



**ANNUAL REPORT AND FINANCIAL STATEMENTS  
2018**

**THE DENTISTS' & GENERAL MUTUAL BENEFIT  
SOCIETY LIMITED**

# The Dentists' & General Mutual Benefit Society Limited

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## dg mutual

### Key Performance Headlines – 31 December 2018

	£ <u>2018</u>	£ <u>2017</u>
Net Premiums	3,844,851	3,924,831
Investment Income	(1,052,621)	2,374,845
Sickness Benefit Paid	1,384,730	1,393,249
Net Operating Expenses	1,508,644	1,547,995
Total Assets	42,941,154	45,078,258
Members Capital Accounts	20,044,355	20,512,131
Growth Life Fund	157,613	180,650

### Apportionment Rates

Bond Apportionment	£6.80	£6.80
Single Share Apportionment	£1.90	£1.90
Double Share Apportionment	£3.88	£3.88
Commuted Share Apportionment	£2.02	£2.02
Capital Apportionment	4.0%	4.0%
Terminal Bonus	25.0%	25.0%
90 <sup>th</sup> Anniversary Apportionment	-	£90.00

### Highlights

- Another strong financial performance leading to bonus rates unchanged.
- Tight financial measures to control Operating Expenses.
- Continued payout of over 90% of claims within 2 weeks.

**WE'RE MUTUAL, WE ONLY WORK FOR YOU**

**PUTTING MEMBERS FIRST**

**PLEASE RECOMMEND TO YOUR COLLEAGUES, FAMILIES AND FRIENDS**

Outlined above is an extract of significant figures taken from the financial statements. A copy of the full Report for the year ended 31<sup>st</sup> December 2018 can be downloaded from our website [www.dengen.co.uk](http://www.dengen.co.uk) via the documents section or requested direct from the Society.

# The Dentists' & General Mutual Benefit Society Limited

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## Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Dentists' & General Mutual Benefit Society Limited will be held at the RAC Club, 89 Pall Mall, London, SW1Y 5HS on Thursday 20<sup>th</sup> June 2019 at 12.45p.m. for the following purposes:-

1. To receive the Chairman's Statement for the year ended 31<sup>st</sup> December 2018.
2. To receive the Financial Statements at 31<sup>st</sup> December 2018.
3. To elect members to the Board.
  - a) All Board members require Annual Re-election:-

Mr P. Mather	Chartered Surveyor	Elected 1992
Mr A. Wilman	Retired Police Officer	Elected 1992
Mr N. Lacey	Chartered Accountant	Elected 2006
Miss S. D. Pyle	Barrister	Elected 2004
Miss E. H. Pleasance	Equine Management	Elected 2007
Mr D. W. Thompson	Chartered Accountant	Elected 2010
Mr N. Grainger	Actuary	Elected 2015
Mrs P. Macpherson	Dental Hygienist	Elected 2017
Dr M. Green	Dentist	Elected 2018
4. To approve the Board Remuneration Report for the year ended 31<sup>st</sup> December 2018 by way of an advisory vote. This is not a legal requirement but your Board considers it best practice to enable members to express a view on this issue.
5. To consider, and if thought fit, to pass the following resolution:  
'That BDO Chartered Accountants be re-appointed as auditors of the Society and to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which financial statements are laid before the Society, at a remuneration to be fixed by the Board'.
6. To re-appoint as Arbitrators  
Mr R Frier, Mr M Harding and Mr R Leddington

No.4 Park Farm Barns,  
Chester Road, Stonebridge,  
Warwickshire CV7 7TL  
17<sup>th</sup> April 2019

By Order of the Board  
DAVID THOMPSON  
Chief Executive

A member entitled to attend and vote at a general meeting may appoint one proxy to attend and, on a poll, vote at the meeting instead of him. The instrument appointing a proxy shall be deposited at the registered address not less than 48 hours before the day appointed for holding the meeting.

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### Registered Office

No. 4, Park Farm Barns, Stonebridge, Warwickshire CV7 7TL  
Telephone 0121-452 1066 Fax 0121-452 1077  
[www.dengen.co.uk](http://www.dengen.co.uk) E-mail: [mail@dengen.co.uk](mailto:mail@dengen.co.uk)

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Incorporated in 1999 under the Friendly Societies Act 1992 (Reg. No. 456F).

Member of the Association of Financial Mutuals.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

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# The Dentists' & General Mutual Benefit Society Limited

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## Board of Directors

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<b>Chairman</b>	P. Mather, BSc, FRICS
<b>Vice-Chairman</b>	A. J. Wilman, BA(Hons)
<b>Board</b>	N. D. Lacey, BSc, FCA Miss E. H. Pleasance - Senior Independent Director Miss S. D. Pyle, LLB, Barrister N Grainger, Actuary D.W. Thompson BSc ACA P. Macpherson, Dental Hygienist Dr. M. Green, Dentist

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<b>Chief Executive</b>	D. W. Thompson, BSc, ACA
<b>Secretary</b>	Mrs L. B. Griffin

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## Professional Advisers

<b>Actuaries</b>	OAC Actuaries and Consultants
<b>Auditors</b>	BDO LLP, Chartered Accountants.
<b>Internal Auditors</b>	CK Chartered Accountants
<b>Medical Consultant</b>	Dr. R.W. Bell, MBBS, DRCOG, MRCGP
<b>Solicitors</b>	Davisons
<b>Investment Managers</b>	HSBC Investment Management

## Committee Membership

<b>Audit &amp; Risk</b>	N. D. Lacey (Chairman) E. H. Pleasance A. J. Wilman N. Grainger D. W. Thompson (resigned 18 <sup>th</sup> Oct 18)
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<b>Nomination &amp; Resource</b>	S.D Pyle (Chairman) P. Mather E. H. Pleasance P. Macpherson Dr M.Green
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<b>Investment &amp; Finance</b>	A. J. Wilman (Chairman) P. Mather N. Grainger D.W. Thompson
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# The Dentists' & General Mutual Benefit Society Limited

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## Chairman's Statement 2018

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Welcome to all members of the Society to this my tenth Chairman's Report.

It has been another unusual 12 months to assess world markets and 2018 has proved a very difficult year for equity and bond markets. With continuing political clouds surrounding the World, I expect markets to be very tricky to predict and many risks lie ahead.

Thankfully, the Society's carefully devised investment strategy has enabled us to get some investment returns throughout the year but incurred a considerable drop in the last few months on our portfolio. However I am pleased to report that we will maintain our capital apportionment rate at 4% and maintain our apportionment rates utilising previous years gains carefully held back to enable us to offer a consistent return in poor years such as 2018.

Overall the claims in the year have remained at a similar number and value as the previous year. We appreciate the responsible attitude so clearly made by you the members in submitting claims and the Society continues to try and make payments within a week for all claims. We continue to carefully manage all our costs and strive to get further savings in future years coupled with greater efficiencies.

As one of the UK's leading income protection specialists for self-employed professionals our product is a vital one in the current economic climate and offers considerable value and peace of mind for all professional people. We strive to recruit more members to help strengthen still further our ability to withstand the challenges that lie ahead so once again I make no apology for urging you to commend your Society's product to friends and colleagues and particularly to young professionals starting out in their business life.

We continue to update our website and will continue to add articles, news and other content to enable members to access relevant and accurate information.

From our now established headquarters in Warwickshire we aim to enable members to receive even more effective service levels and prompt solutions.

I would like to acknowledge the great efforts of my colleagues on the Board and the staff at Birmingham and thank our many advisers and IFAs for all the support the Society has received during the year.

