, based on advice from senior management and the Actuarial Function Holder.

### Credit Risk

Credit risk is the risk that a counterparty is unable to meet its financial obligations as they fall due. The most significant source of counterparty risk is investment counterparties and the risk in this area is owned by the Group Chief Executive. The investment credit risk is monitored by the Investment Committee.

Significant exposures are managed by the application and regular review of counterparty limits, with allowance being made in the actuarial valuation of the liabilities for possible defaults.

### Liquidity Risk

Liquidity risk is the risk that the Group, although solvent, has insufficient liquid assets to meet its obligations as they fall due.

Liquidity risk is overseen by the Investment Committee and is owned by the Head of Finance. The majority of the Group's cashflows are of a routine nature and can be forecast with reasonable accuracy. The primary source of cash inflows is the premium income from members, whilst the main outflows are also to members in the form of benefit claims and Bonus Account withdrawals.

The Group's liquidity risk appetite amounts to having sufficient funds to meet large unexpected cash demands. The primary sources of risk are an increase in claims and an increase in Bonus Account withdrawals driven by investment market volatility.

### Market Risk

Market risk is the risk that fair values and future cashflows will fluctuate, as a result of changes in interest and exchange rates and asset valuations. Market risk is owned by the Investment Committee and day-to-day management is delegated to the Group Chief Executive.

# Risk Management

Market risk for investments is managed by use of detailed investment guidelines which cover risk / reward relationships, limits on exposure by markets, asset classes and maturity profile. The Group's investment policy is designed to ensure capital is utilised effectively and that members' returns are maximised over the business cycle on a risk adjusted basis.

The Group's investment objectives are to achieve medium-term stability in bonus rates, without putting the members' capital at risk or jeopardising the ability of the Group to underwrite risks.

The investments held to back the sickness business provision are invested in a well diversified mix of high quality bonds and money market instruments.

The Group does not match its assets and liabilities precisely. Average duration benchmarks are set instead which approximate the maturity profile of the liabilities, but with a degree of mismatch, to allow the Group some flexibility to enhance returns.

## **Operational Risk**

Operational risk is the risk of financial loss to the Group arising from inadequate internal processes, systems and external events. Operational risk cuts across the other risks mentioned in this report and includes areas such as product development, information technology, legal and regulatory risks and reputational risks. Operational risk is owned by the Executive and is managed by departmental managers throughout the Group. Operational risk is monitored by the Risk Committee which reports to the Group Board.

The Group has a business continuity plan and established policies covering the risks associated with disaster recovery, data protection, financial crime, money laundering and whistleblowing. Compliance with operational risk guidelines is monitored by the Head of Compliance & Risk and the Internal Audit function.

## **Strategic Risk**

Strategic risk is the risk of inappropriate business strategy or execution arising from internal or external factors. The risk is owned by the Group Chief Executive and the risk appetite is set by the Group Board as part of the annual business planning process.

Strategic risk is affected by economic, political, regulatory, social, ethical, environmental, reputational and legal factors, together with market competition.

Five year strategic plans are updated annually to reflect the revised views on the Group's longer term competitive and market position. The Group monitors the progress of the business against its strategic agenda at its regular Board meetings.

The Group recognises the key role governance plays in creating a sustainable and successful business. Good governance is key to the Group delivering on our objectives of safeguarding the interests of our Members and generating value for all our key stakeholders.

This report, together with the Remuneration Report, explains how the Group has applied the principles set out in the Annotated Combined Code for Mutual Insurers. The Directors consider that the Society has complied with the Code throughout the year, subject to the exceptions detailed below.

## **The Board of Directors**

The Board comprises of a mix of Executive and Non-Executive Directors with a varied mix of knowledge, skills and experience. The Directors and their biographies appear on pages 4 and 5. The Non-Executive Directors ensure that strategic proposals by the Executive Director are discussed and critically assessed, to ensure they are in the best interests of our Members and give due regard to other key stakeholders. The Board meets at least four times a year and the Directors' attendance at the meetings is detailed on page 15.

The Board provides effective leadership and overall control of the Group. It has delegated the management and day-to-day running of the Society and the Group to the Group Chief Executive, but keeps specific items for its decision, which are reviewed regularly. These include agreement of strategic objectives, annual plans and targets, significant transactions, 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 Group Secretary is responsible for ensuring that the Board complies with all appropriate procedures. The appointment and removal of the Secretary is a matter for the Board as a whole.

## **Roles of the Chairman and Chief Executive Officer**

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 in the determination of the Group's strategy and ensuring it operates effectively and in the best interest of the Members. The Chairman is also responsible for ensuring the Directors receive accurate, timely and clear information, which is fit for the purpose of enabling the Board to make informed decisions, and properly monitoring the activities of the Group.

The Chairman is also responsible for ensuring the Society communicates effectively with our Members. The Chief Executive is responsible for the day-to-day management of the Group, formulating strategy proposals for consideration by the Board and making operational decisions.

## **Senior Independent Director**

The role of the Senior Independent Director has been formally established and documented and has been delegated to Davinderpal Kooner, the Vice-Chairman of the Group. Mr Kooner led the Group Chairman's performance evaluation process, in consultation with other Directors. The Vice-Chairman is available to meet with the Members of the Society, if they do not wish to follow the standard lines of communication through the Chairman and Chief Executive.

## **Appointment and Reappointment of Directors**

The Board has put in place a clear and rigorous process for the appointment of new Directors. All appointments to the Board are based on merit and objective criteria and subject to ratification by the Members at the Annual General Meeting.

All Directors are required to submit themselves for re-election annually. The Board is required to have an appropriate mix of skills, knowledge and experience to ensure effective management of the Group and the delivery of its strategy. The Group Nomination / Remuneration Committee reviews the balance and composition of the Board and its Committees annually, along with the issue of independence for each Non-Executive Director. The Group Nomination / Remuneration Committee also considers the effectiveness of each Director offering themselves for re-election, the contribution made and whether the Director has committed sufficient time to the Group.

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

## **Board Diversity**

Board diversity has been a key governance theme in recent years. We have discussed the issue of diversity in its widest context at our Board meetings and we are unequivocal in our view that this complex idea cannot be distilled down to a debate about gender, race, disability, age, sexual orientation or religious or political beliefs. We believe that the key to realising the benefits of diversity lie in ensuring that our Board represents the views and opinions of the different strands of the dental profession and Board discussions cover the widest range of thoughts, ideas and opinions. This is only possible by selecting the most able

# Governance Report

candidates, united by a common purpose of doing the right thing for the Society and our Members, in an environment that encourages Directors to express their views openly and honestly.

The Board has considered whether it should introduce formal diversity targets in the context of its existing meritocratic process for the appointment of Non-Executive Directors. The Group encourages and welcomes interest from all candidates who will add to the quality of the Board's discussions. Against this overriding objective, the Society does not currently propose to set targets for diversity on the Board.

## Induction and Continuing Professional Development

All newly appointed Directors receive a comprehensive induction, which covers the operations of the Group, strategy, risks and the individual's responsibilities as a Director. In addition, a formal ongoing training programme has been put in place to ensure the Directors are able to continually improve their knowledge and skills and are able to discharge their duties effectively.

The Directors are also entitled to seek independent professional advice at the Group's expense, to assist them in discharging their responsibilities to the Group. No such requests were received in the year under review.

