Solvency and Financial Condition Report

Summary

Overall this is a good solvency valuation result in 2016 primarily reflecting the beneficial impact of favourable investment returns. Capital requirements have increased but the Society still has a substantial level of 'free' assets at its disposal.

The Society solvency ratio (the new measure of solvency under the SII regime) is currently 185%. This is still a very healthy solvency position and means that the Society is covering its SCR almost twice.

The Board will continue to follow the long term objectives of our detailed Business Plan

David Thompson – Chief Executive

A Business and Performance

DG Mutual – fundamentals

The Dentists' & General Mutual Benefit Society Limited (DG Mutual) was founded in 1927 to enable individuals to create a fund by voluntary subscription of the members thereof for

- relief and maintenance during sickness or infirmity
- option to secure a sum of money funded out of Society surpluses to be paid at or after the age of 55
- option of insuring a sum of money to be paid at the death of a member
- relief of members in distressed circumstances
- utilise the reserves for the benefit of future generations

The Society was incorporated in 1999 under the Friendly Societies Act 1992 – Reg. No. 456F.

The Society is currently Authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

As a Friendly Society each 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 the member. Currently the Society members are mainly based in UK and Western Europe.

The registered office is currently St James Court, 20 Calthorpe Road, Edgbaston, Birmingham B15 1RP.

The Society is run by a Board of Directors currently comprising:-
Mr P Mather BSc FRICS - Chair
Mr A Willman BA(Hons)
Mr N Lacey BSc FCA
Miss E Pleasance – Senior Independent Director
Miss S Pyle LLB – Barrister
Mr J Reynolds BDS(Lond) LDSRCS(Eng) MSc
Mr N Grainger Actuary
Mr D Thompson BSc ACA
Mrs P MacPherson Dental Hygienist

The Annual financial Statements are audited by Moore Stephens, Chartered Accountants & Statutory Auditor, 30 Gay Street Bath BA1 2PA.

The Society has appointed Cara Spinks of OAC Actuaries and Consultants as our Actuarial Function Holder who is the SIMF 20 holder. The Board considers using a third party actuarial resource for all matters to be appropriate rather than an internal function due to the size of the Society.

Performance Review
The 2016 operating results for the Society were in line with both forecasts and 2015. The financial targets were met except where noted. 99% of all claims were paid out for the 8th year running with over 75% paid within 1 working week. 150 new members were recruited with a target of 175 for 2017. Acquisition and administrative costs were maintained below 40% of net subscription income. Sickness benefit as a ratio to subscription income was 38% against a target of 35%. Investment returns were in line with international market conditions and overall income was up to £1,504k (2015 £1,233k). Also unrealised gains on investments of £2,370k were ahead of last years losses of £400k. The Society continues to be a going concern.

B System of Governance

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 Board members and reviewed by the Senior Independent Director.

The Board oversees the remuneration policy to ensure all variable components (e.g. bonus or pension schemes) are appropriate to meet corporate guidelines and details correctly disclosed. The Annual Report includes details of all executive emoluments and details of all transactions with related parties.

There were nine members of the Board at the year-end; six 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 considers the composition of the board as a crucial element of corporate governance. The Board do not consider quotas for diversity such as the proportion of women on the Board as appropriate because appointments are made on merit rather than through positive discrimination.

Board of Directors Terms of Reference

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 fulfilment 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 2008 following a competitive tender. The fees for audit service are considered annually by the Board.

CK Accountants are the existing internal auditors and report to the committee twice a year. The Society considers third party internal auditors to be appropriate over an internal function given our size

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.

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. The committee carries out regular reviews of all outsourced work and an annual performance review is submitted to the Board. 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.

Fit and Proper requirement

The 'Fit and Proper' and the 'Senior Insurance Managers Regime'(SIMR) requirements are the standard required by the FCA and the PRA when appointing controlled function holders and DG Mutual applies the same requirements when appointing those who effectively run the society or have other key functions. The Society is satisfied that compliance with the framework is sufficient to ensure that individuals fulfilling controlled functions meet all relevant regulatory requirements.

C Risk Profile

Risk Management and Control

This note provides information on the main risks to which the Society is exposed and how the Society manages these risks.

Underlying approach to risk management

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.

Overview of risk identification, assessment, management and mitigation process

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.

Insurance Risk (Health Risk)

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

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 (Market Risk, Credit Risk, Lquidity Risk)

Market Risk is the risk of losses due to changes in the value of investment assets or the income from those assets.