There are plenty of challenges that lie ahead, but I believe there continues to be a place for well-managed, forward thinking organisations with strong values in a Financial Services industry which is crying out for trust.

My colleagues and I have done our utmost to ensure that the Society maintains its prudent financial position while serving each member to the best of its ability. I thank you all for your continuing support and loyalty to the Holloway ethos and our mutual status, and look forward to seeing the Society prosper long into the future.



.....  
Paul Mather  
Chairman

# The Dentists' & General Mutual Benefit Society Limited

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## Strategic Report

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### Aims of the Society

The Society continues to solely underwrite income protection contracts. The aims of the Society are to enable individuals to create a fund by voluntary subscription of the members thereof for:

- relief and maintenance during sickness or infirmity,
- option to fund a sum of money funded out of Society surpluses to be paid at retirement age,
- option of insuring a sum of money to be paid at the death of a member,
- relief of members in distressed circumstances, and
- utilise the reserves for the benefit of future generations.

### To achieve the aims of the Society the strategies of the Society are:

- To treat its customers fairly and provide a high quality service particularly in the provision of Income Protection payments.
- To be a responsible employer and develop the skills and abilities of staff members in line with their potential.

To achieve prescribed financial targets in the areas of:

- Membership - recruit 70 new members for the year ending 31/12/19 (52 in 2018) with a target 5% increase year on year for the following years.
- Expenses -maintain acquisition and administration expenses below 50% of net subscription income for years ending 31 December 2019 to 2023.
- Sickness benefit as a ratio of subscription income -maintain sickness benefit below 38% of net subscription income for years ending 31 December 2019 to 2023.
- Apportionment and bonus rates- maintain apportionment rates at smoothed levels with previous years, and other similar products in the market.
- To maintain a diversified portfolio using a carefully devised investment strategy to grow the capital and achieve an annual return whilst carefully maintaining agreed levels of risk.

### Business Review

The 2018 operating results for the Society were in line with both forecasts and 2017.

The financial targets referred to above were met except where noted.

99% of all claims were paid out for the 10<sup>th</sup> year running.

52 new members were recruited with a target of 150 for 2018.

Acquisition and administrative expenses were maintained below 40% of net subscription income.

Sickness benefit as a ratio to subscription income was 35% against a target of 38%.

The Board has been able to declare the following apportionment rates for 2018 (2017 in parenthesis).

Bond Apportionment	£6.80	(£6.80)
Single Share Apportionment	£1.90	(£1.90)
Double Share Apportionment	£3.88	(£3.88)
Commutated Share Apportionment	£2.02	(£2.02)
Capital Apportionment	4.0%	(4.0%)
90 <sup>th</sup> Anniversary Apportionment	-	(£90.00)
Terminal Bonus (Shares)	25%	(25%)
Terminal Bonus (Bonds)	25%	(25%)

# The Dentists' & General Mutual Benefit Society Limited

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Investment returns were in line with international market conditions and overall income was £1,097k (2017: £1,425k). Also unrealised losses on investments of £2,150k as compared with last year's gains of £950k. The Capital apportionment rate has been maintained at 4% (2017: 4.0%) and the Membership of the Society stood at 4,557 (2017: 4,818) with 52 new members joining in the year. Sickness benefit claims were £1,384k (2017: £1,393k) and the overall sickness reserve asset has decreased to £6,596k (2017: £7,425k). The Society continues to be a going concern.

## **Solvency**

The Society had at 31st December 2018 a level of solvency which substantially covered the minimum capital resource requirements prescribed by the Regulator.

## **Viability Statement**

The Board has assessed the Society's viability over a 5-year period to December 2022. This is based on our five-year rolling strategy period. The five-year strategic plan was last approved by the Board on 15<sup>th</sup> March 2018.

During 2018, the Directors carried out an ongoing assessment of the principal risks and uncertainties facing the Society. This assessment included consideration of the Society's resilience in severe but plausible scenarios, supported by the use of stress testing and sensitivity analysis around the central assumptions of the Society's plans. The scenarios considered included significant variations in the levels of new business, policy lapses and claims compared to those expected and changes to the underlying economic assumptions such as interest rates.

The Directors believe that the Society is well placed to manage its risks successfully, having taken into account its business activities and overall financial position, including liquid cash balances, cash flow forecasts and capital adequacy levels.

Based on this assessment, the Directors are confident that the Society will be able to continue in operation and meet all its liabilities as they fall due over the period considered.

The Board has reviewed the summary of the Guidance for Directors published by the Financial Reporting Council and concluded that in the light of:

- the published year end position on statutory solvency
- available financial resources in liquid form
- the capital projections within our agreed business plans
- the results of our Own Risk and Solvency Assessment there are no material uncertainties that may cast significant doubt about our ability to continue as a viable going concern.

## **Brexit**

Throughout the Brexit process, we have continued to work closely with the UK, European and Irish regulators and policymakers. This ensures we can continue to best serve our customers by being ready for the eventualities Brexit may bring and able to continue to service our members in Ireland. DG Mutual is establishing an EU-licensed insurance platform, based in Dublin, and from here, we will still be able to provide income protection insurance across Ireland. Currently a third of annual premiums are Irish members. This uncertainty makes recruiting new members competitive and challenging.

## **Business Risk**

As an integral part of the organisation's business planning it undertakes a constant review and assessment of all business risk.

Business risk is "the threat that an event or action will adversely affect a business's ability to achieve its ongoing objectives".

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Risk is associated with both the external business environment and also the business itself.

Management of business risk involves first identifying the objectives of the Society across all areas before identifying the risks of not achieving them. The assessment of those risks is completed in both terms of probability and impact in order for the Society to consider how to eliminate, reduce, transfer or accept any potential problem. Ongoing monitoring is required and any significant risks identified should be allocated for action.

The risks that were identified by this process and the management and mitigation were:

Financial control of claims, investment fluctuations and control of expenses - Strong cost control with Board oversight.

Increases in morbidity – close monitoring of claims experience on monthly basis.

Operational risks and increases in expenses – detailed M.I. overseen by Management and Board.

Reputational & Governance – detailed Corporate Control Manual implemented with assurances from Internal and External Auditors to the Board.

The Audit and Risk Committee in conjunction with the other Committees have developed a full Risk Map which is considered at each Audit and Risk Committee meeting. It is further reviewed and adopted by the Board at each meeting. The risk map is then embedded with the day to day operations of the Society. There is a robust mechanism of reporting changes to the risk profile and the subsequent amendments of controls to be adopted from staff to Committees and the Board.

The day to day running of the Society is carried out by the Chief Executive David Thompson, who is supported by his staff. Staff currently comprise:

- Compliance and Company Secretary – Lynette Griffin
- Underwriter – David Mason
- Claims Assessor – Kevin Yarnold
- Members Administrator – Claire Woodhouse

## **Risk Management control**

The following key principles outline the Society's approach to risk management and internal control:

- The Board has responsibility for overseeing risk management.
- The Audit & Risk Committee handle a number of delegated functions on behalf of the Board.
- An open and receptive approach to solving risk problems is adopted by the Board.
- The Management Team supports, advises and implements policies approved by the Board.
- The Society makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks.
- Managers are responsible for encouraging good risk management practice.
- Identified Key risk indicators are regularly reviewed and are closely monitored.
- The Society has a Risk Register which is reviewed and re-assessed at least annually through the Audit & Risk committee.
- Risk is an agenda item on the agendas for all meetings of the Board and its Committees.

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## Corporate Governance Report

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### The UK Corporate Governance Code

The Society's Board of Directors is committed to reaching and retaining a high level of corporate governance and has adopted The Annotated Corporate Governance Code for Mutual Insurers. The Board has implemented such requirements of the Code deemed appropriate and practical and explains any areas of non-compliance. It does not consider that its governance falls short of any of the requirements to such an extent that there exists an adverse and material departure from the provisions which would lead to a significant failure in ongoing control.