## Conflicts of Interest

The Group has formal procedures in place for the disclosure of any actual or potential conflicts of interest and for Directors to avoid participation in any decisions where they may have an actual or potential conflict. The Board is satisfied that the procedures worked effectively in the year under review.

No Director had any material interest in any significant contracts with the Group. Details of the transactions between the Society and the Directors, as Members, are reported in aggregate in Note 23 to the financial statements.

## Board Independence

The Nomination / Remuneration Committee has specifically considered the independence of each Non-Executive Director, taking into account their length of service, other directorships, business interests and their benefits with the Society. The Board considers all Non-Executive Directors, except Mr King, to be independent in character and judgement. During 2012, Mr King undertook remunerated marketing and promotional activities on behalf of the Society and accordingly he has not been classified as an Independent Director.

The Group has rigorous procedures in place to ensure the independence of Non-Executive Directors. The Society disagrees with the nine-year independence provision in the Annotated Combined Code, primarily because it considers this to be an arbitrary figure. The Society takes the view that factors such as remuneration of directors, their stake in the funds of the Society and personal integrity, are more relevant factors when it comes to assessing directors' independence, rather than their tenure on the Board and the Society's internal policies therefore focus on these issues.

In addition, the complexity of the business means that it takes time for our new Directors to begin delivering to their full potential. A nine-year limit on non-executive appointments would deprive the Society of a proper payback on its investment in the training of its Directors and would be detrimental to its long term interests by removing the stability, knowledge and insight offered by long-serving Directors.

However, the Society acknowledges that periodic refreshment of the Board is essential in order to avoid the pitfalls of complacency and group-thinking and appropriate caps on tenure are in place to manage these risks.

## Directors and Officers Insurance

The Group has throughout the year maintained Directors and Officers Liability Insurance for the benefit of its Directors and Officers. In addition, under Rule 7.8 of the Society, the Group has provided an indemnity to the Directors on the Group Board.

## Performance Appraisal

Performance appraisal of the Directors is a key component in the delivery of the Group's objectives. The Chairman undertakes a formal evaluation of the performance of the Board annually. All Directors are required to complete an appraisal, covering their work on the Board and any relevant Sub-Committees. The Chairman holds one-to-one review meetings with each Director. The meeting covers areas such as their performance, roles and responsibilities, achievements, skills and development objectives. Following the end of the review cycle, the Chairman submits a report to the Board setting out the results of the annual review for further discussion and action, as appropriate. Any specific actions identified are monitored by the Chairman.

The evaluation of the Chairman is undertaken by the Vice-Chairman, in consultation with other Non-Executive Directors. In addition, the Board periodically meets without the Chairman and Chief Executive to discuss a wide range of issues, including performance of the Chairman and Chief Executive.

The Chairman and the Chief Executive also meet, formally and informally, on a regular basis to discuss the performance of the business and the Board.

## **Communications with Members of the Society**

The Board is committed to continuing open dialogue with the Members of the Society, in order to raise understanding and awareness of its products, strategy and performance. The Board uses the Annual General Meeting and industry events as the primary mechanism for doing this.

In the year under review, the Society's Chairman and Chief Executive attended various dental conferences and met with numerous existing and prospective Members.

All Members are encouraged to attend the Annual General Meeting and notice is sent at least 30 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 Nomination / Remuneration, Audit, Investment and Risk Committees are also available to answer relevant questions at the Annual General Meeting.

The Society's website also provides information about the Group, including its results and press releases.

## **Sub-Committees of the Board of Directors**

There are four Sub-Committees of the Board and each has its own terms of reference, which are reviewed periodically.

### **Audit Committee**

The Audit Committee comprises of three independent Non-Executive Directors and meets at least four times a year. The current members of the Audit Committee are Giles Kidner (Chairman), Davinderpal Kooner and Alister Weightman. The Board is satisfied that the Committee is competent in financial matters and has the requisite recent and relevant financial experience.

The Chief Executive and Head of Finance attend the meetings by invitation. The Audit Committee assists the Board on matters of financial reporting, risk management and internal control. The Audit Committee also monitors the cost, independence and objectivity, scope, conclusions and effectiveness of the internal and external auditors.

It is the Group's policy not to use its statutory auditors in the provision of non-audit services.

The internal and external auditors have unrestricted access to the Audit Committee. The Audit Committee meets with the internal and external auditors, without the management, at least once a year. The Audit Committee's terms of reference are available on the Society's website or upon request from the Society's Secretary.

In the year under review, the Audit Committee met on four occasions and considered the internal and external audit plans, the financial statements of the Society, effectiveness of internal controls, governance (including its terms of reference), regulatory and actuarial matters, and the performance, qualifications and independence of the internal and external auditors.

### **Investment Committee**

The current members of the Investment Committee are Farrukh Mirza (Chairman), Kathryn Woollass and Simon Elliott, a member of the Society's actuarial staff and the Committee meets at least once a year.

The Committee is responsible for overseeing the Group's investment management approach, monitoring the suitability and performance of the investment managers, ensuring that investment managers comply with the appropriate limits, recommending the appointment and removal of investment managers, overseeing market, credit and liquidity risks and making recommendations regarding the appointment, continued effectiveness and removal of the investment consultants. The Investment Committee's terms of reference are available from the Society's website or upon request from the Society's Secretary.

During the year under review, the Committee met four times and the Head of Finance attended all the Investment Committee meetings, at the request of the Chairman. The Committee assessed the performance of the Society's investment portfolio, considered portfolio risk, new investment opportunities and governance matters (including its terms of reference).

### **Nomination / Remuneration Committee**

The Nomination / Remuneration Committee comprises of two independent Non-Executive Directors and the Group Chairman. The Committee meets at least once a year and the current members of the Committee are Martyn Green (Chairman), Kathryn Woollass and Davinderpal Kooner.

# Governance Report

In respect of its nomination responsibilities, the Committee reviews the size, structure and composition of the Board and makes recommendations regarding the appointment and reappointment of Directors. The Committee is also responsible for establishing, approving and implementing succession plans for the Board.

In respect of its remuneration-related responsibilities, the Committee determines the terms of service and remuneration of Executive Directors, using information from a variety of sources. The Committee also reports on the Directors' remuneration for approval by Members of Dentists' Provident.

The Nomination / Remuneration Committee met three times in the year under review and considered its terms of reference, Board balance, independence and succession, the results of the performance reviews, executive remuneration and the 2011 Remuneration Report. The Nomination / Remuneration Committee's terms of reference are available on the Society's website or upon request from the Society's Secretary.

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

The report of the Nomination / Remuneration Committee, on behalf of the Board, is set out on pages 16 and 17.

## **Risk Committee**

The Risk Committee comprises of three Non-Executive Directors and meets at least four times a year. The current members of the Risk Committee are Helen Harrison (Chairman), Martyn Green and Raj Raja Rayan.

The Committee's primary purpose is to review new and emerging risks and monitor the adequacy of the risk management process, provide reports to the Board on the systems governing the management of key risks and make appropriate recommendations to the Board, based on the regular reports from the Chief Executive and the Head of Compliance & Risk. The Risk Committee's terms of reference are available from the Society's website or upon request from the Society's Secretary.