Credit Risk is the risk of loss due to default by debtors, reinsureres and counterparties of the Society in meeting their financial obligations.

Liquidity Risk is the risk that the Society is unable to meet its own commitments to pay its liabilities when they become due.

The Society operates an Investment & Finance Committee which overseas 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 Actuarial Function Holder being asked to review the Investment Policy. Investor Policy statements are used to assist in the portfolio management with investment managers.

Future Profits associated with Future Premiums

Solvency II regulations require The Society to monitor the level and usage of future profits associated with future premiums and to disclse this information as appropriate.

Own Risk and Solvency Assessment (ORSA)

The ORSA is a rolling process that provides a detailed analysis of the Society's capital adequacy, risk management and forward looking perspective. This is achieved by using a combination of internal, actuarial and regulatory documents and information to appropriately report on the Society's position.

The ORSA document includes the following sections

Executive Summary

This will detail the Solvency Summary, the current Risk Appetite, the current Risk summary, potential Management Actions and overall Board Conclusion of Solvency position.

Supporting Appendices

Current Management Operating Report
Detailed Risk Register
Valuation of Assets & Liabilities and Stress Tests analysis
5 Year Business Plan 2017 – 2021
Investment Strategy
IT Strategy
Disaster Recovery Plan

The ORSA is updated throughout the Year with at least an annual update. Where necessary the ORSA will be up dated upon Board's request.

D Valuation for solvency purposes

D.1 Assets

1. Assets have been valued in accordance with Article 75 of the Solvency II Directive which requires that the assets are valued at the amount for which they could be exchanged between knowledgeable willing parties in an arms' length transaction.

2. The value of the assets is shown in the following table:

Value of the assets £000	31 December 2016
Gilts	10,076
Other fixed interest	8,976
Equity holdings (including equity funds)	19,609
Property	190
Cash and deposits	4,284
Other assets	481
Total assets	43,616
Value of reinsurance	(1,838)
Total assets for solvency purposes	41,778

3. The listed investments are all included at market value.

4. There is no directly held property.

5. Cash and deposits are valued at face value.

6. Other assets are shown at the value calculated in the accounts.

7. The value of reinsurance is taken to be the best estimate of the value of recoveries from reinsured business. This is negative because the premiums paid to the reinsurer are greater than the expected recoveries on a SII basis.

8. The Society does not hold listed investments which are not held on an active regulated market.

9. The Society has no intangible assets.

10. The Society has no leasing arrangements or material deferred tax assets.

11. The Society has no related undertakings.

12. There has been no significant exercise of judgement in arriving at the values shown.

13. The assets (and liabilities) shown for solvency purposes are quoted gross of reinsurance, with the value of reinsurance shown separately. The financial statements show assets excluding reinsurance and liabilities are stated at their net values. This difference is for reporting purposes only and has no impact on the overall result.

14. Other than presentation, including the difference in treatment of reinsurance noted above, there are no differences between the valuation of assets for solvency purposes and those shown in the financial statements.

D.2 Technical provisions

15. The following table summarises the Society's technical provisions:

£000	31 December 2016
UK members' capital accounts	18,785
Irish members' capital accounts	54
UK sickness business	(5,809)
Irish sickness business	(13,927)
UK claims in payment	3,341
Irish claims in payment	932
Cost of bonuses	1,358
Incurred but not yet reported	50
Total best estimate liabilities	4,784
Risk margin	7,744
Technical provisions	12,528

16. All the Society's technical provisions relate to health (similar to life) business. The Society sells Holloway income protection business and pure income protection business in the UK and Ireland.

Valuation methodology

17. The components of the best estimate liabilities have been calculated as follows:

16.1. UK and Irish members' capital accounts (including both non-commuted and commuted accounts) are all linked to the Society's Holloway contracts of insurance. The amounts are guaranteed to be payable on maturity or earlier on death. The Society applies its discretion in the amount it pays in the event of withdrawal before maturity.

16.2. Each year these benefits, at the discretion of the Society, may be increased by both a capital apportionment bonus, in respect of any favourable investment returns over the year, and a share apportionment bonus in respect of any favourable sickness experience (akin to a bonus equal to premiums less claims less expenses). The share apportionment bonus does not apply to commuted deposit accounts.

16.3. The value of these accounts is equal to the face value of the Holloway deposit accounts plus the present value of future capital and share apportionment bonuses plus the present value of future final bonuses.

16.4. UK and Irish sickness business is valued using a gross premium methodology. This means that the reserve is calculated as the value of future sickness payments plus expenses less future premiums payable.