The roles of the Chairman and the Chief Executive are separate with a clear division of responsibilities. The Board, the Chairman, its committees and all Board members are subject to rigorous annual evaluation through a process of self-evaluation and then formal review by the Chairman and Chief Executive.

The performance of the Chairman is evaluated by all Board members and reviewed by the Senior Independent Director.

There were nine members of the Board at the year-end; five have served for more than nine years. The Board considers that length of service does not adversely affect the ability of the Board to act in the best interests of the Society's members. Those five members have retained their independence in attitude and application and bring to the Board stability knowledge and insight through long experience. All Board members meet the definition of independence as set out in the code.

All Board members are subject to re-election at each Annual General Meeting.

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. A combination of demographics, skills, experience and personal attributes on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision making.

New appointments are made on merit, taking account of the specific skills and experience needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition.

### Board of Directors

#### **Paul Mather - Chairman**

Paul, aged 64 was elected to the Society's Board of Directors in 1992. He is a former Director of BNP Paribas Real Estate and has 30 years experience of working in the City of London.

#### **Andrew Wilman - Vice-Chairman, Investment & Finance Committee Chairman**

Andrew, aged 62 was elected to the Board of Directors in 1992 and has been a member of the Society for 41 years. Although he trained as an accountant, he recently retired from the North Yorkshire Police.

#### **Neville Lacey - Audit & Risk Committee Chairman**

Neville, aged 66 was elected to the Board of Directors in 2006. He is a Chartered Accountant and was a senior director of a firm of chartered accountants in Chichester. He has been advising boards of various companies on corporate governance compliance and also advises and reports on audit matters to audit committees of those companies. Neville was treasurer and director of a nationally known theatre for five years and is a director of a private school.

# The Dentists' & General Mutual Benefit Society Limited

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## Emma Pleasance – Senior Independent Director

Emma, aged 49 was appointed to the Board of Directors in March 2008. She has a background in marketing and now runs a successful equestrian training and consulting business.

## Susan Pyle - Nomination & Resource Committee Chairman

Susan, aged 57 was elected to the Board of Directors in 2004. She was called to the Bar in 1985 and has been practising as a Barrister for over 30 years.

## Nick Grainger

Nick, aged 38, was elected to the Board of Directors in 2015. He is an Actuary and has worked in the Financial Services sector for over 15 years.

## David Thompson

David, aged 59, was appointed Chief Executive in 2007 and elected to the Board of Directors in 2010. He is a Chartered Accountant and has experience in the financial services sector for over 25 years. He is a former Chairman of the Holloways Society Committee.

## Patricia Macpherson

Patricia, aged 59, was elected to the Board of Directors in 2017. She is a dental hygienist and has worked in the dental sector for nearly 40 years. She has been a member of the BSDHT Publications Committee since 2004 and a former member of the General Dental Council's Fitness to Practise Panel.

## Dr Mary Green,

Mary, aged 62, was appointed to the Board of Directors on 1<sup>st</sup> September 2017. She is a dentist working in the sector for over 30 years and is an elected member of the English Council of the British Dental Association

Attendance		Board of Directors	Investment & Finance	Audit & Risk	Nomination & Resources
P Mather	Surveyor	3 (4)	3 (4)	1 (2)	1 (2)
A J Wilman	Accountant	4 (4)	4 (4)	2 (2)	
N D Lacey	Accountant	4 (4)	3 (4)	2 (2)	
E H Pleasance	Equestrian Trainer	4 (4)		2 (2)	2 (2)
S D Pyle	Barrister	4 (4)			1 (2)
N Grainger	Actuary	4 (4)	4 (4)	2 (2)	
D W Thompson	Accountant	4 (4)	4 (4)	2 (2)	2 (2)
P Macpherson	Dental Hygienist	4 (4)			2 (2)
M Green	Dentist	4 (4)			2 (2)

Notes; 1) Figures in parenthesis indicate maximum possible attendances.

# The Dentists' & General Mutual Benefit Society Limited

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## Remuneration Report

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The Nomination & Resource committee is responsible for setting all Board and senior staff remuneration levels which are then approved by the Board.

Pension costs consist of contributions made to a defined contribution scheme.

The salaries are maintained at levels to enable the Society to attract, motivate and retain suitably qualified and committed people. The Society do not operate long-term incentive schemes.

Salary, bonus, benefits and pension costs for 2018 were as follows:

	Salary £	Bonus £	Benefits £	Pension £	Total 2018 £	Total 2017 £
P Mather	22,500	-	-	-	22,500	18,690
A J Wilman	19,500	-	-	-	19,500	16,440
N D Lacey	16,500	-	-	-	16,500	14,190
E H Pleasance	12,500	-	-	-	12,500	10,460
S D Pyle	16,500	-	-	-	16,500	12,730
N Grainger	12,500	-	-	-	12,500	11,190
D W Thompson	99,660	16,000	8,447	9,966	134,073	131,566
P Macpherson	12,500	-	-	-	12,500	9,730
M Green	12,500	-	-	-	12,500	4,730
Total	224,660	16,000	8,447	9,966	259,073	229,726

Notes: M Green appointed 1<sup>st</sup> April 2017

A separate resolution to accept this Remuneration Report will be put to the Society's members at the Annual General Meeting.

### Pension Arrangements

We have arranged a Defined Contribution Scheme for all staff in to which both employee and employer contributions may be made. The employer contribution made on behalf of the current Chief Executive is 10% of base salary, but excluding annual bonus payments.

### Service Contracts

Executive Directors are employed on contracts subject to no more than 12 months' notice in accordance with Corporate Governance best practice.

# The Dentists' & General Mutual Benefit Society Limited

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## Board of Directors Terms of reference

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- Objective:** To bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.
- Requirements:** To be independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgment.  
To be competent and reliable persons able to achieve those objectives in a satisfactory manner.
- Responsibility:** There is a joint and several responsibility for each member of the Board to ensure that the Board fulfils its obligations and controls its strategy, performance and resource plans.  
A member of the Board is responsible for ensuring that arrangements are made for the fulfillment of the Society's statutory duties and may be liable to penalties should the Society fail to do so.  
To ensure that the person appointed as Chief Executive has the requisite knowledge and experience to discharge the functions of the office.  
To ensure that the Secretary is charged with the duty of complying with the statutory requirements and is a competent and reliable person able to discharge those duties satisfactorily.

## Committees

### Executive

Membership of the Executive Committee consists of the Chairman, Vice Chairman, Chief Executive and any other Board members deemed appropriate from time to time. It is authorised to act on behalf of the Board of Directors but always subject to their actions being ratified by that Board in due course.

### Audit & Risk

This Committee reviews and reports to the Board of Directors on the integrity of the financial statements, the adequacy of the Society's systems of business risk and control including the adequacy and accuracy of reports made to the Board of Directors and the Financial Conduct Authority. It receives external and internal auditor's reports and reports to the Board of Directors on the adequacy of the inspection programme together with recommendations for improvements or changes. The Committee considers annually the performance and cost effectiveness of the Internal Auditors and make recommendations where necessary. The Committee consider each year the effectiveness of the performance of the external auditors and in particular the technical competence, service delivery, cost effectiveness, independence and objectivity taking into consideration UK professional and regulatory requirements.

Moore Stephens LLP were appointed as external auditors in 2018 following a competitive tender. Since this date a merger has taken place with BDO LLP. The fees for audit service are considered annually by Audit & Risk committee and the Board.