In the year under review, the Risk Committee met on three occasions, instead of the planned four and the Chief Executive and Head of Compliance & Risk were invited to attend by the Chairman. The Committee discussed the key operating risks facing the Group and considered the effectiveness of the risk management process and governance (including its terms of reference).

## **Accountability and Internal Controls**

The Board acknowledges its overall responsibility for the Group's system of internal controls and for reviewing its effectiveness. On a day-to-day basis, the Group's Executive management is responsible for the operation, management and effectiveness of the system of internal controls. No material changes have been made to the internal controls system in the year.

The Board has reviewed the effectiveness of internal controls during the year, including financial and operational controls. The Board confirms that there is a continuous process for the identification, evaluation and management of the key risks facing the Group, which were in place throughout the year and up to the date of the approval of the Annual Report and Financial Statements. The work of the various Board Sub-Committees in relation to risk management is detailed above. Further information on key risks and the systems to manage these are detailed in the section "Risk Management".

The Group also has an independent Internal Audit function which has direct access to the Audit Committee and reports to it regularly.

The Board acknowledges that it is neither possible nor operationally efficient to eliminate risk completely. The Group's system of internal controls is designed to manage, as opposed to eliminate, control risk and can only provide reasonable assurance against material misstatement, loss or error. Significant effort is dedicated to being fully aware of the risks to the Group and managing these to an acceptable level.

## **Going Concern**

The Group has sufficient resources, together with sufficient recurring income from Members. The Group meets its operational capital requirements through maintaining part of its assets in suitably liquid assets such as cash and cash equivalents. The Board believes the Group has adequate resources to manage its business risks and the Directors believe the Society and the Group have sufficient resources to continue in operation for the foreseeable future. Accordingly, the going concern basis has been used in the preparation of the financial statements.

# Governance Report

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

## Attendance at Scheduled Meetings 2012

Name	Annual General Meeting	Board of Directors	Nomination / Remuneration Committee	Audit Committee	Investment Committee	Risk Committee
Miss K F Woollass	1 / 1	4 / 4	3 / 3		4 / 4	
F M Mirza	1 / 1	4 / 4			4 / 4	
M E Green	1 / 1	4 / 4	3 / 3			3 / 4
Miss H M Harrison	1 / 1	4 / 4				3 / 4
G E Kidner	1 / 1	4 / 4		4 / 4		
T R King	1 / 1	4 / 4				
D S Kooner	1 / 1	4 / 4	3 / 3	4 / 4		
R K Raja Rayan, OBE	1 / 1	4 / 4				2 / 4
A G Weightman	1 / 1	4 / 4		4 / 4		

# Directors' Remuneration Report

The principal responsibility of the Nomination / Remuneration Committee in relation to remuneration is to recommend the overall policy for remunerating Executive Directors to the Board, review the design of any incentive plans for approval by the Board, to set and assess achievement of performance objectives and determine the remuneration package for Executive Directors.

None of the members of the Nomination / Remuneration Committee has any personal financial interest (other than as a Member of the Society) or conflicts of interest or day-to-day involvement in the running of the Group. The Chief Executive is usually invited to attend all or part of the Committee meetings. However, as a rule, the Chief Executive and any other Director is excluded from any part of the meeting covering their own remuneration.

## Remuneration Policy

The key features of the remuneration policy of the Group, in relation to its Executive Directors, can be summarised as follows:

- The Society's business and the quality of its service is driven by the skills, experience and motivation of its employees.
- The remuneration policy aims to attract, retain and motivate high calibre individuals, rewarding genuine contribution to the long-term success of the Society with packages aligned to the interests of the Members.
- The level of Executive Directors' remuneration gives due consideration to the market environment, but is largely driven by the individual's level of responsibility, competence and contribution to the success of the Group.
- The Group has recognised for many years the asymmetric nature of the risk / reward relationship, especially in relation to bonuses, and has shunned bonuses for Executive Directors for this reason. The primary component of Executive Directors' reward is the base salary.
- Encourage Commuted Membership amongst all employees and require it as mandatory for Executive Directors, to align their long-term financial interests with those of the Society's membership.
- Notice periods are in accordance with general market practice.

## Remuneration Elements

### Executive Directors' Base Salary

Base salaries are reviewed annually. The Nomination / Remuneration Committee takes into account inflation data, the competitive position of the Society's salaries by reference to other organisations of similar size and industry, the individual's responsibilities, skills and experience and, most importantly, the results of the annual performance reviews, in setting the overall increase. Any changes are usually effective from 1 January each year.

With effect from 1 January 2012, the Committee approved a 6% salary increase for the Executive Director.

### Fees for the Chairman and Non-Executive Directors

The Executive Directors set the fees of the Non-Executive Directors and review these annually. The Chairman is also consulted on the fee arrangements generally and the Senior Independent Director on the fees for the Chairman. Changes to the fees normally take effect from 1 January each year.

Non-Executive Directors receive a basic fee and additional fees are payable for membership and Chairmanship of the various Sub-Committees. Non-Executive Directors may still claim session charges based on the British Dental Guild rate, but only for such duties as those not forming part of their normal duties and responsibilities.

Taking into account the current economic environment, the performance of the Society, and Non-Executive Directors' remuneration compared with their peers, it was agreed to award the Non-Executive Directors a 5% increase in fees.

## Benefits

Benefits are set within agreed parameters and consistent across the Group. The benefits package for Executive Directors includes health insurance, life insurance and critical illness cover. Non-Executive Directors are not entitled to any contractual benefits.

### Retirement Benefits

The Chief Executive is a member of the Society's targeted final salary, defined contribution pension scheme. The Scheme is closed to new entrants. The Chairman and Non-Executive Directors do not have any pension benefits.

During the year under review, the Society made regular contributions totalling £78,929 (2011: £123,934) into the Chief Executive's pension scheme.

# Directors' Remuneration Report

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

## Service Contracts

Copies of the Directors' service contracts and letters of appointment are available for inspection at the registered office of the Society. It is the Group's policy that the length of notice periods should be such as to balance the interests of the Directors and the Society, in addition to reflecting the current best practice. The current notice period for Non-Executive Directors is six months and nine months for Executive Directors, which can be given by either party. Non-Executive Directors are not entitled to any compensation for loss of office and Executive Directors' compensation is limited to any contractual notice pay entitlement.

## External Directorships

The Executive Directors are permitted to hold appropriate external commercial non-executive director appointments, provided they do not conflict with their commitments to the Group. The Executive Directors may retain the fees paid for these services, subject to prior approval by the Chairman. No non-executive directorships were held by the Chief Executive during the year.

## Directors' Remuneration

Name	Fees and Salaries £	Benefit in Kind £	2012 Total £	2011 Total £
Miss K F Woolass	13,650	9	<b>13,659</b>	12,815
Mr F M Mirza	189,118	1,904	<b>191,022</b>	178,811
Mr J P Scott	-	-	-	4,011
Mr K W Alexander	-	-	-	4,393
Mr M E Green	9,450	5	<b>9,455</b>	7,476
Miss H M Harrison	9,450	5	<b>9,455</b>	8,806
Mr G E Kidner	9,450	5	<b>9,455</b>	8,806
Mr T R King	4,465	9	<b>4,474</b>	4,459
Mr D S Kooner	9,450	9	<b>9,459</b>	9,178
Mr M C Mace	-	-	-	2,242
Mr R K Raja Rayan, OBE	8,400	5	<b>8,405</b>	8,185
Mr A G Weightman	8,400	5	<b>8,405</b>	3,333
	<b>261,833</b>	<b>1,956</b>	<b>263,789</b>	252,515

## Martyn Green

Chairman, Nomination / Remuneration Committee

15 March 2013

# Annual Report of the Board of Directors

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

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## Principal Activity and Strategy

Dentists' Provident is a not-for-profit mutual, incorporated under the Friendly Societies Act 1992. The Society's principal business activity is the provision of Income Protection to dentists in the UK and the Republic of Ireland under the Holloway Contract principles. The Society did not undertake any activities which were outside its powers.