16.5. Monthly cashflows are projected for each individual contract equal to the expected monthly sickness payment (where relevant) assuming all policyholders are healthy at the date of valuation, gross of reinsurance plus the monthly cost of maintenance expenses allowing for future expense inflation minus the expected future monthly premiums payable.

16.6. Each monthly projected cashflow is then reduced by the probability the contract remains in force. Terminations arise from lapses and withdrawals, mortality and maturities or retirements.

16.7. Each monthly projected net cashflow is then discounted back to the valuation date at the prescribed Solvency II discount rate of interest. A positive value represents a liability to the Society; a negative value represents an asset to the Society.

16.8. Additional reserves are held to cover all UK and Irish income protection claims in payment based on the discounted value of all future sickness cashflows expected to arise from the current block of claimants.

16.9. 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 having regard to the Society's financial resources at that time.

16.10. An additional reserve is held to cover the value of claims where policyholders have fallen sick but where they have not reported that fact to the Society (or they have reported the claim but it has yet to be admitted by the Society). This is valued as $1/26^{th}$ of the average annual claims over the past three years to allow for the average two-week delay in notification/approval of a claim.

17. The regulations allow the Society to hold negative reserves and it is a requirement that the reserves are realistic. On that basis the Society recognises the full value of such contracts even when the values are negative.

18. Reserves are calculated separately for each contract the Society has in force at the time of the investigation.

19. The Solvency II Directive requires that the calculation of technical provisions should include:

- all expenses that will be incurred in servicing insurance and reinsurance obligations; and
- inflation, including expenses and claims inflation.

18. In order to comply with this the aggregate amount of renewal expenses is calculated at product level using the Society's total budgeted maintenance related expenses and new business volumes for the five years immediately following the valuation date. 'Per policy expenses' are then calculated at product level using the projected run-off of in force policies allowing for future new business. After five years per policy expenses are assumed to increase annually in line with the Society's expense inflation assumption.

19. Acquisition related expenses are not brought into the regulatory valuation as the valuation is only concerned with business written up to the valuation date (except as described above). Future acquisition costs are assumed to be covered by the profit margins within the new

business written after that date. This is consistent with the "going concern" basis Solvency II requires.

20. The Society has two reinsurance arrangements in place:

- a quota share treaty with Hannover Re that reinsures 50% of the sickness benefits for the Bond income protection products sold between 2001 and 2010 in the UK, where the reinsurance becomes payable once the policyholder has been sick for 26 weeks, and

- a surplus reinsurance treaty with Swiss Re that reinsures sickness benefits above the retention limit of £30 per week for older classes of income protection policy written in the UK.

21. The value of reinsurance is calculated using a gross premium valuation methodology (as described above for income and liability cashflows). The value of reinsurance is stated as an asset in the Society's Solvency II balance sheet.

22. The Society's liabilities are denominated in GBP and Euros.

23. None of the Society's contracts had any options or any guaranteed surrender values in place during the year up to the valuation date.

24. All the Society's cashflows are discounted at the required risk free rate of interest set by EIOPA as at the valuation date.

25. The risk margin is calculated for the business as a whole. It represents the cost of providing the Solvency Capital Requirement ("SCR") excluding diversifiable market risk for the run-off of the business using the required cost of capital rate of 6%.

26. The requirement to split the risk margin by line of business has been met by allocating the risk margin to the various lines of business in proportion to the best estimate liabilities. The following table shows the split:

Risk margin (£000)	31 December 2016
UK sickness business	2,891
Irish sickness business	4,853
Total risk margin	7,744

27. The value of the risk margin is calculated using the simplified assumption that the amount of the SCR at the end of each year excluding diversifiable market risk will reduce in line with the run-off of the best estimate liabilities. After applying the 6% cost of capital to the projected SCR's, the values are discounted using the risk-free yield curve.

<u>Valuation assumptions</u>

28. The basis used to determine the best estimate liabilities is set out below. These are the realistic assumptions that the Society is expected to set based on actual experience. There are also many parameterisations prescribed by the Standard Formula which are not within the control of the Society and have not been listed in this report.