Meetings are held twice a year but provision is made to meet as needed. It also manages the process of the Board, Chairman, Committee and Board members annual evaluation.

# **The Dentists' & General Mutual Benefit Society Limited**

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## **Nomination & Resource**

This Committee reviews the structure, size and composition of the Board of Directors giving full consideration to succession planning for the Board and senior management. It is responsible for identifying and nominating candidates to fill vacancies on the Board and its Committees. It also quantifies the resource requirements of the Society against the targets set in the Business model.

Meetings are held twice a year but provision is made to meet as needed.

## **Investment & Finance**

This Committee ensures that the acquisition and disposal of assets is reviewed in line with the strategy laid down by the Board of Directors and with the fund manager with reference to performance, future opportunities and targets. It ensures the financial management of the Society is reviewed in line with the Business model.

The Committee meets at least four times a year.

## **Committees Terms of Reference**

- Objective:** To ensure that the appropriate information is obtained and supplied to the Board of Directors.  
To receive reports from management and the Society's advisers and report to the Board of Directors on the adequacy of these reports.  
To make recommendations for improvements or changes.
- Requirements:** To be a member of the Board of Directors.  
To be free from any business or other relationship which could materially interfere with fulfilling those obligations.
- Responsibility:** The Committee Chairmen are responsible for the submission of reports to the Board of Directors.  
The Committee shall meet at such frequency as determined by the Board of Directors.

# The Dentists' & General Mutual Benefit Society Limited

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## Report of the Board of Directors

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The names of the Board of Directors and the Chief Executive are shown at the start of the report. All served throughout the year to 31st December 2018, except where stated.

### Auditors

BDO LLP will be proposed for re-appointment at the Annual General Meeting on 20<sup>th</sup> June 2019. In accordance with best practice a formal retendering was undertaken in 2018.

### Disclosure of Information to Auditors

The members of the Board of Directors who held office at the date of approval of this Board of Directors report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware; and each member of the Board of Directors has taken all steps that they ought to have taken as a member of the Board of Directors to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

### Responsibilities of the Board of Directors

Board of Directors is responsible for preparing the Report of the Board of Directors and the financial statements in accordance with applicable law and regulations.

Friendly society law requires the Board of Directors to prepare financial statements for each financial year. Under that law it has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing these financial statements, the Board of Directors is required to:

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

The Board of Directors is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that its financial statements comply with the Friendly Societies Act 1992 and the regulations made under it.

The Board of Directors is also responsible for preparing a Report of the Board of Directors in accordance with the Friendly Societies Act 1992 and the regulations made under it.

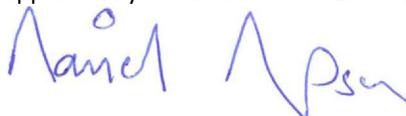
The Board of Directors has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities. Directors and Officers Liability Insurance cost £3k (2017: £3k).

The Board of Directors consider the Annual Report to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy

The Strategic and Directors Report were approved by the Board on the 17th April 2019.



Paul Mather (Chairman)



David Thompson (Chief Executive)

# The Dentists' & General Mutual Benefit Society Limited

## Statement of Comprehensive Income: Technical Account Long Term Business for the year ended 31st December 2018

	Notes	2018		2017	
		£	£	£	£
<b>Earned Premiums Net of Reinsurance</b>					
Gross Premiums Written		4,153,797		4,251,783	
Outward Reinsurance Premiums		(308,946)		(326,952)	
<b>Net Premiums</b>	2		<b>3,844,851</b>		3,924,831
<b>Investment Income</b>	3		<b>1,097,748</b>		1,425,168
<b>Unrealised Gains/ (Losses) on Investments</b>			<b>(2,150,369)</b>		949,677
<b>Other Technical Income, Net of Reinsurance</b>	4		<b>54,581</b>		77,666
<b>Claims Incurred, Net of Reinsurance</b>					
Claims Paid		(1,472,993)		(1,393,249)	
Reinsured		88,263		57,219	
			<b>(1,384,730)</b>		(1,336,030)
<b>Change in other Technical Provisions, not shown under other headings</b>					
	8				
Long Term Business Provisions			<b>(828,240)</b>		1,418,643
<b>Net Operating Expenses</b>	7				
Acquisition Costs			<b>(600,576)</b>		(598,001)
Administration Expenses			<b>(751,089)</b>		(817,574)
Investment Expenses and Charges			<b>(156,979)</b>		(132,419)
<b>Appropriations</b>					
Terminal Bonus			<b>(376,632)</b>		(272,838)
Capital Apportionment			<b>(776,477)</b>		(1,130,260)
Share and Bond Apportionment			<b>(512,330)</b>		(552,108)
<b>Transfer (from) / to Funds for Future Appropriations</b>	6		<b>(2,540,242)</b>		2,956,755
<b>Balance on Technical Account – Long Term Business</b>					

The notes on pages 17 to 30 form part of these financial statements.

# The Dentists' & General Mutual Benefit Society Limited

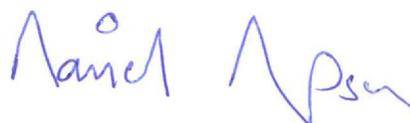
## Statement of Financial Position as at 31<sup>st</sup> December 2018

		£	£
<b>Assets</b>			
<b>Investments</b>			
Financial Investments	9	39,185,841	41,629,209
<b>Debtors</b>			
Debtors arising out of Reinsurance Operations		7,396	50,340
<b>Other Assets</b>			
Cash at Bank and in Hand		3,336,883	2,979,810
<b>Prepayments and accrued income</b>			
Accrued interest		397,877	404,531
Other prepayments and Accrued income		13,157	14,368
<b>Total Assets</b>		<b>42,941,154</b>	<b>45,078,258</b>
<b>Liabilities</b>			
<b>Funds for future appropriation</b>			
General Reserve	6	28,688,446	31,228,688
Welfare Fund		30,000	30,000
<b>Technical Provisions</b>			
Long Term Business Provision	8	13,605,594	13,268,167
Claims Outstanding	5	40,000	40,000
<b>Creditors arising out of Direct Insurance Operations</b>		<b>440,385</b>	<b>353,093</b>
<b>Accruals and Deferred Income</b>		<b>136,729</b>	<b>158,310</b>
<b>Total Liabilities</b>		<b>42,941,154</b>	<b>45,078,259</b>

These financial statements were approved by the Board of Directors on 17th April 2019 and were signed on its behalf by:



Paul Mather (Chairman)



David Thompson (Chief Executive)

The notes on pages 17 to 30 form part of these financial statements

# The Dentists' & General Mutual Benefit Society Limited

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## Notes to the Financial Statements

### 1. Significant Accounting Policies

The following accounting policies have been applied in dealing with items which are considered material to the Society's accounts.

#### **General Information**

The Society is a Friendly Society incorporated in the United Kingdom under the Friendly Societies Act. The address of the registered office is given on page 2. The nature of the Society's operations and its principal activities are set out in the Strategic Report on pages 6 to 8.

#### **(i) Basis of preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 102 and Financial Reporting Standard 103 as issued by the Financial Reporting Council, the Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations') and the Friendly Societies Act 1992. In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on the historical cost basis modified for the revaluation of investments.

The preparation of financial statements in conformity with FRS 102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

#### **Going Concern**

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 8. Note 14 and 15 also describes the financial position of the Society; its cash flows, liquidity position and borrowing facilities; the Society's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Society meets its day to day working capital requirements through its own cash reserves. The Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **(ii) Premium Income**

Subscription income is accounted for on a receivable basis. Outward reinsurance premiums are accounted for on a payable basis.