The key elements of the Group's business strategy are:

- Delivering exceptional service and financial performance by putting the Members' interests at the heart of our business;
- Increasing the value the Group creates by tightly controlling our risk management processes and improving the efficiency of our business;
- Focusing on our core competencies and on activities where we have a competitive advantage;
- Avoiding markets and products which lead to increased risk concentration or where we are unable to generate sufficient surpluses for our Members;
- Maintaining the financial strength of the Society through a prudent bonus policy and sound business management, to support future growth and retain the confidence of our Members and other key stakeholders; and
- Applying technology and process improvements to continually improve our standards of service and reduce the cost of running the Society for our Members.

The Society is confident its contract offers valuable benefits, and it will continue to enhance the optional features of Membership to meet its Members' financial needs.

## Business Review and Future Developments

An analysis of the development and performance of the business can be found within the Chairman's Statement and the Chief Executive's Review on pages 6 to 8. A description of the material risks facing the business are set out in the Risk Management section on pages 9 to 10.

## Financial Results

The Group achieved a surplus before bonuses of £17.6 million (2011: £13.0 million). The total assets of the Group at 31 December 2012 stood at £191.4 million (2011: £174.3 million).

The detailed results for the year are shown in the Group Income and Expenditure Account on page 21 and also within the Chief Executive's Review on page 7.

## Solvency

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

## Going Concern

After making appropriate enquiries, the Directors have an expectation that the Company and Group have adequate financial resources to continue in operation for the foreseeable future. Consequently, the Directors consider it appropriate to continue using the going concern basis in preparing the financial statements.

## Bonuses

The Board has declared a dividend of £1.44 (2011: £1.56) per Share for Insured Members and £1.80 (2011: £1.80) per Share for Commuted Members. The rate of interest on Members' Bonus Accounts has been increased to 5% from 4% in the previous year and the rate of Terminal Bonus remains unchanged at 15%. The total cost of Bonuses to Members in 2012 was £6.6m (2011: £6.1m).

## Directors and Chief Executive

The names and details of the individuals who served as Directors of the Society during the year are set out on pages 4 to 5.

The entire Board retires by rotation and all Directors have submitted themselves for re-election.

## Changes in Fixed Assets

Details of significant changes in the fixed assets of the Group are detailed in Note 14 to the financial statements.

## Donations

The Group did not make any political donations in the year (2011: £Nil). Charitable donations totalled £2,354 (2011: £267). The Group's policy on donations is to provide assistance to small local charities, bodies involved in improving dental health and those providing services to members of the dental profession facing financial and health issues.

# Annual Report of the Board of Directors

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

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## Complaints Policy

The Society takes all complaints extremely seriously and formal procedures are in place for handling them.

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

Serious complaints are dealt with by the Head of Compliance & Risk. If a complaint is not 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 a ruling on the complaint by the Financial Ombudsman Service.

## Cautionary Statement Regarding Forward-Looking Information

This annual report and financial statements contain forward-looking statements. These are made by the Directors in good faith, based on the information available at the time of the approval of the annual report and financial statements.

The statements should be treated with caution, due to the inherent risks and uncertainties underlying such forward-looking information. A number of factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

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

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. Under the Friendly Societies Act, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the Society and Group for that period. In preparing those financial statements, the Board is required to:

- Select suitable accounting policies and 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; and
- 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 enable it to ensure the financial statements comply with all legal and regulatory requirements. 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.

## Auditors

A resolution to reappoint Buzzacott LLP as auditors to the Society will be proposed at the Annual General Meeting.

## Simon Elliott

Secretary  
15 March 2013

# Independent Auditors' Report

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

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## To the Members of Dentists' Provident Society Limited

We have audited the financial statements of Dentists' Provident Society Limited for the year ended 31 December 2012 which comprise the Group and Society income and expenditure account, balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2012, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the long term business technical account and on excess of income over expenditure before tax are disclosed in Note 19.

This report is made solely to the Society's Members, as a body, in accordance with 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

As explained more fully in the Responsibilities in the Preparation of Financial Statements set out in the Annual Report of the Board of Directors, the Directors are responsible for preparing financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Performance and Key Metrics Table, Chairman's Statement, Chief Executive's Review, Directors Remuneration Report, Risk Management and Governance Statements, to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

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 and the Group's affairs as at 31 December 2012 and of the income and expenditure of the Society and the Group for the year then ended; and
- Have been properly prepared in accordance with the Friendly Societies Act 1992.

## Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Annual Report of the Board of 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 financial statements for the financial year.

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

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept; or
- The financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents that we require for our audit.

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the provisions of the Annotated Combined Code specified by the Association of Financial Mutuals.

## Buzzacott LLP

Chartered Accountants and Registered Auditor  
15 March 2013

130 Wood Street  
London  
EC2V 6DL

# Income and Expenditure Account

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

## Technical Account - Long Term Business

	Notes	2012 Group £	2011 Group £	2012 Society £	2011 Society £
Earned Premiums	2	<b>13,583,542</b>	12,975,258	<b>13,583,542</b>	12,975,258
Investment Income	3	<b>3,444,817</b>	3,181,607	<b>3,289,922</b>	3,242,165
Unrealised Gains on Investments	4	<b>12,393,736</b>	4,198,275	<b>12,393,736</b>	4,198,275
		<b>29,422,095</b>	20,355,140	<b>29,267,200</b>	20,415,698
Claims Incurred	5	<b>(8,341,275)</b>	(7,715,355)	<b>(8,341,275)</b>	(7,715,355)
Change in Other Technical Provisions					
Long Term Business Provisions					
Members' Withdrawals		<b>4,130,470</b>	4,311,171	<b>4,130,470</b>	4,311,171
Sickness Business Provision	16	<b>(3,766,000)</b>	858,000	<b>(3,766,000)</b>	858,000
		<b>364,470</b>	5,169,171	<b>364,470</b>	5,169,171
Bonuses	6	<b>(6,632,075)</b>	(6,121,869)	<b>(6,632,075)</b>	(6,121,869)
Net Operating Expenses	7	<b>(3,620,652)</b>	(4,425,878)	<b>(3,488,600)</b>	(4,114,994)
Investment Expenses and Charges					
Investment Management Expenses		<b>(249,491)</b>	(374,167)	<b>(249,271)</b>	(373,980)
Transfer to Fund for Future Appropriations	15	<b>£10,943,072</b>	£6,887,042	<b>£10,920,449</b>	£7,258,671

## Continuing Operations

The amounts stated above relate to the continuing operations of the Group and 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 | Annual Report and Financial Statements | 31 December 2012