29. The Solvency II risk free yield curve published by EIOPA at the reporting date has been used. Example spot rates are shown in the following table:

Projection year	1	2	3	4	5	10	15	20	25
Risk free spot rate	0.38%	0.44%	0.52%	0.61%	0.69%	1.08%	1.26%	1.32%	1.29%

30. The sickness basis for each of the Society's contract types is as set out in the tables below.

UK business

Deferred period	Inception rates	Recovery rates	Female loading
0 weeks	30%	80%	60%
4 weeks	30%	80%	60%
13 weeks	30%	95%	60%
26 weeks	30%	95%	60%
52 weeks	30%	95%	60%

Irish pure protection business

Deferred period	Inception rates	Recovery rates	Female loading
0 weeks	40%	80%	60%
4 weeks	40%	80%	60%
13 weeks	40%	95%	60%
26 weeks	40%	95%	60%
52 weeks	40%	95%	60%

The rates expressed in the two tables above are as a % of industry CMIR12 tables.

31. Mortality rates while healthy: 40% of AMC00/AFC00.

32. Lapse rates:

Type	% per annum
Non-commuted	5.0%
Commuted	10.0%

33. Per policy expenses have been derived from the budgets set in the Society's latest Business Plan for 2017 to 2021 and the projected number of policies in force from the year-end 2016 model. These calculations assume that the Society continues as a going concern and allows for the impact of the new business policies projected in the Business Plan on the projected policy count. The expenses are inflated after 2021 by the expense inflation assumption. The per policy expenses assumed are as follows:

Values in £	2017	2018	2019	2020	2021
UK non-commuted	209	234	266	301	342
Irish non-commuted	244	273	310	351	398
Commuted	19	19	19	19	20

34. Expense inflation affects the valuation of the Society's per policy costs and should reflect the expected rate of increase of per policy expenses. Per policy expenses have been increased after five years from the valuation date in line with RPI plus a margin of 0.7% for salary inflation in excess of RPI.

35. Future bonuses (share and capital apportionment bonuses) have been assumed to continue at current rates. Final bonus rates have also been assumed to continue at current rates.

36. The exchange rate used at 31 December 2016 to convert the Society's Euro denominated liabilities to sterling was €1: £0.8583.

37. There is no allowance for tax.

Other information

38. With any modelling exercise there will be an underlying level of uncertainty present. Uncertainty arises primarily from the data being used, the choice of assumptions, and from the choice of model.

39. The data used is checked rigorously to mitigate the risk that errors may materially affect the valuation result. Data is also reviewed over time to check for consistency between different time periods. A reconciliation is carried out between reporting periods to allow for actual movements in the data over the year.

40. Assumptions may be demographic or economic and are set using historical experience and the current market environment and expectations. Actual and emerging experience is reviewed against expectations at least annually and more frequently if necessary. The results of these analyses are fed into the assumption setting process for the valuation. Results are assessed for their sensitivity to key assumptions.

41. The model used is tested regularly to mitigate the risk that errors may materially affect the valuation. The choice of model is made so as to comply with the regulations whilst ensuring an efficient projection process and some simplifications may be necessary to achieve this.

42. There are no material differences between the valuation for solvency purposes and the values that are shown in the financial statements.

43. No use has been made of a matching adjustment.

44. No use has been made of a volatility adjustment.

45. No use has been made of the transitional provisions for risk-free interest rates.

46. No use has been made of transitional deductions from technical provisions.

D.3 Other liabilities

47. The only other liabilities the Society has are current liabilities of £978,000. These consist of debtors, accrued interest and other prepayments. The value used for valuation purposes is the same as that shown in the financial statements.

D.4 Alternative methods for valuation

48. No alternative valuation methods have been employed.

D.5 Any other information

49. No other material information is supplied.

E. Capital management

E.1 Own funds

50. The Society is an incorporated society within the meaning of the Friendly Societies Act 1992. As such it has no shareholders and its members are the ultimate owners of the business. The Society's structure is very simple in that it has a single members' fund and all its capital is in tangible and realisable assets.

51. The Society's ORSA is a rolling process in which the Society reviews the current and likely future capital position of the business and whether there is a material risk that its solvency may be threatened. This is achieved by using a combination of internal, actuarial and regulatory information to appropriately report on the Society's position. It is the responsibility of the Board to determine that an appropriate review process is in place. At any point where a threshold in the Society's risk appetite is breached an automatic review of the ORSA will be triggered.

52. Solvency, risk appetite and management actions are reviewed on a quarterly basis, or more often if regulatory, market or economic conditions dictate. The Society's risk register, business plan and investment strategy are reviewed annually, or more often if regulatory, market or economic conditions dictate. The Society's normal business planning period is five years.