#### **(iii) Claims**

Claims combine sickness, death and claims and other amounts payable to members in accordance with their insurance contract.

# The Dentists' & General Mutual Benefit Society Limited

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(iv) **Investments**

Investments consist of listed investments and deposits. Listed investments are stated at the bid value ruling at the statement of financial position date. Deposits are included at their historical cost, as no reliable fair value can be obtained for these instruments.

(v) **Investment Income and Expenses**

Investment income and expenses includes dividends, interest, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on a receivables basis. Interest and expenses are included on an accruals basis.

(vi) **Unrealised Gains and Losses on Investments**

Unrealised gains and losses on investments recognised during the year represent the difference between the market value of the investments at the year end and their value at the previous balance sheet date or their purchase price if acquired during the year.

(vii) **Realised Gains and Losses on Investments**

Realised gains and losses on investments are calculated as the difference between net sale proceeds and the original cost.

(viii) **Funds for Future Appropriations**

The fund for future appropriations (FFA) consists of funds that have not been allocated to specific policyholders, members or non-insurance funds. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising from participating business.

(ix) **Long Term Business Provision**

The long term business provision is determined by the Board on the advice of the Reporting Actuary as part of the annual valuation of the Society's long term insurance business. The provision is determined in accordance with the requirements of the PRA rulebook: Solvency II Firms Technical Provisions Instrument 2015. The long term business provision on a Solvency II basis is calculated as the expected present value of the expected future cash flows (benefit payments and expenses less premiums) plus a risk margin. The risk margin allows for the cost to a third party of holding Solvency II capital until all the contacts are settled. Further details are contained in Note 8.

(x) **Foreign Currency**

Items included in the Financial Statements are measured in GBP. Transactions in foreign currencies have been translated into GBP at the rate applicable for the month in which the transaction took place. At each reporting date monetary assets and liabilities that are denominated in foreign currencies are translated into GBP at the rates of exchange ruling at the end of the reporting period. All exchange gains and losses, whether realised or unrealised, are included in foreign exchange gains and losses in the statement of comprehensive income.

(xi) **Operating Leases**

Rentals payable under operating leases are charged to the technical and non-technical accounts on a straight-line basis in line with the accruals concept over the lease term.

# The Dentists' & General Mutual Benefit Society Limited

## (xii) Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under FRS 102 to produce a cash flow statement.

## (xiii) Taxation

Friendly Societies are taxed on their life or endowment business so far as the annual premiums or sums assured exceed limits prescribed in tax law, and on certain investment returns referable to their subsidiaries (where applicable). No tax is due in the current or prior year.

## (xiv) Retirement Benefits

The Society operates a defined contribution plan under which it pays fixed contributions into a separate entity.

	2018	2017
	£	£
<b>2. Earned Premiums Net of Reinsurance</b>		
Gross Subscriptions		
Basic	462,591	499,757
Supplementary	806,949	883,484
Deferred	203,315	224,157
Mutual Bonds	2,680,942	2,644,385
	<u>4,153,797</u>	<u>4,251,783</u>
Reinsurance (relating to Mutual Bond Subscriptions)	(308,946)	(326,952)
	<u>3,844,851</u>	<u>3,924,831</u>

All premiums are periodic and relate to direct individual insurance contracts written in the EU. Basic premiums relate to participating shares whereas Supplementary and Deferred Premiums are nonparticipating.

	2018	2017
	£	£
<b>3. Investment Income</b>		
<b>Income from Financial Investments</b>		
Income from other Financial Investments	1,242,013	1,288,068
Realised (Losses) / Gains on Investments	(144,265)	137,100
	<u>1,097,748</u>	<u>1,425,168</u>

Income from other financial investments includes £737,688 from fixed investments and £504,325 from other listed investments (2017 £806,548 and £481,520 respectively).

	2018	2017
	£	£
<b>4. Other Technical Income, Net of Reinsurance</b>		
Forfeiture	22,122	27,918
Policy Fees	11,202	12,574
Insurance levy	(15,153)	(14,616)
Exchange Gains	36,410	51,790
	<u>54,581</u>	<u>77,666</u>

## The Dentists' & General Mutual Benefit Society Limited

	2018		2017	
	£	£	£	£
<b>5. Claims Outstanding</b>				
Balance at start of the year		40,000		40,000
Change in provision		-		-
		<u>40,000</u>		<u>40,000</u>
Balance at end of the year		<u>40,000</u>		<u>40,000</u>
<b>6. Funds for Future Appropriation</b>		2018		
		£		
Balance at beginning of year		31,228,688		
Transfer to Reserves		(2,540,242)		
		<u>28,688,446</u>		
Balance at end of year		<u>28,688,446</u>		
<b>Welfare Fund</b>				
Balance at beginning of year		30,000		
Payments out of fund		(8,800)		
Transfer from General Reserve		8,800		
		<u>30,000</u>		
Balance at end of year		<u>30,000</u>		
<b>7. Net Operating Expenses</b>		2018		2017
	£	£	£	£
<b>Acquisition Costs</b>				
Introduction Commissions	444,901		455,169	
Marketing and Publicity	29,594		14,302	
Website	17,040		13,123	
Medical Costs	20,058		28,375	
Staff Costs	88,983		87,032	
Movement in Deferred Acquisition Costs				
		<u>600,576</u>		<u>598,001</u>
<b>Administration Costs</b>				
Staff and Accommodation Charges	299,510		321,449	
General Office and Financial Charges	38,329		49,056	
Directors Remuneration	138,883		130,451	
Meeting and Travelling Expenses	23,862		18,517	
Auditors' Remuneration – Audit Fees	41,400		40,000	
Medical Fees – Sick Pay	2,614		1,191	
Actuarial Fees	125,469		114,692	
Professional Fees	21,074		22,412	
Computer Expenses	31,849		19,531	
Operating Lease Rentals – Property	28,099		100,275	
		<u>751,089</u>		<u>817,574</u>
<b>Investment Expenses and Charges</b>				
Management Fees		156,979		132,419
		<u>156,979</u>		<u>132,419</u>

## The Dentists' & General Mutual Benefit Society Limited

### 8. Technical Provisions:

Long Term Business Provision	Members Capital Account	Growth Life Bond	Sickness Reserve Fund	Total
Balance at 31 December 2017	20,512,131	180,650	(7,424,614)	13,268,167
Capital Apportionment	772,020	4,457	-	776,477
Share and Bond Apportionment	512,330	-	-	512,330
Transfer (to)/from Fund	-	-	828,240	828,240
Less withdrawals	(1,752,126)	(27,494)	-	(1,779,620)
Balance at end of the year	20,044,355	157,613	(6,596,374)	13,605,594

The provision is net of Re-Insurers share of £1,411,342 (2017: £2,166,981).

The amount of the sickness reserve fund within the long term business provision is calculated using a best estimate plus risk margin at the time. The assumptions used for discount rates are based on risk-free rates of return specified by the European Insurance and Occupational Pensions Authority ("EIOPA").

The amount of members' capital accounts within the long term business provision is held at face value. The amount of the provision for growth life bonds is calculated as the current surrender value of the members' policies.

### Morbidity

For our products an inception and recovery approach is used based on CMIR12 rates.