	Notes	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>ASSETS</b>					
Investments					
Land and Buildings	10	<b>9,763,393</b>	5,534,636	-	-
Investment in Subsidiaries	11	-	-	<b>4,600,000</b>	2,800,000
Other Financial Investments	12	<b>163,156,613</b>	166,629,528	<b>163,156,613</b>	166,629,528
		<b>172,920,006</b>	172,164,164	<b>167,756,613</b>	169,429,528
Debtors					
Other Debtors	13	<b>131,195</b>	50,642	<b>7,067,996</b>	4,265,167
Other Assets					
Tangible Fixed Assets	14	<b>473,927</b>	630,030	<b>452,626</b>	605,552
Cash at Bank and in Hand		<b>17,654,540</b>	1,414,115	<b>16,134,754</b>	352,079
		<b>18,128,467</b>	2,044,145	<b>16,587,380</b>	957,631
Prepayments and Accrued Income					
Other Prepayments and Accrued Income		<b>201,559</b>	78,555	<b>89,559</b>	33,591
		<b>£191,381,227</b>	£174,337,506	<b>£191,501,548</b>	£174,685,917
<b>LIABILITIES</b>					
Fund for Future Appropriations	15	<b>74,474,101</b>	63,531,029	<b>74,833,866</b>	63,913,417
Technical Provisions					
Long Term Business Provision	18	<b>115,217,758</b>	109,504,764	<b>115,217,758</b>	109,504,764
Accruals and Deferred Income		<b>1,689,368</b>	1,301,713	<b>1,449,924</b>	1,267,736
		<b>£191,381,227</b>	£174,337,506	<b>£191,501,548</b>	£174,685,917

Approved and authorised for issue by the Board of Directors of  
Dentists' Provident Society Limited

**Farrukh Mirza**  
Chief Executive  
15 March 2013

# Notes to the Financial Statements

Dentists' Provident | Annual Report and Financial Statements | 31 December 2012

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## 1.a General Information

The Dentists' Provident Group, resident in the United Kingdom, comprises Dentists' Provident Society Limited (the Parent Undertaking) and its subsidiary, 1908 Property Holdings Limited. The Principal activity of the Group is the provision of income protection insurance to dentists in the UK and the Republic of Ireland under the Holloway Contract principles.

The Parent Undertaking is a not-for-profit mutual managed for the benefit of its Members. The consolidated accounts for the Group include the results of the subsidiary. All amounts stated in the financial statements relate to continuing operations of the Group.

## 1.b Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and are consistent with those of the previous year.

### Recognition of Assets and Liabilities

Assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the contract. An asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A liability is derecognised when it is extinguished, which is when the obligation in the contract is discharged, cancelled or expires.

### Basis of Preparation

The financial statements have been compiled on a going concern basis and prepared under the historical cost convention, except that investments and land and buildings are measured at fair value. These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the UK, applicable accounting standards and the guidance on Accounting for Insurance Business issued by the Association of British Insurers and presented in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

Certain amounts reported in the financial statements include estimates and judgements made by the management, particularly in relation to the calculation of the Sickness Benefit Reserve and the valuation of certain investments. The actual results may differ from the estimates made.

### Basis of Consolidation

The consolidated financial statements include the results of the Society and its subsidiary, which prepares its financial statements to 31 December each year. The subsidiary has been consolidated from the date it commenced trading and all inter-company balances, profits and transactions are eliminated.

### Premium Income

The Holloway Contract is a long term insurance contract and premium income is recognised in the Income and Expenditure Account when due from the Members of the Society. Where Memberships lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

### Investment Income

Investment income includes dividends, interest, rent, gains and losses on realisation of investments and related expenses. Dividends, 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.

### Unrealised Gains and Losses

Unrealised gains and losses on investments are calculated as the difference between the year-end valuation and the previous year end valuation or purchase price, if acquired in the year. Unrealised gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and have been reported as realised gains and losses.

### Claims

Claims incurred comprise sickness benefit and withdrawals of capital by the Members of the Society.

### 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. As a consequence, all acquisition costs are recognised in the income and expenditure account in the period they are incurred.

# Notes to the Financial Statements

## Foreign Currencies

The functional currency of the Group is Pounds Sterling. 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.

## 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 land as it is deemed to have an indefinite useful economic life. The Directors consider the useful economic life of the buildings to significantly exceed 50 years. In addition, the current estimate of residual value is such that any accumulated depreciation and annual depreciation charge would be immaterial. Subsequently, no provision for depreciation on buildings has been provided for in these financial statements.

## Other Financial Investments

Other financial investments are initially recognised in the financial statements at fair value. For investments quoted on active markets, fair value is deemed to be the bid price, exclusive of any transaction costs. For investments in collective investment schemes, the fair value is based on the pricing and valuation information provided by the third party investment managers. Loans and other receivables are carried at cost less any provision for impairment in value.

## Tangible Fixed Assets

Tangible fixed assets comprising office equipment and computer software and equipment are carried at historical cost less depreciation and any impairment losses. Historical cost includes any associated expenditure directly attributable to the acquisition of the asset. Depreciation is provided on all tangible fixed assets to write off the cost less estimated residual value at the following rates:

Fixtures, fittings, plant & equipment	10% and 12.5% per annum on a straight line basis
Computer software & equipment	20% and 25% per annum on a straight line basis

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

## Impairment of Assets

Where the carrying value of an asset is impaired, its carrying value is immediately reduced to the recoverable amount by an immediate charge to the Income and Expenditure Account. The recoverable amount is the higher of an asset's value in use to the Group or the open market disposal value, excluding the costs of sale.

## 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 and the Financial Services Authority.

## Pension Scheme

The Group operates two defined contribution plans for the benefit of its employees. The Group pays contributions to independent third party administered pension insurance plans on a contractual basis. The contributions are recognised as an employee benefit expense when they are due.

# Notes to the Financial Statements

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	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>2. Earned Premiums</b>				
Gross premiums written comprise:				
Holloway income protection insurance contracts	<b>£13,583,542</b>	£12,975,258	<b>£13,583,542</b>	£12,975,258

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.

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>3. Investment Income</b>				
Income from subsidiaries	-	-	<b>169,672</b>	123,007
Income from land and buildings	<b>334,093</b>	79,383	<b>5,025</b>	17,666
Income from other financial investments	<b>1,642,204</b>	1,530,679	<b>1,646,705</b>	1,529,947
Gains on realisation of investments	<b>1,468,520</b>	1,571,545	<b>1,468,520</b>	1,571,545
	<b>£3,444,817</b>	£3,181,607	<b>£3,289,922</b>	£3,242,165

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>4. Unrealised Gains on Investments</b>				
Other financial investments	<b>12,393,736</b>	4,198,275	<b>12,393,736</b>	4,198,275

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>5. Claims Incurred</b>				
Withdrawals from Members' Bonus Accounts	<b>4,130,470</b>	4,311,171	<b>4,130,470</b>	4,311,171
Sickness claims paid	<b>4,210,805</b>	3,404,184	<b>4,210,805</b>	3,404,184
	<b>£8,341,275</b>	£7,715,355	<b>£8,341,275</b>	£7,715,355

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>6. Bonuses</b>				
Total dividends and interest to members on withdrawal	<b>109,393</b>	111,234	<b>109,393</b>	111,234
Interest to members	<b>3,724,884</b>	2,943,907	<b>3,724,884</b>	2,943,907
Dividends to members	<b>2,243,187</b>	2,367,536	<b>2,243,187</b>	2,367,536