53. If the Society's projected solvency position is at risk, defined as not having sufficient capital resources to cover the Solvency Capital Requirement ("SCR"), then the Society will draw up appropriate plans to rectify that position. These plans will be appropriate to the Society's circumstances at the time but might include:

- taking such management actions as may be anticipated within its SCR calculations;
- reviewing and refocusing its strategic objectives and priorities;
- re-pricing its contracts of insurance;
- reviewing its expense base, including potentially closing to new business; or
- seeking a transfer of engagement.

54. How and how much of the Society's surplus funds are distributed as bonuses is normally decided annually by the Board, once the Society's year end solvency position has been determined and taking into account recommendations from the Society's actuary. There are no definitive rules as to how surplus should be distributed or how the surplus should be split between capital or share apportionments and final bonus. However, the Society is mindful of historic practice in setting bonuses and tries to ensure that bonuses do not vary significantly year on year and broadly reflect members' contribution to surplus funds.

55. The Society's own funds are shown in the following table:

Own funds (£000)	31 December 2016
Total admissible assets	41,778
Technical provisions	12,528
Other liabilities	978
Total liabilities	13,506

Own funds	28,272

56. All of the Society's capital is classified as Tier 1. The amount of Tier 1 own funds at the reporting date is £28,272,000. There are no restrictions on the use of own funds and this amount is available to cover the SCR and the Minimum Capital Requirement ("MCR").

57. The Society has a reconciliation reserve of £28,272,000. This includes £13,356,000 of expected profits arising on future premium receipts on pure income protection business.

58. There are no material differences between the equity in the Society's financial statements and the free capital for solvency purposes.

59. There are no items subject to a transitional arrangement.

60. There are no items of ancillary own funds.

61. There are no deductions from own funds and no restrictions on availability and transferability.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

62. The Society uses the Standard Formula to calculate its Solvency Capital Requirement ("SCR").

63. The SCR at 31 December 2016 was £15,318,000 after allowing for management actions. This figure is subject to supervisory assessment.

64. The SCR split by risk module is shown in the following table:

£000	31 December 2016
Market risk	8,129
Counterparty default risk	111
Health risk	10,898
Diversification benefit	(3,965)
Basic Solvency Capital Requirement	15,172
Operational risk	146
Solvency Capital Requirement	15,318

65. The Society's surplus funds after capital requirements are shown in the following table:

Own funds	28,272
Solvency Capital Requirement	15,318
Surplus funds	12,954

66. The Society has not adopted any of the Standard Formula simplifications set out in the Delegated Act for the SCR calculation, and does not use any undertaking-specific parameters.

67. The Minimum Capital Requirement ("MCR") is the minimum amount of capital that the Society must hold. The MCR is calculated using a linear formula and must lie between 25% and 45% of the SCR after management actions have been allowed for. It has an ‘absolute floor’ of €3.7m. The Society’s MCR is calculated as 25% of the SCR which equates to £3,830,000 at the reporting date.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

68. The Society does not use the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between the standard formula and any internal model used

69. The Society does not use an internal model.

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

70. The Society has complied with the SCR and the MCR throughout the reporting period.

E.6 Any other information

71. No other material information is supplied.

F Approval by the Administrative, Management or Supervisory Body of the SFCR and Reporting Templates

We acknowledge our responsibility for preparing the SFCR in all material aspects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

(a) throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and the Solvency II Regulations as applicable; and

(b) it is reasonable to believe that, at the date of the publication of the SFCR, the Society has continued so to comply, and will continue so to comply in future.

The Solvency and Financial Condition Report was approved by the board on the 19th May 2017.

....

David Thompson – Chief Executive

G - REPORT OF THE EXTERNAL INDEPENDENT AUDITOR

Report of the external independent auditor to the Board of Directors of Dentists' and General Mutual Benefit Society Limited ("the Society") pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms,

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Society as at 31st December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Society as at 31st December 2016, (**'the Narrative Disclosures subject to audit'**) and
- Society templates S02.01.02, S.12.01.01, S.23.01.01, S.25.01.21, S.28.01.01, (**'the Templates subject to audit'**)

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Solvency and Financial Condition Report'.
We are not required to audit, nor have audited, and as a consequence do not express an opinion on:

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Society templates S5.01.02, S5.02.01
- The written acknowledgement by management of their responsibilities, including for the preparation of the solvency and financial condition report (**'the Responsibility Statement').**

In our opinion, the information in the relevant elements of the Solvency and Financial Condition Report of the Society as at 31st December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the *Solvency and Financial Condition Report* section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report 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 going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors' have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

Emphasis of Matter – Basis of Accounting

We draw attention to the Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describes the basis of accounting. The Solvency and

Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, 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 relevant elements of the Solvency and Financial Condition Report 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.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as management determines is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report.