#### Table of morbidity rates assumed for 2018:

##### UK Holloway Business

Deferred Period (All Products)	Inception rates (% of CMIR 12 dp1)	Recovery rates (% of CMIR 12 dp1)	Female loading
0 weeks	23%	80%	85%
4 weeks	23%	80%	85%
13 weeks	23%	110%	85%
26 weeks	23%	110%	85%
52 weeks	23%	110%	85%

##### Irish Pure Protection Business

Deferred Period (All Products)	Inception rates (% of CMIR 12 dp1)	Recovery rates (% of CMIR 12 dp1)	Female loading
0 weeks	52%	80%	10%
4 weeks	52%	80%	10%
13 weeks	52%	110%	10%
26 weeks	52%	110%	10%
52 weeks	52%	110%	10%

# The Dentists' & General Mutual Benefit Society Limited

## Allowance for future bonuses

The valuation assumes that capital apportionment, share apportionment and final bonuses continue at the rates in force at the valuation date. The Society may decide to pay lower or higher rates but that will be financed out of the Society's financial resources at that time.

## Allowance for mortality while healthy

The assumed mortality basis is 48% of standard tables.

## Allowance for lapses

The assumptions for the Society's lapse experience reflect the Society's actual experience (12 month averages over the previous 3 years). The assumption used is 5% pa for non-commuted policies and 10% pa for commuted policies.

## Allowance for expenses

Per policy expenses have been derived from the budgets set in the latest Business Plan for 2019 to 2023 and the projected number of policies in force at the end of 2018. These calculations assume that the Society continues as a going concern and allow for the impact of the new business policies projected in the Business Plan. Allowance for expense inflation is made in line with RPI plus a margin to allow for salary inflation in excess

<b>9. Financial Investments:</b>	<b>Fixed Interest Securities</b>	<b>Equities</b>	<b>Short Term Bank Deposits</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Investments at Market Value</b>				
Balance as at 31st December 2018	<b>19,379,593</b>	<b>18,448,045</b>	<b>1,358,203</b>	<b>39,185,841</b>
	=====	=====	=====	=====
Balance as at 31st December 2017	20,609,161	20,538,267	481,781	41,629,209
	=====	=====	=====	=====
<b>Investments at Cost</b>				
Balance as at 31st December 2018	<b>19,966,336</b>	<b>20,011,671</b>	<b>1,358,203</b>	<b>41,336,210</b>
	=====	=====	=====	=====
Balance as at 31st December 2017	20,876,799	19,320,951	481,776	40,679,526
	=====	=====	=====	=====

Investments are listed on a UK investment exchange.

Fixed Interest Securities includes UK Government Securities and other fixed interest bonds.

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. Fair values are generally determined at prices quoted in an active market (level 1). Where such information is not available it may be possible to apply calculation techniques making use of market observable data for all significant inputs (level 2). Where inputs are not based on observable market data, fair value are classified as level 3. All of the fixed interest securities and equities are determined using level 1.

# The Dentists' & General Mutual Benefit Society Limited

## 10. Staff Numbers and Costs

The average number of persons employed by the Society (including Board Members) during the year, analysed by category, was as follows:

	<b>2018</b>	2017
Management	<b>9</b>	9
Administration	<b>4</b>	4
	<u><b>13</b></u>	<u>13</u>
	<b>2018</b>	2017
	<b>£</b>	£

The aggregate payroll costs of these persons were as follows:

Wages and Salaries	<b>444,456</b>	434,214
Social Security Costs	<b>50,980</b>	44,363
Other Pension Costs	<b>20,293</b>	19,595
	<u><b>515,729</b></u>	<u>498,172</u>

Other pension costs consist of contributions made to a defined contribution scheme. There were no outstanding or pre-paid contributions at the balance sheet date.

No board members had an interest in any transaction during the year ended 31<sup>st</sup> December 2018, nor for the previous year ended 31<sup>st</sup> December 2017.

The emoluments of Board Members, including pension contributions, were as follows:

	<b>2018</b>	2017
	<b>£</b>	£
As Board Members	<b>138,883</b>	130,451
Management of the Society	<b>134,073</b>	131,566
	<u><b>272,956</b></u>	<u>262,017</u>

The emoluments of Board Members, excluding pension contributions, fell into the following bands:

	<b>No. 2018</b>	No. 2017
£0 -£5,000	-	2
£5,001 -£10,000	-	1
£10,001 – £15,000	<b>5</b>	4
£15,001 – £20,000	<b>3</b>	2
£20,001 - £25,000	-	-
£125,001 - £135,000	<b>1</b>	1

The total emoluments of the Chairman were: £22,500 (2017: £18,690).

The total emoluments of the highest paid Board Member, including pension contributions totaling £9,966 (2017: £9,672), were £134,073 (2017: £131,566).

# The Dentists' & General Mutual Benefit Society Limited

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## 11. Commitments –Operating Leases

	2018	2017
Land and Buildings – Due within 1 year	£21,894	£20,612
Land and Buildings – Due within 2 -5 years	£96,761	£95,159
Land and Buildings – Due 5 years +	-	£23,496

## 12. Mutual Organisation

The Society is a mutual organisation and as such, does not have any shareholders. As at 31 December 2018 the available capital resources were made up by the Fund for Future Appropriations (FFA). The FFA is the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

## 13. Critical Accounting Judgements and Estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

### Fair value of financial assets

The Society holds a number of financial assets as described in the investments accounting policy on page 17. The Society has no financial assets held for trading, all investments are classified and valued at fair value. Such assets are measured at market prices, or prices consistent with market ratings should no price be available. Any unrealised or realised gains or losses are taken to the appropriate Income and Expenditure Account as they occur.

### Long term business provision

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate liabilities plus risk margin at the time. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty. The assumptions used for mortality, morbidity and longevity are based on standard industry or reinsurers' tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses, lapse and surrender rates are based on product characteristics and relevant claims experience. The assumptions used for discount rates are based on risk-free rates of return specified by "EIOPA". The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to gross benefits and claims within the Statement of Comprehensive Income in future years.

# The Dentists' & General Mutual Benefit Society Limited

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## 14. Capital Management

This section details the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available.

The risk appetite for each type of principal risk is set based on the amount necessary to meet the PRA's capital requirements.

### *Policies and objectives*

The Society's key capital management objectives are:

- To ensure the Society's strategy can be implemented and is sustainable;
- To ensure the Society's financial strength and to support the risks it takes on as part of its business;
- To give confidence to policyholders and other stakeholders who have relationships with the Society; and
- To comply with capital requirements imposed by its UK regulator, the PRA.

Details of the Society's objectives and its strategy to achieve them are provided in the Strategic Report – Business Review on page 6.

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Society's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Society.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

The capital requirement in the annual PRA return is the statutory minimum capital requirement plus an additional component for each with-profits fund. The statutory minimum capital requirement is based on EU directives.

Management intends to maintain surplus capital in excess of the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

The Society complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

## Capital Statement

The Society is required to comply with Financial Reporting Standards 102 and 103. The main impact of these is to require detailed disclosure of the liabilities and financial strength of the Society.

The capital statement illustrates the financial strength of the Society's life business and shows an analysis of the available capital resources calculated on a regulatory basis for the Society. A valuation was carried out at 31 December 2018 in conformity with the requirements of Solvency II. The capital requirement of the Society has also been determined in accordance with the requirements of Solvency II.

## The Dentists' & General Mutual Benefit Society Limited

The Society was in compliance with capital requirements imposed by regulators throughout the financial year. There are no specific constraints on the capital of the Society.

The Society's capital management plan extends to the Society having appropriate procedures in place to identify correctly the components of its capital resources. This is carried out by the Society's Actuarial Function. The Society also reviews the current and likely future capital position of the business and whether there is a material risk that solvency may be threatened as part of its ongoing financial review process. If the review process identifies that the Society's projected solvency position may be at risk then the Society will draw up appropriate plans to rectify that position.

The table below sets out the capital resources requirement and the Society's available capital.