Terminal bonuses on withdrawal of funds	<b>554,611</b>	699,192	<b>554,611</b>	699,192
<b>Total bonuses</b>	<b>£6,632,075</b>	£6,121,869	<b>£6,632,075</b>	£6,121,869

# Notes to the Financial Statements

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	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>7. Net Operating Expenses</b>				
Acquisition costs	1,147,936	1,208,551	1,147,936	1,208,551
Administrative expenses	2,472,716	3,217,327	2,340,664	2,906,443
	<b>£3,620,652</b>	<b>£4,425,878</b>	<b>£3,488,600</b>	<b>£4,114,994</b>

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
Net operating expenses include:				
Commissions on direct business	583,584	641,364	583,584	641,364
Auditors remuneration - Audit services	44,109	37,530	35,700	34,800
Actuarial fees	152,534	134,913	152,534	134,913
Depreciation and Loss on disposal of fixed assets	185,168	912,610	181,991	911,672
	<b>2012 Group £</b>	<b>2011 Group £</b>	<b>2012 Society £</b>	<b>2011 Society £</b>

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
<b>8. Staff Costs</b>				
Wages and salaries	1,128,238	1,062,027	1,128,238	1,062,027
Social security costs	127,626	129,926	127,626	129,926
Other pension and associated costs	208,988	242,900	208,988	242,900
	<b>£1,464,852</b>	<b>£1,434,853</b>	<b>£1,464,852</b>	<b>£1,434,853</b>

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

	2012 Group No.	2011 Group No.	2012 Society No.	2011 Society No.
Acquisition	7	9	7	9
Management and Administration	19	18	19	18
	<b>26</b>	<b>27</b>	<b>26</b>	<b>27</b>

Details of the Directors' emoluments are set out in the Directors' Remuneration Report.

	2012 Group £	2011 Group £	2012 Society £	2011 Society £

The emoluments of the Board of Directors comprised:

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
Remuneration	263,789	252,515	263,789	252,515
Pension contributions and associated cost	78,929	123,934	78,929	123,934
	<b>£342,718</b>	<b>£376,449</b>	<b>£342,718</b>	<b>£376,449</b>

# Notes to the Financial Statements

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	<b>2012</b> <b>Group</b> <b>£</b>	<i>2011</i> <i>Group</i> <i>£</i>	<b>2012</b> <b>Society</b> <b>£</b>	<i>2011</i> <i>Society</i> <i>£</i>
Chairman's emoluments	<b>£13,659</b>	<i>£12,815</i>	<b>£13,659</b>	<i>£12,815</i>
Emoluments of the highest paid Director:				
Remuneration	<b>191,022</b>	<i>178,811</i>	<b>191,022</b>	<i>178,811</i>
Pension contributions	<b>78,929</b>	<i>123,934</i>	<b>78,929</b>	<i>123,934</i>
	<b>£269,951</b>	<i>£302,745</i>	<b>£269,951</b>	<i>£302,745</i>

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

	<b>2012</b> <b>Group</b> <b>No.</b>	<i>2011</i> <i>Group</i> <i>No.</i>	<b>2012</b> <b>Society</b> <b>No.</b>	<i>2011</i> <i>Society</i> <i>No.</i>
£0 - £5,000	<b>1</b>	<i>5</i>	<b>1</b>	<i>5</i>
£5,001 - £10,000	<b>6</b>	<i>5</i>	<b>6</b>	<i>5</i>

## 9. Taxation

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

	<b>2012</b> <b>Group</b> <b>£</b>	<i>2011</i> <i>Group</i> <i>£</i>	<b>2012</b> <b>Society</b> <b>£</b>	<i>2011</i> <i>Society</i> <i>£</i>
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## 10. Land and Buildings

Freehold land and buildings at valuation	<b>£9,763,393</b>	<i>£5,534,636</i>	-	-
Value of land included above	<b>£3,569,036</b>	<i>£2,023,202</i>	-	-
Freehold land and buildings at cost	<b>£9,763,393</b>	<i>£5,534,636</i>	-	-

The value of land and buildings occupied by the Group for its own use amounted to £1,411,000 (2011: £1,411,000).

## 11. Investments in Subsidiaries

<b>Society</b>	<b>Shares</b>	<b>Loans</b>	<b>Total</b>
<i>At 31 December 2011</i>	<i>£2,800,000</i>	-	<i>£2,800,000</i>
<b>At 31 December 2012</b>	<b>£4,600,000</b>	-	<b>£4,600,000</b>

The Society holds 100% of the Ordinary Share Capital of 1908 Property Holdings Limited, a company registered in England.

The Board is of the opinion that the aggregate value of the investment is not materially different from the amounts stated above.

# Notes to the Financial Statements

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## 12. Other Financial Investments

Group	Shares and other variable yield securities £	Debt and other fixed interest securities £	Loans to staff secured by mortgages £	Total £
<i>At 31 December 2011</i>	£113,097,313	£53,484,215	£48,000	£166,629,528
<b>At 31 December 2012</b>	<b>£105,224,007</b>	<b>£57,884,606</b>	<b>£48,000</b>	<b>£163,156,613</b>

The other financial investments exceeded cost by the following amounts:

<i>At 31 December 2011</i>	£16,037,393	£3,511,539	-	£19,548,932
<b>At 31 December 2012</b>	<b>£21,358,581</b>	<b>£6,399,155</b>	<b>-</b>	<b>£27,757,736</b>

Society	Shares and other variable yield securities £	Debt and other fixed interest securities £	Loans to staff secured by mortgages £	Total £
<i>At 31 December 2011</i>	£113,097,313	£53,484,215	£48,000	£166,629,528
<b>At 31 December 2012</b>	<b>£105,224,007</b>	<b>£57,884,606</b>	<b>£48,000</b>	<b>£163,156,613</b>

The other financial investments exceeded cost by the following amounts:

<i>At 31 December 2011</i>	£16,037,393	£3,511,539	-	£19,548,932
<b>At 31 December 2012</b>	<b>£21,358,581</b>	<b>£6,399,155</b>	<b>-</b>	<b>£27,757,736</b>

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
Other debtors	131,195	50,642	124,121	29,374
Amounts owed by subsidiary undertaking	-	-	6,943,875	4,235,793
	<b>£131,195</b>	£50,642	<b>£7,067,996</b>	£4,265,167

## 13. Other Debtors

Other debtors	131,195	50,642	124,121	29,374
Amounts owed by subsidiary undertaking	-	-	6,943,875	4,235,793
	<b>£131,195</b>	£50,642	<b>£7,067,996</b>	£4,265,167

# Notes to the Financial Statements

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## 14. Tangible Fixed Assets

Group Cost	Fixtures, Fittings, Plant & equipment	Computer software & equipment	Total
<i>At 1 January 2012</i>	439,732	3,502,134	3,941,866
Additions	22,000	7,065	29,065
<b>At 31 December 2012</b>	<b>£461,732</b>	<b>£3,509,199</b>	<b>£3,970,931</b>

### Depreciation

<i>At 1 January 2012</i>	33,288	3,278,548	3,311,836
Charge for the year	55,611	129,557	185,168
<b>At 31 December 2012</b>	<b>£88,899</b>	<b>£3,408,105</b>	<b>£3,497,004</b>