It is our responsibility to form an independent opinion as to whether the relevant elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Society's statutory financial statements. 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.

D Slocombe

Daniel Slocombe (Senior Statutory Auditor)
For and on behalf of Moore Stephens, Statutory Auditor
30 Gay Street,
Bath BA1 2PA

19th May 2017

Dentists' & General Mutual Benefit Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2016

(Monetary amounts in GBP thousands)

General information

Undertaking name	Dentists' & General Mutual Benefit Society Limited
Undertaking identification code	213800S8A5ZO9E34UY54
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.12.01.02 - Life and Health SLT Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	38,851
R0080	*Property (other than for own use)*	190
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	5,425
R0110	*Equities - listed*	5,425
R0120	*Equities - unlisted*	0
R0130	*Bonds*	19,052
R0140	*Government Bonds*	10,076
R0150	*Corporate Bonds*	8,976
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	14,184
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-1,838
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	-1,838
R0320	*Health similar to life*	-1,838
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	207
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	4,284
R0420	Any other assets, not elsewhere shown	274
R0500	**Total assets**	41,778

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	12,528
R0610	*Technical provisions - health (similar to life)*	12,528
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	4,784
R0640	*Risk margin*	7,744
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	978
R0900	**Total liabilities**	13,506
R1000	**Excess of assets over liabilities**	28,272

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	4,127								4,127
R1420	Reinsurers' share	477								477
R1500	Net	3,650	0	0	0	0	0	0	0	3,650
	Premiums earned									
R1510	Gross	4,127								4,127
R1520	Reinsurers' share	477								477
R1600	Net	3,650	0	0	0	0	0	0	0	3,650
	Claims incurred									
R1610	Gross	3,543								3,543
R1620	Reinsurers' share	184								184
R1700	Net	3,360	0	0	0	0	0	0	0	3,360
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net	0	0	0	0	0	0	0	0	0
R1900	**Expenses incurred**	1,431	0	0	0	0	0	0	0	1,431
R2500	**Other expenses**									
R2600	**Total expenses**									1,431

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400			IE					
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	3,063	1,064					4,127
R1420	Reinsurers' share	477						477
R1500	Net	2,585	1,064	0	0	0	0	3,650
	Premiums earned							
R1510	Gross	3,063	1,064					4,127
R1520	Reinsurers' share	477						477
R1600	Net	2,585	1,064	0	0	0	0	3,650
	Claims incurred							
R1610	Gross	2,628	915					3,543
R1620	Reinsurers' share	184						184
R1700	Net	2,445	915	0	0	0	0	3,360
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	703	728					1,431
R2500	**Other expenses**							
R2600	**Total expenses**							1,431

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**											0					0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole											0					0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**												-12,537	17,321			4,784
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default												0	-1,838			-1,838
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re												-12,537	19,159			6,623
R0100	**Risk margin**											7,744					7,744
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole											0					0
R0120	Best estimate												0	0			0
R0130	Risk margin											0					0
R0200	**Technical provisions - total**											12,528					12,528

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	28,272	28,272			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	28,272	28,272	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	28,272	28,272	0	0	0
R0510	Total available own funds to meet the MCR	28,272	28,272	0	0	
R0540	Total eligible own funds to meet the SCR	28,272	28,272	0	0	0
R0550	Total eligible own funds to meet the MCR	28,272	28,272	0	0	
R0580	**SCR**	15,318				
R0600	**MCR**	3,830				
R0620	**Ratio of Eligible own funds to SCR**	184.56%				
R0640	**Ratio of Eligible own funds to MCR**	738.24%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	28,272
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	28,272
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	13,356
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	13,356

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	10,783		
R0020	Counterparty default risk	111		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	10,898		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-4,616		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	17,175		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	146
R0140	Loss-absorbing capacity of technical provisions	-2,003
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	15,318
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	15,318

	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_L Result	-111

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	11,011	
R0220	Obligations with profit participation - future discretionary benefits	6,738	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	-11,126	
R0250	Total capital at risk for all life (re)insurance obligations		94,425

		C0070
	Overall MCR calculation	
R0300	Linear MCR	-111
R0310	SCR	15,318
R0320	MCR cap	6,893
R0330	MCR floor	3,830
R0340	Combined MCR	3,830
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	3,830