<b>Available capital resources in respect of life assurance business</b>	<b>2018 £000</b>	<b>2017 £000</b>
Total capital resources before deductions	<b>28,688</b>	31,229
Adjustment to assets	-	-
Total available capital resources	<b>28,688</b>	31,229
Solvency capital requirements	<b>14,847</b>	17,051
Excess capital over capital requirements	<b>13,841</b>	14,178
Free asset ratio	<b>33%</b>	33%
Solvency ratio	<b>193%</b>	183%

### Basis of calculation of available capital resources

The available capital has been determined in accordance with Solvency II requirements. It represents the surplus funds of the Society which have not been allocated to members and are available to meet regulatory and solvency capital requirements. Adjustments have been made to restate the assets and liabilities in line with Solvency II.

The main assumptions used in the valuation are as follows:

Valuation interest rate:	Solvency II risk free yield curve
Morbidity (UK):	23% of standard table inception rates and 80% to 110% of recoveries, 85% female loading
Morbidity (Irish):	52% of standard table inception rates and 80% to 110% of recoveries, 10% female loading
Expenses:	Based on budgeted expenses
Lapses:	Realistic rates based on actual experience
Bonuses:	Continuation of current rates
Mortality:	40% of standard tables

### Analysis of change in capital resources

	<b>(£000)</b>
<b>2017 available capital resources</b>	<b>31,229</b>
Investment gains	(1,263)
Impact of new business	110
Policy cashflows *	(3,318)
Model, data and assumption changes	(345)
Change in risk margin	1,520
Change in admissibility	755
<b>Available capital resources at 31 December 2018</b>	<b>28,688</b>

\*includes £1,384,730 sickness payments made to members

# The Dentists' & General Mutual Benefit Society Limited

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## Basis for determining liabilities

The principle assumptions underlying the calculation of the long term business provision are as shown in note 8 to the Financial Statements.

The Society has not written any contracts which contain guaranteed surrender or maturity values. The surrender values are not guaranteed at policy issue but the policies develop a guaranteed surrender value as bonuses are added. The reserves held are subject to a minimum of the surrender value at the valuation date.

## Sensitivity of available capital

The table presented below demonstrates the sensitivity of available capital to movements in the liability assumptions.

Variable	Change in variable	Change in available capital (£000)
Morbidity	+10%	(6,459)
Morbidity	-10%	4,165
Lapses	+10%	(956)
Lapses	-10%	1,073
Expenses	+10%	(1,097)
Expenses	-10%	1,142
Mortality	+10%	56
Mortality	-10%	(14)
Interest	EIOPA shock up	(1,195)
Interest	EIOPA shock down	405

The table presented below demonstrates the sensitivity of available capital to movements in the assets.

Variable	Change in variable	Change in market value (£000)
Fixed interest	EIOPA shock up	(894)
Fixed interest	EIOPA shock down	512
Equities	-10%	(1,723)
Property	-10%	(0)

The available capital is very sensitive to morbidity and, to lesser extents, expenses and interest. It is not significantly affected by mortality.

In a situation where morbidity increased by the levels shown above the Society would review its allocation of profits accordingly.

When interest rates increase both assets and liabilities are negatively affected. This is because a significant proportion of the Society's technical provisions represent assets which are negative and are affected by the interest rate change in the same way that the assets are.

## 15. Risk management and control

### Insurance Risk

Insurance risk is the risk that arises from uncertainties as to the occurrence, amount and timing of insurance liabilities. Long term insurance risk arises from:

- **Morbidity Risk** is the risk that sickness claims are significantly more than expected in terms of numbers and value.

## The Dentists' & General Mutual Benefit Society Limited

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- **Lapse Risk** is the risk the policies cease and therefore contributions from future premiums are not as high as anticipated.
- **Expense Risk** is the risk that the future costs of administering claims are higher than anticipated.

Providing insurance policies is the business of the Society and we must accept these risks to remain in business. Some of the risk can be mitigated by reinsurance. The major risks are in poor underwriting and claims assessment and management. This would increase the level of claims. There are also risks associated with medical advancements which improve longevity.

The current product range is currently profitable and therefore the levels of persistency would also impact on the business. This is because the Long Term Business Provisions recognise the expected future profits generated by these policies which would not be achieved if policy lapses were higher than anticipated.

Most of the Society's current book is self-insured however for some old products there is an amount of reinsurance. Reinsurance is used to mitigate the potential cost of the claims risk where these could have a significant impact on the Society's reserves.

The Society also mitigates risk through internal claims and underwriting audits together with making use of external reviews on a regular basis.

Note 8 sets out the Long Term Business Provisions and the changes over the year and note 14 has the sensitivity analysis of available capital.

### **New Business Risks**

Accepting these risks is a result of being open to new business. Higher new business volumes have in the past exposed the Society to potential free asset issues whilst low new business levels may result in an inability to recover the costs of writing that new business.

The Society has continued to monitor new business levels although the implications of new business strain have reduced in recent years. The Society does continue to have a risk in falling customer service levels should business levels outpace the Society's ability to deliver a high standard of service.

The stagnation in demand and increasing competition increases the risk of writing too little business. The Society's strategy is to diversify into new product areas with alternative distribution methods to mitigate this risk.

### **Financial Risks**

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The most important components of this financial risk are market risks which include equity price risk, interest rate risk, currency exchange risk and credit spread risk. The Society also faces financial risks in respect of counterparty default exposures. Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is assessed in the calculation of the Society's Solvency Capital Requirement (SCR) in accordance with the PRA Rulebook, which takes into account the correlation of individual risks. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

# The Dentists' & General Mutual Benefit Society Limited

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## Market Risk

Market risk is the risk that as a result of market movements the Society may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates, equity prices and property prices. The investment strategy is kept under regular review by the Investment Committee. The Investment Committee also monitors all investment activity on behalf of the Board.

### (a) Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk, the Society operates an Investment & Finance Committee which oversees investment activity, monitors investment managers and ensures that the investment policy and asset allocations are adhered to. The Society manages its assets for the benefit of its members. The asset allocation policy, counterparty limits and other controls provided in the Investment Policy balance the risks against the rewards. Investment managers are used to manage much of the Society's investment portfolio with the Chief Actuary being asked to review the Investment Policy. Investor Policy statements are used to assist in the portfolio management with investment managers.

### (b) Interest rate risk

Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Society's products, the long term business funds may be impacted by these interest rate movements. Asset-liability matching is performed to broadly match expected liability cash flows on a realistic basis in each fund. However, this can never be exact due to the uncertainties involved. The up shock on the risk-free rates would lead to a 7.4% decrease (2017: 8.2% decrease) in the Society's surplus capital, before allowing for correlation.

### (c) Exchange rate risk

The Society has a number of directly and indirectly held investments in foreign currencies which present an exchange rate risk. The Society's holdings in USD represent 16.5% of the investments held, Japanese Yen 3.2% and EUR 2.5%. Exchange rate risk is not hedged and so a change in the exchange rate will lead to a corresponding change in the value of assets.