### Net book value

<i>At 1 January 2012</i>	£406,444	£223,586	£630,030
<b>At 31 December 2012</b>	<b>£372,833</b>	<b>£101,094</b>	<b>£473,927</b>

Society Cost	Fixtures, Fittings, Plant & equipment	Computer software & equipment	Total
<i>At 1 January 2012</i>	414,316	3,502,134	3,916,450
Additions	22,000	7,065	29,065
<b>At 31 December 2012</b>	<b>£436,316</b>	<b>£3,509,199</b>	<b>£3,945,515</b>

### Depreciation

<i>At 1 January 2012</i>	32,350	3,278,548	3,310,898
Charge for the year	52,434	129,557	181,991
<b>At 31 December 2012</b>	<b>£84,784</b>	<b>£3,408,105</b>	<b>£3,492,889</b>

### Net book value

<i>At 1 January 2012</i>	£381,966	£223,586	£605,552
<b>At 31 December 2012</b>	<b>£351,532</b>	<b>£101,094</b>	<b>£452,626</b>

# Notes to the Financial Statements

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	2012 Group £	2011 Group £	2012 Society £	2011 Society £
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## 15. Fund for Future Appropriations

At 1 January	63,531,029	56,643,987	63,913,417	56,654,746
Transfer from income and expenditure account	10,943,072	6,887,042	10,920,449	7,258,671
<b>At 31 December</b>	<b>£74,474,101</b>	<b>£63,531,029</b>	<b>£74,833,866</b>	<b>£63,913,417</b>

	2012 Group £	2011 Group £	2012 Society £	2011 Society £
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## 16. Sickness Business Provision

At 1 January	31,139,000	31,997,000	31,139,000	31,997,000
Transfer from / (to) income and expenditure account	3,766,000	(858,000)	3,766,000	(858,000)
<b>At 31 December</b>	<b>£34,905,000</b>	<b>£31,139,000</b>	<b>£34,905,000</b>	<b>£31,139,000</b>

## 17. Members' Bonus Accounts

Group & Society	2012 Insured £	2012 Commuted £	2011 Insured £	2011 Commuted £
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At 1 January	41,128,673	37,237,091	40,422,470	36,831,788
Members' Bonus Accounts transferred	(1,323,590)	1,323,590	(818,426)	818,426
Bonuses	3,455,835	2,621,629	3,290,418	2,132,259
Withdrawals	(1,832,112)	(2,298,358)	(1,765,789)	(2,545,382)
<b>At 31 December</b>	<b>£41,428,806</b>	<b>£38,883,952</b>	<b>£41,128,673</b>	<b>£37,237,091</b>

<b>Total Members' Bonus Accounts</b>	<b>£80,312,758</b>		<b>£78,365,764</b>	
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	2012 Group £	2011 Group £	2012 Society £	2011 Society £
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## 18. Long Term Business Provision

### Analysis of Insurance Liabilities

Members' Bonus Accounts	80,312,758	78,365,764	80,312,758	78,365,764
Sickness business provision	34,905,000	31,139,000	34,905,000	31,139,000
<b>Total long term business provision</b>	<b>£115,217,758</b>	<b>£109,504,764</b>	<b>£115,217,758</b>	<b>£109,504,764</b>

# Notes to the Financial Statements

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## 19. Insurance Liabilities

Capital Statement	2012 Group Holloway Business £	2011 Group Holloway Business £	2012 Society Holloway Business £	2011 Society Holloway Business £
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### Available Capital Resources

Fund for future appropriations	74,474,101	63,531,029	74,833,866	63,913,417
Adjustments onto regulatory basis:				
Other adjustments	(1,492,443)	(1,288,044)	(1,852,208)	(1,670,432)
Total available capital resources	£72,981,658	£62,242,985	£72,981,658	£62,242,985

### Holloway Business Liabilities on a Statutory Basis

Policyholder obligations	115,217,758	109,504,764	115,217,758	109,504,764
Technical provision in the Balance Sheet	£115,217,758	£109,504,764	£115,217,758	£109,504,764

### Changes in Available Capital

	2012 Group Holloway Business £	2011 Group Holloway Business £	2012 Society Holloway Business £	2011 Society Holloway Business £
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### Available Capital Resources

At 1 January	62,242,985	55,531,987	62,242,985	55,542,746
Expense surpluses (including acquisition and non-recurring costs)	(975,642)	(1,838,497)	(975,642)	(1,838,497)
Investment surpluses	9,508,309	2,138,383	9,508,309	2,138,383
Variance between actual and expected morbidity experience	4,669,861	5,630,654	4,669,861	5,630,654
Movements in premium rates	(1,931,065)	1,068,636	(1,931,065)	1,068,636
Effects of other surpluses and deficits	(532,790)	(288,178)	(532,790)	(298,937)
At 31 December	£72,981,658	£62,242,985	£72,981,658	£62,242,985

# Notes to the Financial Statements

## Summary

As at 31 December 2012, the total available capital resources of the Group amounted to £72,981,658 (2011: £62,242,985), its capital resource requirements amounted to £9,712,421 (2011: £12,916,082), resulting in a surplus of available capital resources over regulatory capital of £63,269,237 (2011: £49,326,903).

Set out below are 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 Group 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 which have not been allocated to members and are available to meet regulatory and solvency requirements. Adjustments have been made to restate the assets and liabilities in line with FSA regulations.

The significant assumptions used to determine the sickness provision are set out in the table below. These assumptions have been derived based on recent operating experience with appropriate allowances for prudence as well as any FSA requirements within IPRU(INS), GENPRU and INSPRU.

	Deferred 0 Weeks Reducing	Deferred 0-52,104 Weeks Level	Options Reserve
Method	Gross Premium	Gross Premium	1 Year's Gross Premium
Interest Rate	1.50%	1.50%	N/A
Allowance for Expenses	25% of Gross Premium	25% of Gross Premium	N/A
Mortality	Nil	Nil	N/A
Morbidity	Prudent assessment based on Society's recent experience	Prudent assessment based on Society's recent experience	N/A

## Restrictions on Available Capital

The available surplus held in the Holloway Business Fund can only be applied to meet the requirements of the Society or be distributed to the Members.

## Basis of Calculation of Capital Requirements

The capital resource requirements amounted to £9,712,421 (2011: £12,916,082) 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.

## 20. Risk Management Objectives and Policies

The business activities of the Group expose it to a number of potential risks which can impact its abilities to meet its business objectives. The Board is responsible for the Group's internal control systems and for reviewing their effectiveness. The systems are designed to manage, as opposed to eliminate, risk and aim to provide reasonable and not absolute assurance.

The Group's overall appetite for accepting and managing risks is set by the Group Board. The Group's risk management policies and procedures cover areas such as risk identification, management and reporting. The primary objective of the risk management framework is to protect the Members, employees and other key stakeholders from consequences which could negatively affect the Group's ability to meet its contractual, business and social objectives.

This section covers the risks relevant to the Group's operations and financial statements from a qualitative and quantitative perspective.