## Credit Risk

### (a) Credit spread risk

Credit spread risk results from the sensitivity of the value of assets and liabilities to changes in the level or volatility of credit spreads over the risk-free interest rate term structure. The terms of the Society's investment mandates require an appropriate spread of holdings within specified parameters, with the majority of assets being 'A' rated bonds or higher. There are also limits on the maximum exposure to any single counterparty and on the level of exposure to lower rated bonds. This results in a relatively modest exposure to lower rated and hence more risky assets within the investment funds. The Society considers regular reviews from the fund manager so that the risk within the funds remains appropriate. At 31 December 2018 the Society held £20.5m (2017: £20.6m) of listed fixed interest securities. Of these the Society held £11.1m (2017: £12.0m) of corporate bonds, 4.4% are credit rated AAA, 11.3% AA, 28.9% A, 49.2% BBB and 6.2% rated below BBB (2017 10.2% are credit rated AAA, 8.1% AA, 28.4% A, 47.1% BBB and 6.2% rated below BBB). No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

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## (b) Counterparty default risk

Counterparty default risk is the risk of loss incurred by the Society if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. The Society's exposures are mostly in respect of £4.7m of cash balances held at 31 December 2018 (2017: £3.5m). The cash deposits are spread between HSBC, National Westminster and Ulster Bank. The Society has a low level of exposure to reinsurers and this is declining with the maturity of the portfolios. There are not therefore any specific actions envisaged to manage reinsurer default risk. Counterparty default stress would lead to a 3.2% decrease (2017: 2.1% decrease) in the Society's surplus capital, before allowing for correlation.

## Liquidity risk

Liquidity risk is that of not having sufficient liquid resources to meet changing market conditions and being unable to meet obligations as they fall due, or being able to secure them only at excessive cost. Liquidity is required to honour all cashflow commitments, both on and off balance sheet, and these are generally met through cashflows supplemented by assets readily convertible to cash. The management of liquidity is consistent with the economic capital, regulatory and operational needs across the Society. The Board is responsible for defining the risk appetite and monitoring liquidity risk exposure. Liquidity risk oversight is performed by the Investment Committee. The Investment Committee sets and monitors appropriate asset ranges bearing in mind the liquidity needs for each fund.

The Society's technical provisions and maturity profile as at 31st December 2018 are as follows:

	<u>Within</u> <u>1 year</u>	<u>1-5</u> <u>Years</u>	<u>5-10</u> <u>years</u>	<u>Over 10</u> <u>years</u>	<u>Total</u>
<b>As at 31st December 2018</b>					
Long Term Business Provision	491,988	2,351,971	5,764,489	4,997,146	13,605,594
Claims Outstanding	40,000	-	-	-	40,000
	<u>531,988</u>	<u>2,351,971</u>	<u>5,764,489</u>	<u>5,001,603</u>	<u>13,645,594</u>
<b>As at 31st December 2017</b>					
Long Term Business Provision	463,047	2,147,309	5,559,369	5,098,442	13,268,167
Claims Outstanding	40,000	-	-	-	40,000
	<u>503,047</u>	<u>2,147,309</u>	<u>5,559,369</u>	<u>5,098,442</u>	<u>13,308,167</u>

# The Dentists' & General Mutual Benefit Society Limited

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## Independent Auditors Report to the Members of The Dentists' & General Mutual Benefit Society Limited

### Opinion

We have audited the financial statements of The Dentists' & General Mutual Benefit Society Limited (the 'Society') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and Financial Reporting Standard 103 *Insurance Contracts* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2018 and of the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992.

### Basis for opinion

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

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 7 and 8 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 8 in the annual report that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 14 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- whether the Directors' statement relating to going concern made in accordance with the UK Corporate Governance Code is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 7 in the annual report as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

# The Dentists' & General Mutual Benefit Society Limited

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter	Observation
<p><b>Valuation of Long Term Business Provision (note 8)</b></p> <p>As at 31 December 2018 the Society recognised a Long Term Business Provision of £13.6m (2017: £13.3m) prepared in line with the accounting policy on Long Term Business Liabilities.</p> <p>The Long Term Business Provision is calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation models. The assessment of the appropriate carrying value of the Long Term Business Provision requires management to make significant judgements when determining the underlying assumptions. These judgements involve considering whether the assumptions appropriately reflect the Society's circumstances, historic experience and future expectations.</p>	<p>In assessing the valuation of the Long Term Business Provision, we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• External life actuarial experts were used to review and report on the methodology and assumptions applied by management in the calculation of Long Term Business Provision and on the accuracy of the calculation itself.</li> <li>• We obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and ensured that relevant judgements and estimates have been considered in forming our opinion.</li> <li>• We reviewed and assessed changes to assumptions used in the calculation as compared to the previous period, considering whether these were reasonable and in line with acceptable parameters.</li> <li>• We substantively tested a sample of the policy data used by the actuaries to underlying policy data held on the Society's administration system.</li> <li>• We agreed as part of our new business testing that application details agree to the members' system, ensuring the raw policy data is accurately recorded.</li> </ul>	<p>Overall, based on the assumptions and methodology used at 31 December 2018, we consider the technical provisions recognised by the Society within its financial statements to be reasonable.</p>

## Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the

## The Dentists' & General Mutual Benefit Society Limited

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particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the financial statements as whole to be £580,000 (2017: £630,000). The principal determinant in this assessment was the Society's fund for future appropriations, which we consider to be the most relevant benchmark, as it reflects the underlying interests of the Members of the Society. Our materiality represents 2% of this number. A lower level of materiality was determined and applied to transactions and balances not affecting investment and the long term business provision related items, being £83,000 (2017: £84,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at £435,000 (2017: £472,500) which represents 75% (2017: 75%) of the above materiality level and was based on our assessment of the overall control environment and the low level of misstatements in the past.

We have agreed with the Audit & Risk Committee that we shall report to them any misstatements in excess of £6,500 (2017: £6,500) that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

### **An overview of the scope of the audit**

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association with the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of the valuation of the long term business provision which are subject to management judgement and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Friendly Societies Act 1992, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training and the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the Society's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- review of correspondence with the PRA and FCA; and

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- review of the Society's compliance plan, annual MLRO report, breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that might reasonably represent a risk of material misstatement due to fraud.

### Other information

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 14** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit & Risk Committee reporting set out on page 12** – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 9** – the parts of the Directors' statement relating to the Society's compliance with the UK Corporate Governance Code containing provisions that would, for a company subject to the Listing Rules of the Financial Conduct Authority, be specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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

In our opinion, based on the work undertaken in the course of the audit the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements.

# The Dentists' & General Mutual Benefit Society Limited

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

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

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

## **Respective responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, set out on page 14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## **Other matters which we are required to address**

We were appointed by the Audit & Risk Committee in May 2008. The period of total uninterrupted engagement including previous renewals and reappointments of the firm within the network is 10 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit & Risk Committee.

## **Use of our report**

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society

## The Dentists' & General Mutual Benefit Society Limited

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and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.



**Alexander Barnes**  
Senior Statutory Auditor

For and on behalf of  
**BDO LLP**  
Statutory Auditor  
150 Aldersgate Street  
London  
EC1A 4AB

18<sup>th</sup> April 2019

### Actuarial Function Holder

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The actuarial function holder of the Society for the period from 1st January 2018 to 31<sup>st</sup> December 2018 was Mrs C Spinks - OAC Actuaries and Consultants

She was not a member of the Society at any time, nor held any pecuniary interest in any transaction between the actuary and the Society subsisting at any time during the period. The only remuneration was the fee for professional services paid to OAC Actuaries and Consultants for the services provided by the firm, and the amount payable in this respect during the period amounted to £125,469 (2017 £114,692) inclusive of Value Added Tax. No other benefits of any kind were paid.

### Data Protection

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Any personal information you have provided will be used only in connection with your membership of the Society. All personal data about you is treated in confidence, and will not be disclosed to any third party except those permitted by law, or where you have given consent in advance.

Our purposes for holding personal information and a general description of the people and organisations to whom we may disclose it, are listed in the register of Data Controllers. You may inspect this, or obtain a copy of the relevant entry from the Office of the Information Commissioner (and at their website: [www.dataprotection.gov.uk](http://www.dataprotection.gov.uk)).



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