### Insurance Risk

The risk under a contract of insurance with a member is the possibility that an insured event will occur and a claim become payable. The very nature of insurance is based on the unpredictability of the timing and severity of events. The principal risks the Group faces in this area of business activity comprise the risk of adverse financial impact on the Group due to inappropriate pricing of the income protection insurance contracts and the risk of claims experience being worse than anticipated and the associated impact on the sickness benefit reserve. Other less significant but nonetheless

# Notes to the Financial Statements

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material risks under this heading include the loss of future premium income from lower than expected renewal of insurance business and higher than expected costs of managing the insurance portfolio.

The Society manages insurance risk by following standard underwriting policies which take into account the risks the Group is prepared to accept, adopting a structured approach to underwriting and regular, formal analysis and monitoring of the insurance portfolio.

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

The two key drivers of the Group's claims experience are the inception rates for claims and the recovery rates for claimants. Part of these risks are mitigated by the fact that the Society's income protection contracts allow for the premiums to be reviewed. Additional mechanisms for managing these risks include a structured approach to assessing and managing claims.

The impact of a 5% increase in the valuation assumption for morbidity would be to increase the sickness provision by £7,730,274 (2011: £6,034,622).

The persistency experience of the Society varies over time but has remained high in the past. Factors affecting persistency include the effectiveness of the sales process of the Independent Financial Advisors, 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 is unlikely to have a material 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 would increase the sickness provision by £8,870,285 (2011: £6,777,000).

The valuation rate of interest to determine the sickness provision has been calculated in accordance with FSA requirements. A decrease in the valuation rate of interest of 75 basis points would increase the sickness provision by £2,961,255 (2011: £2,420,000).

## Equity Risk

The Group is exposed to equity risk through its holdings of unit trust investments. This risk affects a significant but tightly controlled proportion of the overall investment portfolio and the holdings involved are well diversified across companies, industries and geographical regions. The Board keeps the investment strategy under review to ensure the Group's ability to write business and settle claims is not adversely affected by falls in the market value of equities. The fair value of equity-type investments in the Group's financial statements at 31 December 2012 was £87,424,610 (2011: £95,864,014).

The equity risk is borne by the Members of the Society, as changes in equity valuations and income would directly impact the amounts available for distribution to the Members. A 10% reduction in equity valuations would reduce the Group's surplus for the year by £8,742,461 (2011: £9,586,401).

## Interest Rate Risk

The Group's exposure to fixed income investments is principally through collective investment schemes. These investments also represent a significant part of the Group's investment portfolio and are kept under regular review by the Board. The fair value of fixed interest securities is normally inversely correlated to market interest rates, assuming credit and liquidity premia remain unchanged.

The holdings within the collective investment schemes are primarily within highly rated government and corporate debt and asset backed securities. The Group's fixed interest portfolio tends to have a relatively short duration, which provides a degree of protection against movements in the longer end of the yield curve. The fair value of fixed interest securities in the Group's financial statements at 31 December 2012 was £57,884,606 (2011: £53,484,215).

Although the Group attempts to manage interest rate risk by broadly matching the duration and profile of the assets with underlying Member liabilities, the interest rate risk is borne by the Members of the Society, as changes impacting the effective yield and valuations would directly impact the amounts available for distribution to the Members. A 100 basis points increase in the market interest rates would reduce the Group's surplus for the year by £502,624 (2011: Increase £229,547).

## Property Risk

The Group also has a significant exposure to property and property-related assets, the majority of which is through holdings of collective investment schemes. The rental income and valuation are affected by the general conditions in the

# Notes to the Financial Statements

economy, such as GDP growth, employment trends, inflation and interest rates. In addition, local factors such as competition in the area from other landlords, attractiveness of the properties to prospective tenants, the state of repairs of the premises and the costs of maintenance and insurance impact the valuation and rental income from individual properties.

The Group manages the risks associated with its own direct investments in property by effective management of the premises, credit evaluations of prospective tenants, application of appropriate lease covenants and on-going monitoring of existing tenants.

A 10% reduction in the valuation of property and property-related assets would reduce the Group's surplus for the year by £2,756,279 (2011: £2,276,794).

## **Currency Risk**

The Group's exposure to foreign exchange arises primarily through entering into insurance and investment contracts denominated in currencies other than Pounds Sterling. Currency risk is controlled as part of the Group's day-to-day operations. A number of arrangements have been put in place that provide a partial, non-qualifying hedge against currency risk. The Board does not consider the residual currency risk to be material to the Group's operations.

## **Credit Risk**

This is the risk that one party to a financial transaction will fail to discharge its obligations, causing the other party to incur a loss. Credit risk in relation to financial investments and cash and cash equivalents is managed by the Investment Committee. The Group's investment guidelines are constructed to avoid excessive exposure to any single counterparty and by ensuring that debt and fixed income investments are concentrated in high quality investment grade holdings. In addition, the Group Investment Committee has the right to impose stricter credit risk limits where it deems it appropriate.

The Group credit risk in respect of balances with Members is managed primarily by the terms and conditions set out in the Society's Rules, which allow it to cancel the Membership of individuals in the event of non-payment of premiums. In addition, the balance on the Member's Bonus Account provides a method of recovering unpaid premium arrears.

As at 31 December 2012, the Group had no material debt or fixed income assets that were impaired beyond their reported fair values (2011: £Nil).

## **Liquidity Risk**

The Group is exposed to the daily need for cash resources mainly from claims for sickness benefits and capital withdrawals. Liquidity risk is the risk that the Group, although solvent, is unable to meet its obligations associated with financial liabilities that are settled by cash and cash equivalents.

A significant part of the Group's investments are in highly liquid assets which can be converted into cash swiftly and at minimal cost. In addition, the use of budgets and business plans allows the Group the ability to realistically estimate its liquidity requirements.

## **Capital Risk Management**

The Board is responsible for ensuring that the Group holds an appropriate level of surplus capital. The Society is also subject to an externally imposed capital requirement by its regulator, the Financial Services Authority. It is the Group's policy to maintain capital in excess of the amounts determined under the statutory framework and the Individual Capital Assessment framework.

## **21. Pension Contributions and Related Costs**

The Group operates defined contribution pension schemes for the benefit of its employees. The contributions for the year amounted to £208,988 (2011: £242,900).

## **22. Actuaries**

The Actuarial Function Holder of the Society is Mr John O'Neil, a Partner in Barnett Waddingham LLP. The Society has requested that Mr O'Neil furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. He has confirmed that neither he nor his family, nor any of the partners in Barnett Waddingham LLP were Members of the Society, nor have they any financial or pecuniary interest in the Society, with the exception of fees paid to Barnett Waddingham LLP for professional services, which amounted to £152,534 (2011: £24,000).

# Notes to the Financial Statements

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## **23. Related Party Transactions**

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 £41,021 (2011: £40,500). Sickness payments to the Directors amounted to £1,000 (2011: £4,785). Capital withdrawals by the Directors in the year amounted to £15,000 (2011: £Nil).

The Group has taken advantage of the exemptions conferred by Financial Reporting Standard No.8, from reporting details of transactions between the Society and its subsidiary undertaking.

## **24. Valuation Report**

The actuarial valuation required under the Regulations has been prepared as at 31 December 2012. The valuation report is available for inspection at the registered office of the Society.

## Dentists' Provident Society Limited

Registered office:  
91 - 94 Saffron Hill  
London  
EC1N 8QP



Telephone number: **+44 (0) 20 7400 5700**  
We may monitor calls to improve our service.

Fax number: **+44 (0) 20 7400 5701**  
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)